



GOVERNMENT OF ROMANIA

CONVERGENCE PROGRAMME for 2020

- May 2020 -

CONTENTS

1.	FOREWORD.....	4
2.	GENERAL FRAMEWORK AND OBJECTIVES OF THE ECONOMIC POLICY	6
2.1	GENERAL FRAMEWORK	6
2.2	CYCLICAL EVOLUTIONS AND CURRENT ECONOMIC PERSPECTIVES.....	7
3.	GENERAL CONSOLIDATED BUDGET BALANCE, MEASURES AND PUBLIC DEBT.....	13
3.1.	FISCAL POLICY.....	13
3.2.	BUDGET EXECUTION - 2019	14
3.3.	BUDGETARY PERSPECTIVES FOR 2020.....	18
3.4.	MEASURES ADOPTED TO TACKLE THE COVID-19 PANDEMIC	28
3.5.	IMPACT OF EUROPEAN FUNDS ON PUBLIC FINANCE	39
3.6.	GOVERNMENT DEBT LEVEL.....	42
4.	LONG-TERM SUSTAINABILITY OF PUBLIC FINANCE	44
5.	QUALITY OF PUBLIC FINANCES.....	46
6.	ANNEXES.....	57

LIST OF TABLES

Table 1: GDP components	10
Table 2: Foreign trade and current account	11
Table 3: Revenues, Expenditures and Balance of the General consolidated budget (% of GDP)	18
Table 4: Main provisions of the macroeconomic framework	18
Table 5: Macroeconomic hypotheses of the budget rectification	22
Table 6: Revised budget revenues (RON bn)	23
Table 7: General consolidated budget balance (% of GDP)	27
Table 8: Discretionary measures adopted in response to COVID-19 pandemic	38

LIST OF CHARTS

Graph 1: Contribution to real growth of GDP	7
Graph 2: Contribution to economic growth and the quarterly GDP evolution (Winter vs Spring Forecast)	9
Graph 3: Budget revenues (ESA 2010, % of GDP)	16
Graph 4: Budget expenditures (ESA 2010, %GDP).....	17
Graph 5: Consolidated budget revenues (ESA 2010, %GDP).....	25
Graph 6: Consolidated budget expenditures (ESA 2010, %GDP)	26
Graph 7: Level of public pension expenditures, % of GDP	44
Graph 8: Structure of Romania's population (2018 versus 2070)	45

1. FOREWORD

The current edition of the Convergence Programme was elaborated on the basis of the Regulation (EC) no. 1466/1997 of the Council on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended through the Regulation (EC) no. 1055/2005 of the Council and the Regulation (EU) no. 1175/2011 of the European Parliament and of the Council.

The 2020 Convergence Programme is elaborated considering the guidelines established by the European Commission (EC) for a more streamlined content of these documents in this reporting round. This flexibility comes amid high difficulties in achieving a credible medium-term macroeconomic and budgetary forecast, given the challenges posed by the COVID-19 pandemic and the declared state of emergency.

In addition, in order to support the Member States (MSs) in the context of the crisis generated by the COVID-19 pandemic, the European Commission, with the agreement of the European Council, activated the “general escape clause” according with the provisions of the Stability and Growth Pact (SGP).

In essence, the clause allows temporary and orderly deviation from existing fiscal rules, both at European level and at national level, for all MSs that find themselves in a generalized crisis caused by a severe economic slowdown of the Euro Zone or of the EU as a whole.

In practice, the MSs may deviate from the medium-term objective (MTO) or from the adjustment path towards it both during the assessment and during the implementation of the stability or convergence programmes. As per the corrective arm of the SGP, the clause shall allow different treatment for the expenditures generated by the COVID-19 pandemic within the excessive deficit procedure (EDP).

The European Commission’s decision to activate the clause has come in the context in which, in order to successfully fight and manage the effects of the COVID-19 pandemic, the MSs are forced to act also through fiscal measures, without being limited by imposed fiscal rules. Several MSs, including Romania, have announced or already adopted fiscal and budgetary measures in order to increase the capacity of their health system, to help their citizens and affected sectors, as well as measures to support liquidity or other forms of guarantee and facilities for companies.

The submission by the MSs and the assessment by the European Commission of the Convergence Programme is a component of the European Semester, which is a cycle of coordination of economic and budgetary policies. The European Semester is the main instrument for the Europe 2020 Strategy, the preventive arm of the Stability and Growth

Pact (amended by the 6-pack which came into effect on December 13, 2011), and of the Macroeconomic Imbalance Procedure and Euro-Plus Pact.

The 2020 edition of the Convergence Program is based on the first 2020 budget rectification and on the spring economic forecast.

Romania registered in 2019 a budget deficit estimated at 4.4% of GDP in cash terms, which corresponds to a deficit estimated at 4.3% of GDP in ESA terms.

The European Commission, with the agreement of the EU Council, activated the excessive deficit procedure (EDP) for exceeding the 3% ceiling set for the ESA deficit, as provided by the Stability and Growth Pact. The recommendations approved for Romania through the procedure are to go back to a deficit below 3% by 2022; for 2020 was established an ESA target deficit of 3.6%, similar to the estimates from the Fiscal and Budgetary Strategy.

According to the first budget rectification, budgetary planning for 2020 establishes a deficit of 6.7% of GDP (cash), corresponding to a similar deficit in ESA terms. The increase of the budget deficit compared to the previous year takes place on the background of an economic activity contraction in the sectors affected by COVID-19, but also as a result of the increase of social or economic stimulating expenditures.

The economic results of recent years show the limits of an expansionary fiscal and budgetary policy marked by the accelerated increase of the administration's operating expenditure, the reduction of fiscal space for investments and the reduced absorption capacity of EU funds. Against the background of the economic and budgetary situation, external imbalances have increased and inflation has remained high.

Romania maintains its commitment to join the Euro Zone, but the Government's current efforts are focused on minimizing the negative social and economic effects of the COVID-19 pandemic, and afterwards it shall implement economic recovery measures. Thus, the authorities will focus their attention on adopting the single currency immediately after the macroeconomic balances are restored.

2. GENERAL FRAMEWORK AND OBJECTIVES OF THE ECONOMIC POLICY

2.1 GENERAL FRAMEWORK

In recent years, Romania has registered a consumption led growth model, supported by a pro-cyclical fiscal policy. This has led to the deterioration of external imbalances and to an inflation level higher than the average of peer countries. Although the negative contribution of net exports to economic growth has been amplified, amid the widening of the unfavorable gap between the dynamics of exports and that of imports of goods and services, this effect has been counterbalanced by the positive evolution of internal demand.

The economic situation of the current year is marked by the crisis generated by the COVID-19 pandemic, which has affected both internal and external demand. Expectations are for a “V”-shaped recovery after an economic contraction estimated in Q2.

Due to the expansionary budgetary policy maintain over the recent years, the 2019 budget deficit exceeded the 3% threshold set by the Stability and Growth Pact, so the excessive deficit procedure was activated against Romania.

For 2020, the measures aimed to fight the effects of the COVID-19 pandemic, both on revenues and expenditures side, cause an increase of the budget deficit to 6.7% of GDP. The Government has adopted a package of macro-stabilization measures using the fiscal and budgetary policy, in order to mitigate the negative effects of the pandemic. A summary of these measures can be found in Chapter 3.

The implementation of structural reforms continues to be a priority for the Government, but major efforts are currently focused to manage the current crisis. Once overcoming this crisis, the implementation of the structural reforms designed to increase the transparency of public spending, analyze and improve their efficiency, modernize public procurement, prioritize investments, strengthen the corporate governance of state owned enterprises, etc. will continue.

2.2 CYCLICAL EVOLUTIONS AND CURRENT ECONOMIC PERSPECTIVES

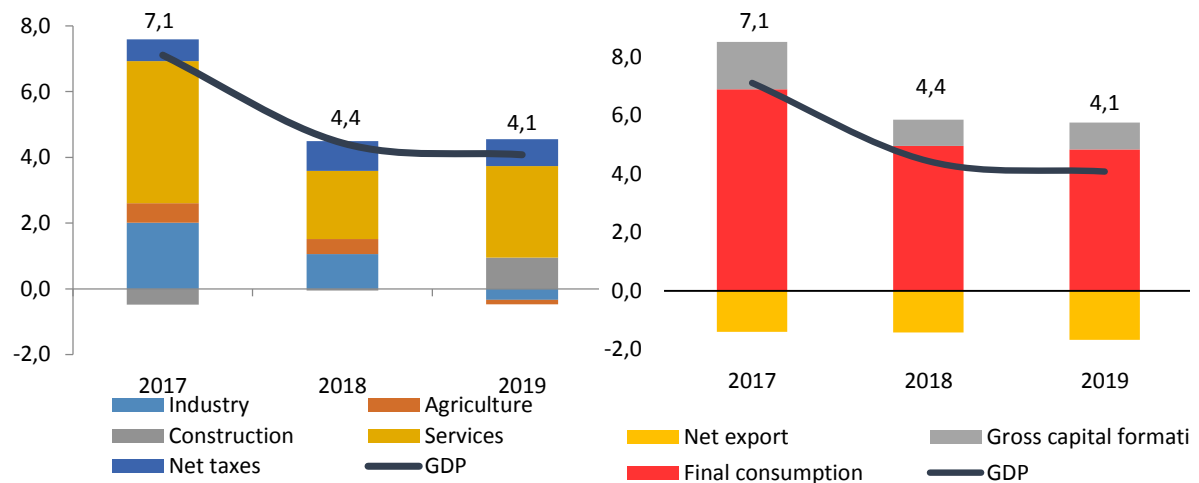
In 2019, **the real GDP dynamic has been of 4.1%**, one of the highest among the EU MSs (at aggregate level, the real GDP has advanced by 1.4% in the EU and by 1.2% in the Euro Zone). Nevertheless, softening growth in the Euro Zone and declining of external demand (from Germany in particular), has had a significant impact on Romanian manufacturing and exports.

On the demand side, **private consumption** - the main driver of growth in recent years, has registered a slight deceleration tendency (+5.9% in 2019, compared to +7.3% in 2018), which also indicates the beginning of a tempering period of consumers' appetite for certain categories of goods. On the other hand, **investment** (gross fixed capital formation) recovered in 2019 (+18.2%), mainly bolstered by an expansion of the construction sector.

The positive dynamics of the domestic demand has offset the unfavorable evolution of **net exports**, a more persistent drag on growth than in previous years (-1.7 pp in 2019 from -1.4 pp in 2018), amid a sharper slowdown in exports of goods and services.

Exports of goods and services increased in real terms by 4.6%, while the **imports of goods and services** advanced by 8.0%. Within these, the export of services increased in volume by 14.5%, conditioned by the transportation activity which is dependent on intra-Community dispatches of industrial goods. At the same time, the import of services increased by 25.4%, corresponding to a marginal decline of services surplus (from 4.1% of GDP in 2018 to 3.9% of GDP in 2019).

Graph 1: Contribution to real growth of GDP



Source: National Institute of Statistics

Regarding the contribution of the components of domestic supply to GDP growth, the economic growth was sustained in 2019 by the increase of the gross added value in construction (+17.3%) and services (+4.8%), while industry and agriculture decreased by 1.5%, and, respectively, 3.2%, due to a weaker manufacturing sector in the Euro Zone and a statistical base effect in the case of agriculture. Some services maintained their growth rate, such as information and communications (+8.1%), cultural and recreational activities (+7.5%), support and administrative activities (+5.7%), **while trade and transports (+5.1%) were partially affected by a decline of transportation activities towards the end of the year.**

Among main growth drivers, construction sector played an important role (1 pp contribution to GDP growth), along to “trade, transportation and storage, hotels and restaurants” (0.9 pp contribution to GDP growth), both categories accounting for ~46% of GDP growth.

In 2019, the **consumer prices** increased by 3.83%, down by 0.8 pp compared to the previous year. The evolution was caused by a higher dynamic of food prices (4.69%) compared to that of services (3.87%) and non-food goods (3.24%).

In 2019, the annual inflation rate followed a sinusoidal trajectory, with a maximum reached in July (4.12%), due to a statistical base effect for fuel group and a supply shock of certain agriculture food products (pork, fruits and vegetables). Beside these, the nominal depreciation of the national currency (1.5%) played a role.

In March 2020, the starting point of COVID-19 pandemic, annual inflation stood at 3,05%, as in February. However, one notices a hike in the price of vegetables (+5.43%) and fruits (+4.04%), being caused by a seasonal effect, as well as by increasing demand (+1.79% for flour, +1.26% for canned meat). At the same time, non-food products, hygiene items, cosmetics and medicines registered just a marginal price increase (0.16%), while fuel prices decreased by 2.64%.

In 2019, **employment rate** marginally decreased by 0.1%, as shown by the data from the National Accounts. The total number of employees increased by 1.4%, representing 77.1% of the employed population. These dynamics is mainly explained by the favorable evolution of construction sector and services, where the number of employees increased by 5.6% and 2.3%, respectively. In agriculture, the number of employees increased by 1.1%, while in the industry it decreased by 1.8%, correlated with the sector’s activity. The dynamics of construction sector is significant, as a result of the targeted fiscal measures adopted for this sector in 2019, which accelerated the growth rate of the number of employees up to 5.6% (from 0.2% in 2018). According to ILO, the unemployment rate continued to fall, decreasing from 4.2% in 2018 to 3.9% in 2019.

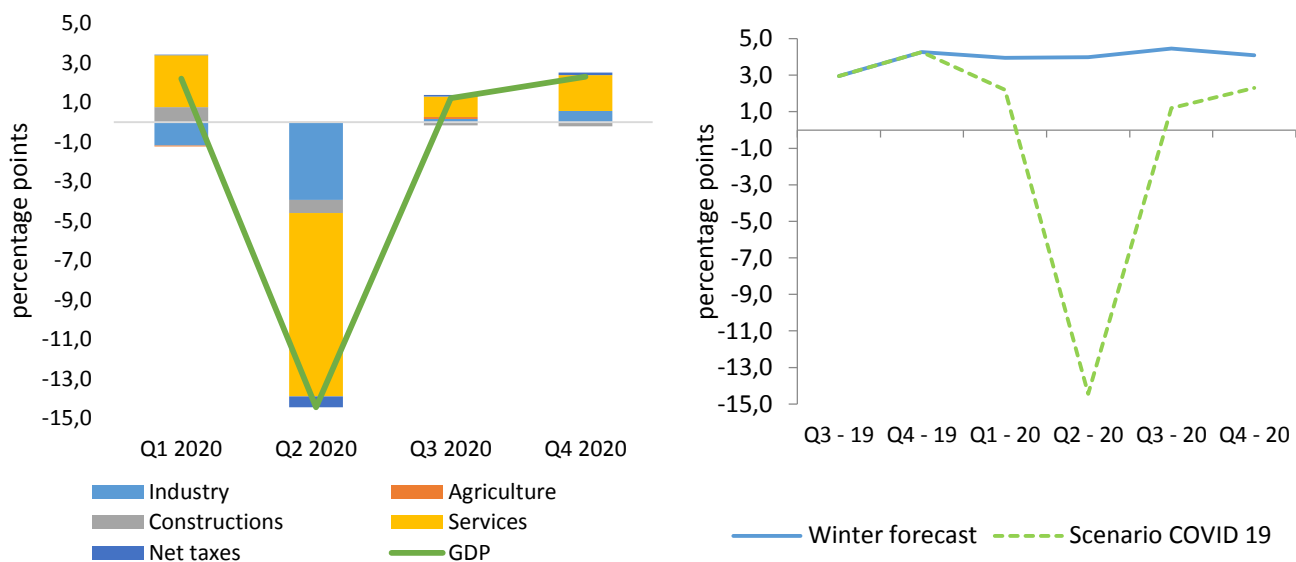
The economic growth forecast for 2020 took into consideration the negative effects of the COVID-19 shock, as well as the measures adopted to support businesses, labor market participants and consumers, along with the interventions in the medical field.

A severe contraction of economic activity is estimated in Q2 (-14.4%), then expecting for a “V”-shaped recovery, with an actual recovery in Q4, but without reaching the winter forecast scenario (absence of coronavirus).

The forecast assumes that the negative impact of the Covid-19 will last around 4 months (March - June), followed by a mild growth in July - September, as was the case of China, which seems to be recovering after 4 months.

Over the three utmost affected months (March-May), the most likely impact on manufacturing will consist of a ~18% decline compared to the corresponding period of 2019, with a more severe reduction of textile products and clothing items, leather and the car industry (>35%).

Graph 2: Contribution to economic growth and the quarterly GDP evolution (Winter vs Spring Forecast)



Source: National Commission for Strategy and Prognosis

During the peak of the pandemic, services will have a negative contribution of 9.3 pp to the GDP growth, followed by industry (-3.9 pp). Services will be especially affected on the following segments: real estate transactions, hotels and restaurants, recreational activities, transportation, maintenance services.

The favorable macroeconomic conditions will continue to act, especially in Q3,

considering the fact that external markets will not be lost, and the economy has a potential comeback capacity through the governmental measures of preservation of revenues and through restart measures (advantageous credits for SMEs); therefore, the reversible factors will prevail over irreversible ones.

As a result, it is expected a 1.9% decline in real terms, in 2020, given the negative contribution from both internal demand (-1.6 pp) and, to a lower extent, from net exports (-0.3 pp). Thus, the aforementioned indicators dynamics has led to a significant GDP growth rate revision by ~6 pp in the coronavirus scenario (from +4.1% as per the Winter Forecast).

Table 1: GDP components

	2018	2019	2020
Real GDP	4.4	4.1	-1.9
Final consumption	6.3	6.0	0.0
- Private consumption	7.3	5.9	-0.7
- Public consumption	2.1	6.4	2.4
Gross fixed capital formation	-1.2	18.2	-2.6
Exports of goods and services	6.2	4.6	-6.7
Imports of goods and services	9.1	8.0	-5.6

Source: National Commission of Strategy and Prognosis

Regarding the contribution of the components of demand to GDP growth, it is estimated that **gross investment** (gross fixed capital formation) will decrease by 2.6%, being expected a cautious investment behavior from the private sector. To a lesser extent shall be affected the expenditures for **private consumption** (-0.7%) which are supported by the moderate increase of net salaries and by the population's tendency towards consumption. **General Government final consumption** shall have a positive impact (2.4%), as a result of the measures adopted to control and reduce the negative effects of the pandemic. Both **exports** and **imports of goods and services** shall register negative dynamics compared to 2019 (-6.7% and, respectively -5.6%).

Given the disruption of global supply chain, **the current account deficit** is expected to narrow, from 4.6% of GDP in 2019 (and 4.5% as per the Winter forecast), to 4.1% of GDP,

mainly due to a contraction of the trade deficit (from EUR -18.6 bn as per the Winter Forecast, to EUR -16.8 bn). On the other hand, the surplus in services is expected to decline by EUR 0.7 bn as a result of declining transportation and tourist services.

Table 2: Foreign trade and current account

(billion EUR)	2018	2019	2020
FOB export	67.7	69.0	63.9
- annual change (%)	8.1	1.9	-7.3
CIF import	82.8	86.3	81.0
- annual change (%)	9.6	4.2	-6.1
FOB - CIF Trade Balance	-15.1	-17.3	-17.1
Current account balance	-9.0	-10.2	-9.1
- % of GDP	-4.4	-4.6	-4.1

Source: INS and the National Commission of Strategy and Prognosis

The **inflation** is estimated to decrease in 2020, both as annual average (down to 3.1%), and at the end of the year (down to 3.0%).

The main risk associated with the inflation outlook refers to the impact of the Coronavirus epidemic at national and international level, basically a drop in demand for non-basic food items, as well as for fuel, offset by hiking prices of agriculture food due to unfavorable meteorological conditions.

The working population ratio will follow the GDP's trend, namely a 1.4% decrease in 2020, down to 8.56 mn people (according to ILO methodology), employees being the most severe affected (-1.6%). When considering the temporary laid-off employees as part of the 'employees' category, **the unemployment rate** (according to ILO methodology), will reach 4.4% in 2020. Oppositely, when adding temporary laid-off employees to the unemployed, the unemployment rate reaches 6.3%.

Most likely, **on medium term**, the economic growth will return to its pre-crisis potential level, around 3-4%. However, a longer than expected economic contraction and a second wave of infections taking place in Oct-Nov 2020 represent significant downside risks for 2021. Nevertheless, these hypotheses were not considered for the elaboration of the medium term scenario.

A slow recovery of economic activity (“L”-shaped recovery) or a recurring wave of infections will negatively impact the economic activity in 2021 as well, in which case the return to a robust economic growth could occur in the second part of next year.

The potential growth of Romanian economy is affected, on the short term, mainly by the labor factor, as it was the case of the previous economic recession. Given both the negative evolution of the working population, and that of the average number of hours worked in the context of social distancing and production decline in most sectors, the contribution of the labor factor to potential growth is expected to be negative in 2020.

The capital stock might decrease its positive contribution given that gross fixed capital formation might decrease by 2.6% this year, while for 2021 the investment activity, including FDI flows, is still marked by uncertainty. According to the EU methodology regarding the potential GDP and output gap, in the case of Romania, a 1% decrease in gross investment corresponds to 0.09 pp decreases in the contribution of capital stocks to potential growth (as shown the data since 2009 onwards). Similar to capital, the contribution of total factor productivity shall remain positive.

Earlier this year, even before the Coronavirus outbreak, Romanian exports and manufacturing sector were suffering from a decline in global commercial flows. Moreover, given the close shock synchronization among countries, the capacity to recover of Romania depends on a large extent to the resilience of the global economy, especially the EU Ms.

3. GENERAL CONSOLIDATED BUDGET BALANCE, MEASURES AND PUBLIC DEBT

3.1. FISCAL POLICY

In 2020, the fiscal and budgetary policy is focused on fighting the economic and social impact of the COVID-19 pandemic, and at a later stage, targeted measures to support the economic recovery will be considered. On fiscal side, the medium term challenges are determined, on the one hand, by the pre-crisis fiscal position, and, on the other hand, by the additional expenditure and measures adopted lately as response to the current crisis, with impact on budgetary revenues.

Romania has registered a significant deviation from the Medium Term Objective (MTO) since 2016 (according to the decision of the EU Council), and shortly before the COVID-19 outbreak in Romania, the European Commission has activated the excessive deficit procedure (EDP), as the budget deficit amounted to 4.4% of GDP in 2019 in cash terms (4.3% in ESA terms).

Considering the fiscal and budgetary policy strategy, the Government is seeking to speed up the reimbursements to private companies (VAT reimbursements, medical leave payments or invoices). Thus, the MoPF has significantly increased the VAT reimbursements in order to support the liquidity of firms. Consequently, in 2020 Q1, VAT reimbursements were RON 3.2 bn larger compared to 2019 Q1.

One of the major concerns regarding the expenditure policy is the optimization of their structure towards an architecture that stimulates sustainable economic development, especially through a reorientation of public investment in order to make a gradual transition from investments financed entirely from domestic sources to investments financed through EU funds. To do so, an important step is represented by the budget planning and the prioritization of large public investment projects, in order to increase the EU funds absorption, to create fiscal space and support economic growth.

In 2020 and after, fiscal policy must tackle significant challenges imposed, on the one hand, by the pre-crisis fiscal position, and, on the other hand, by the additional efforts to mitigate the social and economic impact of the pandemic. While the initial annual deficit for 2020 (before the pandemic) was expected to decline to 3.6% of GDP (from 4.4% in 2019), the first 2020 budget rectification, in the context of COVID-19 outbreak, estimates additional financing needs of around 3% GDP, corresponding to a 6.7% of GDP deficit in 2020.

In April 2020, the Government approved the first budget rectification, which includes the estimates of additional expenditures caused by the measures adopted to mitigate the social and economic effects induced by the COVID-19 pandemic and implicitly the

forecasts related to revenues' decline. Detailed information regarding the measures and their impact can be found in chapter 3.4.

The most important measures with fiscal impact adopted by the Government to support both citizens and businesses in the context of the COVID-19 pandemic are the following:

- Support program for SMEs - IMM INVEST ROMANIA.
- Extension of the payment terms for local taxes, from March 31, 2020 to June 30, 2020.
- No interest and late payment penalties are calculated for fiscal obligations due during the state of emergency and 30 days after.
- Technical unemployment benefits for temporary laid-off employees.
- Allowance for self-employed or other professionals that are not employers and who interrupt their activity;
- Allowance for parents who stay at home with their children during the state of emergency;
- Rebate for taxpayers who pay the CIT by the April 25 deadline, as follows: 5% for large taxpayers, 10% for remaining taxpayers, and the PIT for micro- enterprises.
- VAT is no longer required for imports of medicines, protective equipment and other medical and sanitary devices that can be used to prevent, limit and combat COVID-19.

3.2. BUDGET EXECUTION - 2019

Main fiscal and budgetary measures of 2019:

- the increase of taxation in the field of gambling;
- the increase of the level of excise duties for tobacco products;
- the distribution of at least 90% of the net profit under the form of payments to the State or local budget in the case of autonomous administrations, or dividends in the case of SOEs;
- SOEs pay dividends of 35% of the amount allocated to other reserves, as well as of the amounts allocated for investments which have not been used;
- reduction of labor taxation for construction`s employees;
- introducing a tax on bank assets;
- part-time employees must pay social contributions at least at the level of the minimum wage;

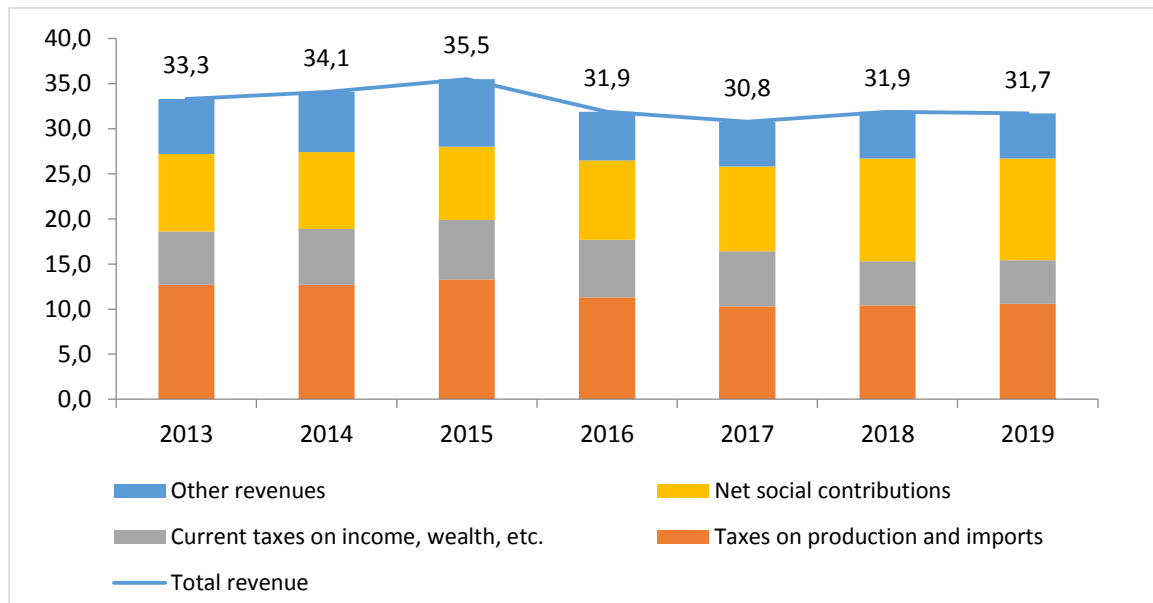
- as of September 1, 2019, the value of the pension point was increased by 15% (from RON 1,100 to RON 1,265);
- as of September 1, 2019, the guaranteed social allowance for the retired was increased by 10% (from RON 640 to RON 704);
- as of March 2019, the amount of the child allowance was increased: (i) from RON 200 to RON 300 for children up to 2 years old or up to 3 years old in the case of handicapped children; (ii) from RON 84 to RON 150 for children aged between 2 and 18 years, as well as for children older than 18 years who are enrolled in high school or professional studies organized under the law, until they complete these studies; and (iii) from RON 200 to RON 300 for children with disabilities aged between 3 and 18 years;
- as of January 1, 2019, the minimum gross wage provided by art. 164 para. (1) in Law no. 53/2003 - Labor Code, as republished, as subsequently amended and supplemented, is established, without inclusion of bonuses and other additions, at the amount of RON 2,080 per month;
- as of January 1, 2019, the amount of the bonuses, allowances, compensations, premiums, military pays and other elements of the salary system that are part, under the law, of the gross monthly wage or the monthly military pay of which the personnel paid from public funds benefit, was maintained at most at the level of December 2018;
- maintaining the measure regarding the holiday vouchers in 2019, in accordance to the provisions of GEO no. 8/2009;
- also, when establishing the compensation of employees for 2019 it was considered continuing the application of some reducing-expenditures measures approved in previous years.

2019 Budget execution - in ESA terms

The general budget outcome for 2019 registered an ESA deficit of 4.3% of GDP, larger than the deficit registered in 2018 (-2.9% of GDP), and thus exceeding the 3% of GDP threshold. The extensive deterioration of the budgetary position compared to the previous year is determined by the dynamic of the budget expenditures (+ 1.2 pp of GDP), while budget revenues decreased by 0.2 pp of GDP.

As share of GDP, total revenues decreased only marginally in 2019 compared to the previous year (from 31.9% of GDP to 31.7% of GDP).

Graph 3: Budget revenues (ESA 2010, % of GDP)



Source: Eurostat

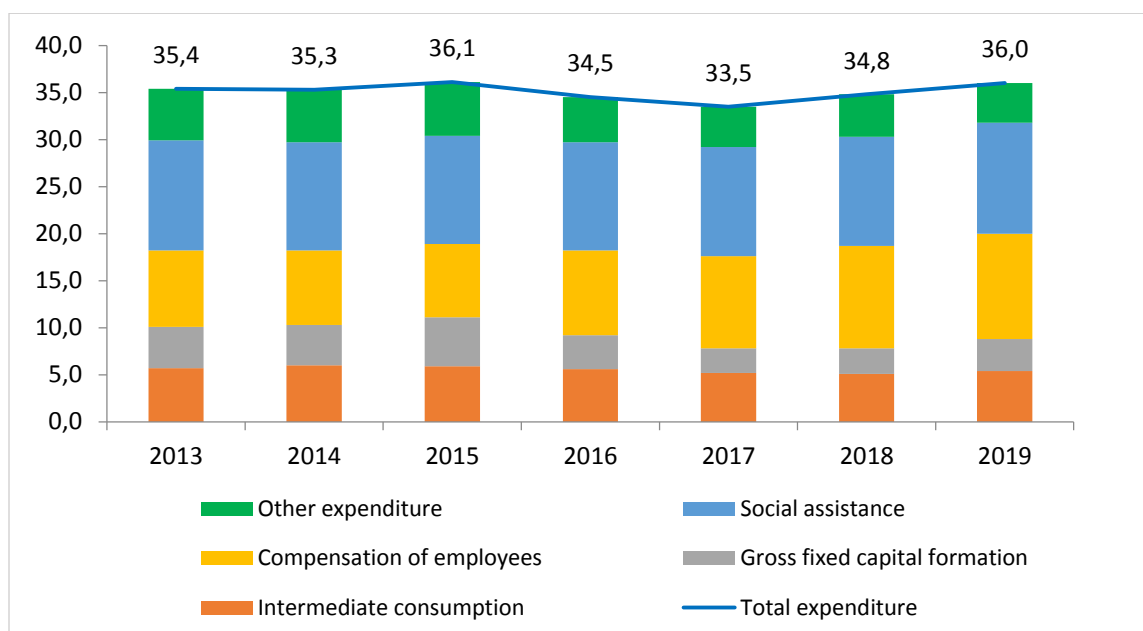
As a share of GDP, **the revenues from production and import taxes** have gradually increased since 2017, reaching 10.6% of GDP in 2019, which is 0.2 pp more than the level of 2018. Compared to the previous year, 2019 VAT revenues were also influenced by the extension of application of the reduced VAT rate of 5% (from 9%) for restaurant and catering services, for deliveries of high quality food products and for accommodation services in the hotel sector. Excises duties receipts increased in 2019 compared to 2018, based on a hike of excise level, both for fuels and cigarettes.

The revenues from social insurance contributions, expressed as a share of GDP, followed an ascending trend, as a result of the favorable evolution of the wage bill since 2015. Beside this, 2018 revenues significantly increased compared to 2017 as a consequence of the transfer of social insurance contributions from the employer to the employee. In 2019, the revenues from social insurance contributions amounted to 11.3% of GDP, slightly below the 2018 level (11.4% of GDP), their evolution being influenced by a softening of wage dynamics in 2019 Q4 and by the fiscal facilities adopted in the construction sector.

The share of **revenues from current taxes on income** has marginally decreased compared to the previous year, from 4.9% of GDP in 2018 to 4.8% of GDP in 2019. Similar to the revenues from social insurance contributions, the revenues reflect the wage bill dynamics and the negative impact of PIT exemption applied for construction employees.

As a share of GDP, the **budget expenditure** has followed an ascending trend since 2017, being especially noted the increase of **compensation of employees** for 2018 and 2019 and the hike of **investment** in 2019. The advance of compensation of employees in 2019 compared to 2018 continued to be determined by the increase of wages in the public sector (as a result of the enforcement of Law no. 153/2017 on wages of the personnel paid from public funds) and by the increase of the minimum wage. As share of GDP, compensation of employees amounted to 11.2% of GDP in 2019, up by 0.3 pp compared to 2018. On the other hand, **investment** increased significantly in 2019 (to 3.4% of GDP from 2.7% of GDP in 2018), especially at local public administration level.

Graph 4: Budget expenditures (ESA 2010, %GDP)



Source: Eurostat

Social assistance expenditures remained relatively constant in 2019 (11.8% of GDP), being 0.2 pp higher than in the previous year. This dynamic is mainly explained by the successive pension point increases and social allowance for the retired (July 2018, September 2019), as well as by the increase of the child allowance.

Regarding the wage policy, in 2019, there were applied the provisions of Framework-law no. 153/2017 on wages of the personnel paid from public funds, as subsequently amended and supplemented, respectively: (i) an increase of 1/4 of the difference of the wage provided by law for 2022 and the 2019 level; (ii) payment of a monthly meal allowance to all public sector employees, representing the 12th part of two gross minimum wages, (iii) payment of holiday vouchers in amount of RON 1,450; (iv) maintaining bonuses at December 2018 level.

3.3. BUDGETARY PERSPECTIVES FOR 2020

3.3.1. Budgetary planning according to 2020 initial budget law

After a period of procyclical fiscal relaxation, when the budget deficit increased on the basis of the accelerated expansion of expenditures that could not be offset by a similar evolution of the revenues, for **2020 it was initially scheduled a reverse of this tendency, by starting a deficit adjustment towards sustainable levels.**

In structural terms, Romania registered a significant deviation from its MTO, however, at the end of the planning horizon (2022), it was envisaged an adjustment of the structural balance of over 1.5 pp compared to 2020.

Table 3: Revenues, Expenditures and Balance of the General consolidated budget (% of GDP)

	2020 Estimates	2021 Estimates	2022 Estimates	2023 Estimates
REVENUES (cash)	31.9	31.7	32.2	32.2
EXPENDITURES (cash)	35.5	35.0	34.8	34.0
BALANCE (cash)	-3.59	-3.34	-2.53	-1.76
BALANCE (ESA methodology)	-3.58	-3.44	-2.77	-1.94
Structural BALANCE	-3.39	-3.24	-2.62	-1.85

Note: Due to rounding off, it is possible that the total is not equal to the sum of its components.

Table 4: Main provisions of the macroeconomic framework

Indicators	MU	2018	2019	2020
GDP, current prices	bn RON	944.2	1040.8	1129.2
Growth rate	%	4.1	4.0	4.1
Inflation - annual average	%	4.63	3.8	3.1
- annual, end of year	%	3.27	3.8	3.0
Average number of employees	1000 persons	5068.1	5170	5268
No. of unemployed (end of the year)	1000 persons	288.9	287	275
- Unemployment rate (end of the year)	%	3.3	3.2	3.0
Average gross wage	RON/month	4357	4945	5429
Exports of goods - growth rate	%	8.1	2.7	4.5
Imports of goods - growth rate	%	9.6	4.0	5.5
Current account balance	% of GDP	-4.6	-4.9	-4.5

Measures considered for the initial budget planning

- elimination of the mechanism of VAT payment in installments in order to make it compatible with relevant acquis communautaire; 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 and holiday 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 RON 6,240;
- The minimum gross wage shall be increased to a monthly amount of RON 2,230, as of January 1, 2020, compared to RON 2,080 in 2019 (+7.2%);
- Ensuring 2% of GDP for defense.

Measures approved after the budget's adoption:

- it is established the amount of the license fee for the rights of use of existing radio frequencies in the duplex frequency band 1920-1980 MHz/2110-2170 MHz, which reach their term on March 31, 2020, for the period April 1, 2020 - December 31, 2031, to EUR 30 mn/license (the equivalent in RON);
- amendment of the excise level for diesel and gasoline, respectively decrease of the excise for gasoline to RON 1,773.46 /1,000 liters (-13%), and for diesel to RON 1,625.37 /1,000 liters (-14.3%);
- amendment of the calculation base of the social insurance contribution and of the health insurance contribution owed for part-time employees with individual employment agreement (from the minimum wage to the actual revenue obtained).
- elimination of the bank assets tax;

Budget execution for 2020 Q1

The execution of the general consolidated budget for 2020 Q1 ended with a deficit of RON 18 bn (1.67% of GDP). Compared to the previous year, the deficit widened as a consequence of the unfavorable evolution of budget revenues in March, due to the payment postponement of certain fiscal liabilities during the state of emergency (RON 7.7 bn)¹ and to additional VAT reimbursement of RON 3.17 bn to support the liquidity of private sector. Furthermore, on the expenditure side, the increase of the deficit was mainly caused by a significant increase of investment (by RON ~ 1 bn), and an increase of agricultural subsidies (by RON ~ 1 bn).

The budget revenues were 3.3% lower in nominal terms (-0.3 pp of GDP) in 2020 Q1 compared to 2019 Q1. Total revenues amounted to 6.7% of GDP in 2020 Q1, mainly reflecting a severe contraction in March (-25% yoy).

The **PIT** revenues increased by 8.5% compared to 2019 Q1. This dynamics was backed by: (i) an 0.7% increase of total number of employees and a 9.2% increase of gross wages during Dec`19-Feb`20 compared to the same period a year ago, and (ii) and 9.2% of gross wages during Dec `19-Feb `20 compared to the same period a year ago and the increase of the minimum wage from RON 2,080 to RON 2,230.

Income tax revenues from wages increased by 10% (yoy) in Jan – Feb 2020 amid accelerating wage bill by 9,4% in Feb (yoy), but then decreased in March by 9% (yoy) due to the fiscal measures adopted in the context of the state of emergency.

CIT revenues decreased by 32.0% compared to 2019 Q1, mainly due to tax deferral (GEO no. 29/2020). The structure of CIT highlights a 26.9% reduction of CIT due by companies and a 76.2% reduction of CIT due by commercial banks in 2020 Q1.

Social contribution revenues increased by 2%, being nevertheless negatively influenced by the change in the calculation basis of social insurance contributions (CAS) and health insurance contributions (CASS) due by part-time employees, and by the legislative amendments applied in the construction sector.

VAT revenues decreased by 19.4%, mainly as a result of the significant decrease of net collections in March (-82.5%). Although the relevant macroeconomic basis - the

¹ The facility awarded through GEO no. 29/2020 on certain economic and fiscal-budgetary measures to support the business environment, through which no late payment interest and penalties are calculated or owed for the tax liabilities outstanding as of March 21, 2020 and not paid before the end of the state of emergency and 30 days later.

turnover in trade, services, and industry, grew by 12.2%, net VAT receipts were influenced by the acceleration of VAT reimbursement which reached a record level in March (additional reimbursement of RON 3.2 bn compared to 2019 Q1).

Excise duties revenues increased by 8.7%. Excise revenues from energy products expanded by 2.2% despite the reduction in excise level on fuel since the beginning of the year (by 14.3% for diesel and 13% for gasoline). Excise revenues from tobacco products grew by 15.3% (yoy), supported by a 4.2% hike in the excise level for cigarettes.

Among other categories of revenues, receipts from **taxes on use of goods** increased by 28.2%, mainly as a result of revenues collected from broadcast license renewal. **Non-tax revenues** advanced by 12.9%, being positively influenced by the evolution of revenues from sales of greenhouse gas emission certificates and by the evolution of the revenues from interests. **The EU refunds and donations** increased by 2.2% compared to the similar period of last year.

Budget expenditures expanded by 12.7% in nominal terms in 2020 Q1 compared to 2019 Q1. As share of GDP, total expenditures amounted to 8.3% at the end of March 2020 (+0.8 pp of GDP).

Compensation of employees increased by 9.4% (yoy), largely due to public wage hikes (Law no. 153/2017).

Social assistance expenditures advanced by 17% in 2020 Q1 (yoy). This dynamics is mainly explained by a 15% increase of pension point, 10% increase of allowance for pensioners, and 10% increase of child allowance. Furthermore, sick leave reimbursement was twice as large as in 2019 Q1 (RON 401.7 mn sick leave reimbursements in March).

Goods and services expenditures increased by 17.4% in 2020 Q1, mainly caused by additional payments made for the prevention and fight against the COVID-19 pandemic.

Investment, which include capital expenditures and spending related to development programmes financed from domestic and foreign sources, totaled RON 5.9 bn, up by 20% compared to 2019 Q1.

Subsidies were 1.6 times larger than in 2019 Q1, mainly due to higher subsidies for agriculture, respectively payment in advance for the transitional national aid in the vegetables and zoo-technical sectors. **The expenditures related to projects financed from external non-reimbursable funds** (including subsidies from the EU corresponding to agriculture) increased by 8.1% compared to the similar period of the previous year.

3.3.2. The first 2020 budget rectification (data presented in cash terms)

The first budget rectification was caused by the COVID-19 pandemic outbreak which, on the one hand, led to a contraction of the economy, causing a decline of the estimated budget revenues, and, on the other hand, required certain measures to support the health system, for the social protection of those affected, and to support the economic agents whose activity was affected.

The first budget rectification is based on the revised macroeconomic forecast, as of April 2020, and the measures adopted to limit the spread of COVID-19 and to support the whole economy.

Total revenues were reduced by RON 19.5 bn, down to RON 341.1 bn (31.5% of GDP), and expenditures were increased by RON 12.5 bn, up to RON 413.6 bn (38.2% of GDP), thus resulting a deficit of RON 72.5 bn (6.7% of GDP), i.e. RON 32 bn larger than the initial budget planning.

The macroeconomic hypotheses used as basis of the budget rectification are presented in the table below:

Table 5: Macroeconomic hypotheses of the budget rectification

Indicators	MU	2020	
		<i>Initial budget</i>	<i>Revised budget</i>
GDP	mn RON	1129.2	1082.1
Real GDP growth rate	%	4.1	-1.9
Average exchange rate	RON/EUR	4.75	4.84
Inflation - end of year	%	3	3
- annual average	%	3.1	3.1
Average number of employees	1000 persons	5268	5087
No. of unemployed at (end of year)	1000 persons	275	295
- Registered unemployment rate	%	3	3.4
Average gross wage	RON/month	5429	5212
- Nominal growth	%	9.8	5.9
Exports of goods - growth rate	%	4.5	-7.3
Imports of goods - growth rate	%	5.5	-6.1

The change in budget revenues is owed to both slowing down of the economic activity in Romania, as well as in the region (2.1% nominal GDP increase for RO in 2020, compared to 8.5% initially estimated), plus the measures adopted lately to mitigate the COVID-19 crisis (declaration of the state of emergency, deferral of tax payment, technical unemployment benefits, etc.)

Total budget revenues are projected to decrease by RON 19.5 bn, out of which RON 23.3 bn is the negative influence of revenues from domestic economy and a positive influence of RON 3.8 bn from EU funds for the settlement of amounts used to fight the pandemic.

Table 6: Revised budget revenues (RON bn)

	Initial law	Revised 1	Influence
Corporate income tax	19.47	17.19	-2.3
Personal income tax	26.3	24.8	-1.5
VAT	72.7	67.1	-5.6
Excise duties	33.6	31	-2.7
Social insurance contributions	124	115.6	-8.4
Non-tax revenues	29.1	27.3	-1.8
Other amounts received from the EU ²			+3.9

The changes of budget expenditure aim to a large extent to ensuring the health system financing needs, to purchase protection equipment and modular hospitals, as well as to ensuring the amounts necessary for certain social benefits established as a result of the total or partial lockdown during the state of emergency.

Total expenditure increased by RON 12.5 bn, as follow:

² Other amounts received from the EU for operational programmes financed within the convergence objective: EU funds settlement corresponding to the Operational Programme “Large Infrastructure” for medical equipment expenditures, medical devices and medical protection devices, specialized transportation equipment, decontamination and triage support equipment, medical logistics containers, modular medical hospitals ROL1, ROL2, and ROL3 used to fight the spread of coronavirus SARS-CoV-2, and unemployment expenditures.

- **Compensation of employees** increases by RON ~0.5 bn, in order to ensure the risk incentive for medical and sanitary staff directly involved in treating the ill people infected with COVID-19;
- **Goods and services expenditure** is scheduled for a slight increase of RON 0.2 bn, mainly prioritized for health programmes, emergency procurement of sanitary equipment/materials;
- **Interest expenditures** increase by RON 55 mn;
- **Social assistance expenditure** increases by RON ~6.9 bn, mainly to cover the unemployment expenditures and social benefits established as a result of the total or partial lockdown;
- **Projects financed through EU post-accession non-reimbursable funds for 2014-2020** are reduced by RON 143.7 mn;
- **Reserve funds** increase by RON 3 bn;
- **Expenditures corresponding to programmes with reimbursable funds** are increased by RON 215 mn;
- **Capital expenditure** increases by RON 74 mn;
- **Other expenditure** increases by RON 1.4 bn, especially in order to cover the allowances for parents who stay at home with their children during the state of emergency, when schools are closed.

3.3.3. Estimates of 2020 budget indicators - ESA terms

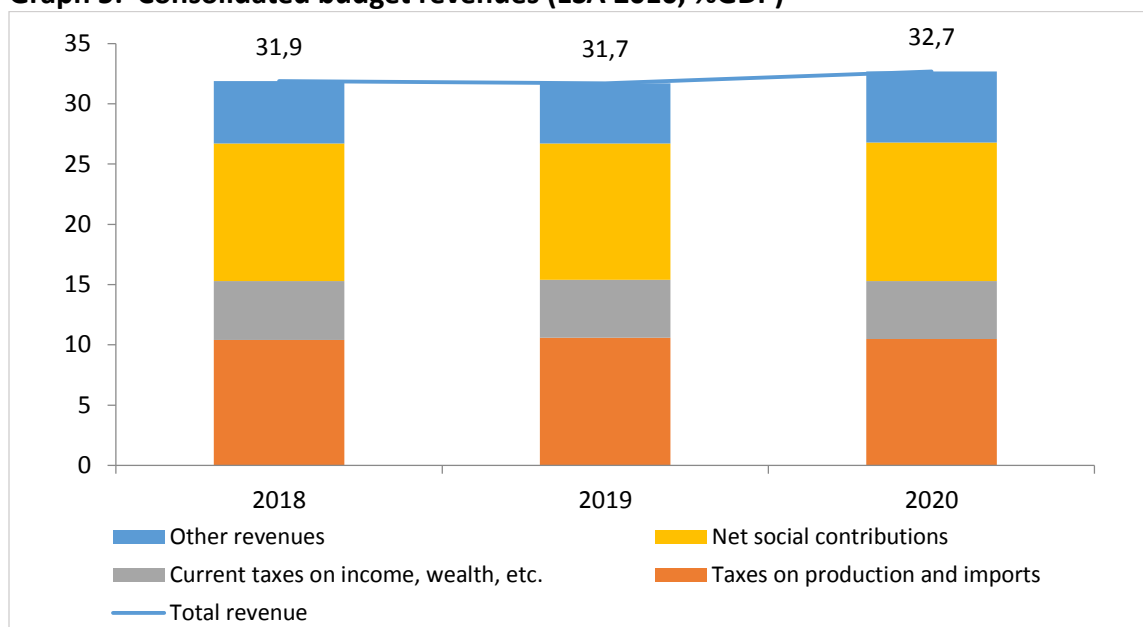
The estimates of budget revenues and expenditures are impacted by the evolution of the public health crisis and the economic implications thereof. In this context, the ESA budget deficit forecasted for the end of 2020 is 6.7% of GDP, up by around 2.4 pp compared to 2019 (detailed information can be found in the annexes).

Total budget revenues are estimated to expand from 31.7% of GDP (as of 2019) to 32.7% of GDP in 2020, especially due to an increase of social contributions (by 0.2 pp) and 'other revenues' category (by 1.1 pp).

Current taxes on income and wealth are projected to stand at 4.8% of GDP (as last year), while the revenues from taxes on production and imports shall register a marginal decrease of 0.1 pp.

Budget revenues' projections for 2020 are based on a positive, but moderate wage bill dynamics and a private consumption decline in the context of the pandemic.

Graph 5: Consolidated budget revenues (ESA 2010, %GDP)

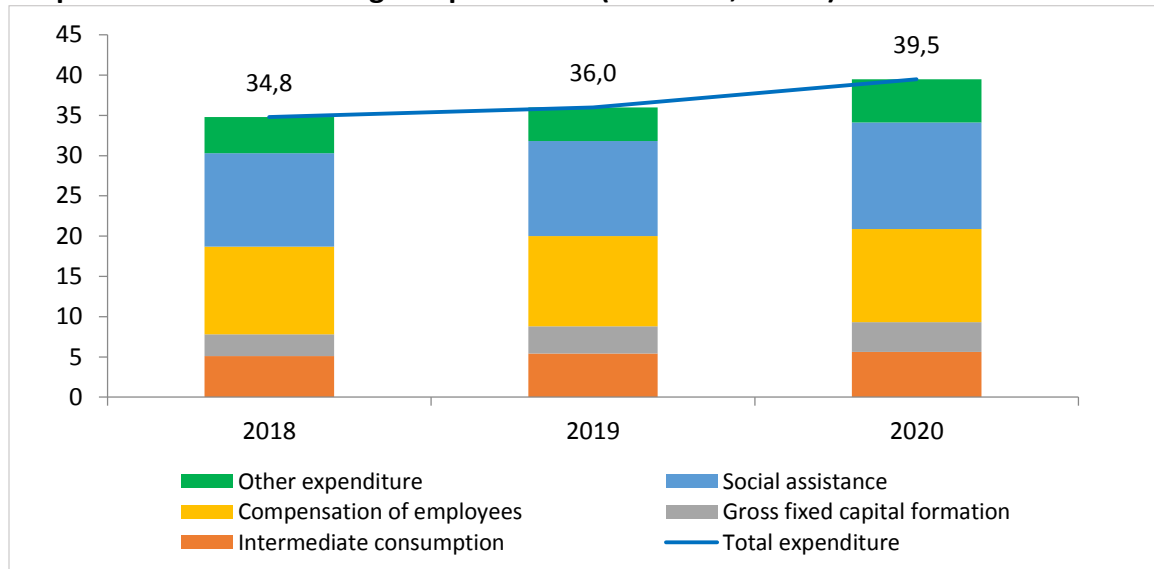


Source: Ministry of Public Finance

On the other hand, 2020 budget expenditures are estimated to expand faster, accommodating an approximated 3.5 pp increase in expenditure, from 36% of GDP in 2019 to 39.5% of GDP in 2020. This dynamic is based on a significant advance of social transfers, as a share of GDP, by around 1.4 pp, up to 13.2% of GDP in 2020, as well as the increase of subsidies, from 0.4% of GDP to 1,2% of GDP. As per the Eurostat methodology, the expenditures for technical unemployment and social assistance related to the COVID-19 pandemic were registered on the ESA classification as production subsidies.

Other categories of expenditures are predicted to increase, mainly compensation of employees (+ 0.4 pp), and gross fixed capital formation (+ 0.3 pp).

Graph 6: Consolidated budget expenditures (ESA 2010, %GDP)



Source: Ministry of Public Finance

For 2020, the compensation of employees forecast took into consideration the second increase of public wages by 1/4 of the difference between 2022 level (the wage provided by the Law 153/2017) and the level of December 2018, as well as the maintenance of bonuses at December 2019 level, maintenance of the allowances for elected and appointed public dignity positions, and maintenance of meal vouchers and holiday vouchers at 2019 level.

Also, according to the provisions of *Framework-law no. 153/2017, as subsequently amended and supplemented*, as of September 1, 2020, for the teaching personnel, the auxiliary teaching personnel, the management teaching personnel and the guidance and control personnel from the education field, the wages shall be established at 2022 level established by law.

The budget deficit is expected to reach 6.7% of GDP in 2020, in both cash and ESA terms. The budget programming according to the Fiscal and budgetary strategy provided an ESA deficit of 3.6% of GDP for 2020. The difference is explained by the crisis generated by the

COVID-19 pandemic, on the one hand the loss of revenues caused by the slowing down of the economic activity, and on the other hand by the increase of expenditures for medical equipment and social assistance (technical unemployment, allowances for the parents who stay at home with the children, etc.)

The excessive deficit procedure (EDP) was activated against Romania since the ESA deficit exceeded in 2019 the 3% of GDP threshold set by the Stability and Growth Pact. The recommendation established through the EDP for Romania is to go back to a deficit below 3% of GDP by 2022, and for 2020 was established an ESA target deficit of 3.6%, similar to the estimates from the Fiscal and Budgetary Strategy.

At the same time, the European Commission activated the General escape clause to respond to pandemic, which allows MSs to deviate from the established fiscal and budgetary targets, while the costs generated by the COVID-19 receives special treatment. In practice, this means that Romania will be evaluated with respect to reaching the EDP target by excluding the costs generated by COVID-19.

Table 7: General consolidated budget balance (% of GDP)

	2018 Achieved	2019 Achieved	2020 Estimates
budget deficit (ESA methodology)	-2.9	-4.3	-6.7
Budget deficit (cash)	-2.9	-4.6	-6.7

Source: Ministry of Public Finance, National Commission of Strategy and Prognosis

3.4. MEASURES ADOPTED TO TACKLE THE COVID-19 PANDEMIC

The spread of the COVID-19 virus represents a severe public health emergency for the citizens of the world. This pandemic is also a major shock for both global economies and national economy. The real GDP growth rate is estimated to register a contraction in 2020. In this uncertain context, the Government has adopted measures in different fields (economic, social assistance, health and education) to fight the pandemic.

GEO no. 29/2020 - in force as of March 21, 2020

The legislative act focuses on COVID-19 prevention and mitigation of its negative effects through several measures targeting the public health sector, as well as measures to mitigate the negative effects caused by the partial of total lockdown.

1. The IMM INVEST ROMANIA program was approved through GEO no. 29/2020 (amending GEO no. 110/2017), and amended and supplemented at a later stage through GEO no. 42/2020.

Through this program, the Government offers guarantees up to 80% or 90%, for investment and working capital loans, contracted by microenterprises, SMEs, which shall benefit of grants for the payment of interests and fees within the limit of EUR 800,000 each.

The impact of the State aid scheme is RON 781 mn (EUR 161 mn), and the maximum guarantee ceiling is RON 15 bn (the equivalent of EUR 3.1 bn).

The maximum term of financings is of 6 years for investment credits, and 3 years for working capital credits. The credits/lines of credit for working capital can be prolonged by maximum 3 years.

The maximum value for working capital credits is RON 5 mn, while for investment credits is RON 10 mn. Furthermore, the cumulated credits per one company shall not exceed RON 10 mn.

The validity period of the scheme, respectively the period during which are selected the beneficiaries and are issued letters of guarantee/financing agreements, is comprised between the date of entering GEO into force and December 31, 2020, while the period

during which the grant can be paid is comprised between the date of entering GEO into force and 31 of March 2021, inclusive, with an extension possibility.

The methodological implementation norms provided through GEO no. 110/2017 regarding the Support Program for SMEs (IMM INVEST ROMANIA) were approved through GD no. 282/2020.

2. Payment postponement until June 30, applicable for:

- a) tax on buildings;
- b) tax on land;
- c) tax on means of transport;

3. For the tax liabilities outstanding as of the date of entry into force of GEO no. 29/2020 and not paid within 30 days as of the termination of the state of emergency shall not be owed late payment interest and penalties.

4. SMEs which have totally or partially interrupted their activity due to Government`s decision during the state of emergency can postpone the utilities` payment (electricity, natural gas, water, telephone and Internet services), as well as the rent for the real estate used as registered office and secondary offices.

GEO no. 30/2020 - in force as of March 21, 2020

The legislative act clarifies certain aspects related to days-off granting for parents to supervise their children, in the context of temporary school`s closures. The legislative act reconsiders the "parent" notion, by including certain categories previously omitted, like adults with severe disability, unable to ensure their basic necessities and which require permanent supervision. Furthermore, for the staff who cannot benefit of days off, it is provided a financial incentives equal to the allowance provided for the period of days off.

At the same time, new social and wage benefits are introduced for the period of the state of emergency.

1. Days off are granted to one parent for children supervision, in the situation of suspension of classes or temporary closure of the educational establishments, due to unfavorable meteorological conditions or to other extreme situations established as such by the competent public authorities.

2. The allowance for every day off shall be paid by employer, representing 75% of the wage corresponding to one business day (but not more than 75% of the gross

average wage used by the Government at the substantiation of the social security state budget in 2020).

3. Employees of the National Defense, penitentiaries, public health staff and other categories established through Ministers orders (Minister of Internal Affairs, Minister of Economy, Energy and Business Environment, and Minister for Transport, Infrastructure, and Communications, as applicable), who are not allowed to take days off to take care of their children, are entitled to extra payments in addition to their wages (the same scheme presented at 2rd point), only if the other parent does not benefit of this measure.

4. During the state of emergency, temporary laid-offs employees (as a consequence of employer decisions in the context of Coronavirus pandemic), receive a technical unemployment benefit corresponding to 75% of their gross wage, to be paid from the state unemployment insurance budget (the Government covers up to 75% of the gross average wage used by the Government at the substantiation of the social security state budget in 2020).

5. Other categories of professionals (not employers) whose economic activity was completely or partially closed as a consequence of Government`s decision, shall receive an allowance equal to the minimum wage during the state of emergency.

GEO no. 32/2020 - in force as of March 30, 2020

The legislative act clarifies certain social protection measures, aims to expand the coverage to more beneficiaries, and establishes the norms implementation.
--

1. During the state of emergency, for the period of contract suspension, at the initiative of the employer, the employer does not owe work insurance contributions.

2. People with individual labour agreements based on Law no. 1/2005 regarding the organization and functioning of cooperations, shall receive an allowance equal to the minimum wage, paid by the Government.

3. Sportsmen, coaches, doctors, medical assistants, masseurs, physiotherapists, researchers, who are subject to Law no. 69/2000 (regarding physical education and sports), shall receive an allowance equal to 75% of the wage rights, for the period of temporary suspension of the sport activities, but not more than 75% of the gross average wage used by the Government at the substantiation of the 2020 social security state budget.

4. Individuals who obtain revenues exclusively from copyright and related rights and interrupt their activity as a result of the effects of Coronavirus throughout the state of emergency shall benefit of a monthly allowance of 75% of the average wage.

5. Other professionals (not employers) whose economic activity was completely or partially interrupt as a consequence of the Government's decision, shall receive a monthly allowance of 75% of the average wage.

GEO no. 33/2020 - in force as of March 30, 2020

Given the Government's financing needs, the legislative act stimulates the payment of outstanding fiscal liabilities by offering discounts to taxpayers who have the financial capacity to pay their CIT (PIT in the case of microenterprises). Furthermore, the VAT payments on imports are postponed for medical and sanitary devices that can be used to prevent, limit, and combat COVID-19 (medicines, protective equipment, other medical devices or equipment and sanitary materials), in order to support the economic operators who, import such goods.

1. CIT taxpayers who pay the tax owed for 2020 Q1, respectively quarterly advance payment for 2020 Q1 due on 25 April 2020, shall benefit of a discount, as follows:

- a) 5% for large taxpayers;
- b) 10% for medium taxpayers;
- c) 10% for the other taxpayers who are not included at letters a) and b).

During the state of emergency and 30 days after the cessation of emergency, no actual VAT payments is required by customs (VAT postponement) for imports of medicines, protective equipment and other medical and sanitary devices that can be used to prevent, limit and combat COVID-19.

GEO no. 37/2020 - in force as of March 30, 2020

The legislative act establishes mortgage payment deferral (up to 9 months) for debtors affected directly and indirectly by the coronavirus crisis (the measure covers households, self-employed, individual enterprises, family enterprises, SMEs and NFIs).

1. GEO no. 37/2020 establishes the measure of suspending, at the debtor request, the obligation to pay the installments related to the mortgage loans, representing capital rates, interest and commissions, granted to the borrowers by the creditors until the date on entering into force of this GEO, for a period up to 9 months, but no later than December 31, 2020.

- a) The interest owed by debtors, corresponding to the outstanding amounts whose payment is suspended, shall be capitalized on the existing credit balance at the end of the suspension period. The capital thus increased shall be paid in installments throughout the term left until the new credit maturity, after the suspension period.
- b) The payment of this distinct debt (capitalized interest payments) is guaranteed 100% by the MoPF.

Through **GD no. 268/2020 amending GD no. 807/2014 on the establishment of State aid schemes with the object of stimulating investments with major impact on the economy:**

- Over the period 6th of April – 31st of December 2020, the procedure is simplified by skipping the “verification on the spot” step (applicable also for payment request in process of settlement at the time of GD’s approval).
- The payment request shall be filled into the 2nd section - Statement on one’s own responsibility of the legal representative of the enterprise, mentioning that assets exist (physically) at investment’s location, at the time of submission of the payment request as a consequence of skipping the “verification on the spot” step and certain aspects shall be clarified with regard to the assets that are mentioned in the Settlement form.
- Provisions of the Applicant’s Guide and the Payment Guide shall be modified correspondingly due to the elimination of the verification on the spot.

Given the current situation, the proposed amendments will speed up the State aid payments requested by the beneficiaries. Therefore, the liquidities made available to the enterprises through the payment of State aid shall allow the continuation of their activity and shall contribute to overcoming the economic difficulties generated by the Coronavirus epidemic.

Through **the Order of the minister of public finance (OMPF) no. 1795/2020 on the establishment of certain measures related to the opening and distribution/withdrawal**

of the budget appropriations from the Government budget, as a result of the establishment of the state of emergency in Romania.

- during the state of emergency and 30 days after the termination thereof, public institutions (independently on their form of organization and financing) send by email the scanned documents related to the opening of budget appropriations, including the budgets approved in accordance with the legal provisions in force, to the MoPF or to territorial units of the State treasury, as applicable;
- in the collaboration with the MoPF and the State Treasury or among the State treasury units, the documents in question shall be scanned and sent by email;
- the transmission term of applications for opening of budget appropriations by public institutions was reduced from “at least 10 business days before the performance of the payments” to “at least 5 business days before the performance of the payments”.

Through **OMPF no. 1819/2020 amending and supplementing art. 6¹ in the Methodological norms regarding the use and supplementation of the payment order for the State Treasury (POT) and of the multiple electronic payment order (MEPO), approved through the OMFP no. 246/2005, as well as for supplementation of the Procedure of communication through electronic means of remote transmission between the MoPF/the central fiscal body and private individuals, legal entities and other entities without legal personality, approved through the OMFP no. 660/2017** was created the possibility of using the multiple electronic payment order (MEPO) to make payments using the accounts opened at the State treasury units by all public institutions, as well as by all economic operators and other entities than public institutions.

Through **OMPF no. 1828/2020 on the establishment of certain measures to register the authorized people to order payments from the accounts of public institutions with the functionalities of the national reporting system - Forexebug through the “Single Access Point”** was created the possibility of transmission by email, during the state of emergency and 30 days after, of the documents corresponding to the registration of the authorized people to order payments from the accounts of public institutions to the functionalities of the national reporting system - Forexebug through the “Single Access Point”.

Through **OMPF no. 1830/April 6, 2020 amending the OMPF no. 583/2016 approving the forms provided by art. 230 and 232 in Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented,** was created the legislative framework for

submission by the applicants of the request forms for issuance of residency certificates and of certificates attesting the tax paid in Romania through electronic means of remote transmission. With regard to the signing by the competent fiscal body of the residency certificates and of the certificates attesting the tax paid in Romania by non-residents, the order mentions that they shall be also signed with extended electronic signature, based on a qualified certificate, and the issuance of these forms shall be done under the law, being also included the electronic channels of remote transmission, respectively the SPV.

Through the **OMPF no. 1832/2020 on the signing and transmission of certain documents provided by the Methodological norms regarding the commitment, liquidation, authorization, and payment of public institutions expenditures, as well as the organization, record-keeping, and reporting of budgetary and legal commitments, approved through the OMFP no. 1.792/2002** was created the possibility that, during the state of emergency and 30 days after the end thereof, spending authorities should be entitled to sign with qualified electronic signature and to transmit electronically a series of documents provided by the Methodological norms regarding the commitment, liquidation, authorization, and payment of the expenditures of public institutions, as well as the organization, record-keeping, and reporting of budgetary and legal commitments, approved through the OMFP no. 1.792/2002, as subsequently amended and supplemented.

Through the **OMPF no. 1865/2020 on the transmission of the centralized quarterly financial statements elaborated by public institutions and amending the OMFP no. 640/2017 approving the Methodological norms on the elaboration and submission of the quarterly financial statements of public institutions, as well as of certain monthly financial reports in the year 2017, amending and supplementing the Methodological norms on the organization and management of the accounting of public institutions, the Plan of accounts for public institutions and the instructions of application thereof, approved through the OMFP no. 1.917/2005, as well as amending and supplementing other methodological norms in the field of public accounting,** was created the legal framework according to which, during the state of emergency and 30 days after the termination thereof, the centralized financial statements of public institutions should be transmitted to the MoPF only in electronic form.

Pursuant to art. 10, the central public authorities, as well as the legal entities where the State is a majority shareholder, were able to purchase directly the necessary materials and equipment to fight the epidemic.

The **National Office for Centralized Procurement (ONAC)** concluded framework-agreements with economic operators for the products in annex no. 1 to GEO no.

11/2020 to ensure the medical emergency stocks of strict necessity. The framework agreements concluded by ONAC were swiftly submitted to the General Inspectorate for Emergency Situations with the Ministry of Internal Affairs, for the purpose of signing the subsequent agreements with the economic operators that won the procurement. At the same time, pursuant to the Memorandum no. 2178/March 25, 2020 themed “*Approval of Romania’s participation to the Development of an European reserve of medical counter-measures of intensive care medical equipment and individual protection equipment dedicated to fighting serious cross-border health threats*” and to the application for financing approved under no. ECHO/rescEU/COVID19/2020/RO/001 was concluded a framework-agreement for medical ventilators and it is under negotiation for the procurement of FFP2 masks.

Through **GD No. 285/2020 amending and supplementing GD no. 1.235/2010 on the approval of the creation of the National electronic system of online payment of taxes and charges using the bank card**, it was regulated the possibility of electronic payment by the taxpayers who are self-employed, legal entities or other entities without legal personality of the payment liabilities to the Government budget, which shall be registered in SNEP to find out the information regarding the due amounts and for ensuring access to electronic payment of those liabilities.

Through the **OMPF no. 1832/2020 on the signing and transmission of certain documents provided by the Methodological norms regarding the commitment, liquidation, authorization, and payment of public institutions expenditures, as well as the organization, record-keeping, and reporting of budgetary and legal commitments, approved through the OMFP no. 1.792/2002** was created the possibility that, during the state of emergency and 30 days after the end thereof, spending authorities should be entitled to sign with qualified electronic signature and to transmit electronically a series of documents provided by the Methodological norms regarding the commitment, liquidation, authorization, and payment of public institutions expenditures, as well as the organization, record-keeping, and reporting of budgetary and legal commitments, approved through the OMFP no. 1.792/2002, as subsequently amended and supplemented.

GEO no. 48/2020 (in force as of April 9, 2020) on certain financial and fiscal measures:

Fiscal measures:

- It was adopted the extension of the deduction from the tax on the income of microenterprises and of the sponsorships made under the law, to public institutions and authorities, including the specialty bodies of the public

administration, for assurance of the resources necessary to finance public institutions, mainly in the social and medical fields.

- For the taxpayers required to pay the specific tax of certain activities (Law no. 170/2016), it is proposed that, for the period during which they totally or partially interrupt their activity as a consequence of the state of emergency, they shall not owe the specific tax.
- It was regulated the fiscal treatment, meaning the non-taxation and non-inclusion in the calculation base of mandatory social contributions, of the advantages in kind granted by the employer to private individuals who obtain revenues from salaries and assimilated to salaries and hold positions considered by the employer/payer as being essential for the performance of activity and who are in preventive isolation at their workplace or in especially dedicated areas where no outside persons are allowed, for a period established by the employer/payer, in the case of establishment of the curfew or state of emergency under the law.
- Clarifications were introduced regarding the fiscal treatment of the allowances granted from the unemployment insurance budget or the State budget, pursuant to art. XI and V in GEO no. 30/2020 and art. 3 in Law no. 19/2020, within the meaning that for them the fiscal facilities provided under art. 60, art. 1381, and art. 154 para. (1) letter r) in the Fiscal Code shall not be granted.
- It was extended the VAT payment postponement in customs for certain goods used to prevent, treat, and fight the COVID-19, during the state of emergency and 30 days after. At the same time, it was supplemented the list of those goods with completely denatured ethyl alcohol dedicated to the production of disinfectants and with machines producing protective masks. For completely denatured ethyl alcohol the measure shall be applied only throughout the state of emergency.
- It was approved the procedure of using ethyl alcohol, alcoholic beverages and energy products seized, requisitioned, entered into the private property of the Government or which form the object of a forced execution procedure and which, according to the Fiscal Code regulations, were subject to destruction no matter if they fulfilled or not the legal commercialization requirements, both in the case of establishment of the state of emergency or curfew, and outside such state.

- It was regulated, during the state of emergency or curfew, the granting for free of ethyl alcohol, of alcoholic beverages, energy products and of those products which are included in the list of necessary goods provided by GEO. no. 1/1999 on the regime of the state of emergency or of the curfew, that were seized or entered the private property of the State before the establishment of the state of emergency.
- It was approved, during the state of emergency, the denaturation of ethyl alcohol in fiscal warehouses of alcoholic beverages production for the purpose of producing biocides.

Measures in the fiscal procedure field:

- It was regulated that during the established state of emergency and the following 30 days after the termination thereof, the settlement of the refund requests of VAT made through the negative VAT returns with refund option submitted within the legal term of submission should be made with subsequent performance of the tax inspection, with the exception of the returns submitted by the taxpayers considered to pose high fiscal risk for refund, as well as of the situations for which the tax inspection was already started on the date of entry into force of the GEO.
- It was regulated that throughout the state of emergency and the following 30 days, no interest and penalties should be calculated in accordance with the Fiscal Procedures Code for the late payment of the installments from the graphs of payment in installments.
- It was regulated the suspension of the conditions of maintenance of the validity of payment facilities provided by the Fiscal Procedures Code throughout the state of emergency and for the following 30 days, so that, once the state of emergency ends, these taxpayers that benefit of payments in installments should become viable on the market again.
- It was regulated the suspension of the measures of forced execution of budget receivables consisting of sending the demands for payment and selling the goods through auction, during the state of emergency and for another 30 days after this period, except for the forced executions that apply for the recovery of budget receivables established through definitive court judgments delivered in criminal cases arising from the perpetration of crimes.
- It was regulated that the limitation periods of the right of the fiscal body to establish fiscal receivables and request forced execution should be suspended or

should not start running; the same is valid for the right of the taxpayer of claiming the refund of tax receivables, as provided by the Fiscal Procedures Code, throughout the state of emergency and 30 days after this period.

- It was regulated the postponement of the deadlines of submission of the annual financial statements corresponding to the 2019 financial year, respectively of the annual accounting reports ending on December 31, 2019, as provided by art. 36 para. (1) and para. (3), respectively art. 37 in the Accounting law no. 82/1991, republished, as subsequently amended and supplemented, until July 31, 2020.

In the field of accounting, it was regulated the postponement of the submission deadlines of the annual financial statements corresponding to the 2019 financial year, respectively of the annual accounting reports ending on December 31, 2019, as provided by art. 36 para. (1) and para. (3), respectively art. 37 in the Accounting law no. 82/1991, republished, as subsequently amended and supplemented, until July 31, 2020.

Measures in the field of gambling:

- It was approved the suspension of the payment liabilities corresponding to the exploitation authorizations of traditional gambling activities, since: (i) there were suspended, during the state of emergency, the activities of the economic operators that organize traditional gambling activities, and (ii) the charges corresponding to the licenses of organization and the exploitation authorizations of gambling activities are owed in advance (independently of the revenues obtained).
- The exploitation authorizations of gambling activities whose validity ends during the state of emergency were extended for 90 days as of the end of the state of emergency.

Table 8: Discretionary measures adopted in response to COVID-19 pandemic

Measure	Description	ESA classification (Expenditure/Revenue)	Status	Budgetary impact (bn RON)
				2020
1.	Risk incentive for the employees from the health sector who work with patients infected with COVID-19	D.1: Personnel expenditures	Adopted.	0.5
2.	Unemployment benefits for the parents who stay home with their children, because schools are closed through a decision of the	D.3: Subsidies	Adopted.	1.5

	Government.			
3.	Technical unemployment benefits	D.3: Subsidies	Adopted.	6.4
4.	Benefits from the State budget at the level of the minimum wage for those who are unable to claim technical unemployment, like independent workers or authorized natural persons (PFA).	D.3: Subsidies	Adopted.	2
5.	Medical equipment and other expenditures necessary in the fight against the pandemic.	P.51: Gross fixed capital formation	Adopted.	0.75
6.	Medical equipment and other expenditures necessary in the fight against the pandemic.	P.2: Interim consumption	Adopted.	1.75
	Total			12.9

Note: the measures described in the table were budgeted in the first budget rectification of April 2020

Table 9: Guarantees adopted in response to COVID-19

List of measures	Description	Status of the measure	Maximum amount of the guarantee
1	IMM INVEST - loan guarantees for SMEs	adopted	15 bn RON

3.5. IMPACT OF EUROPEAN FUNDS ON PUBLIC FINANCE

The funds allocated by the European Union represent a key source for short, medium and long-term development of the Romanian economy and society, as well as a central element of budget sustainability given the non-reimbursable nature of these funds.

During the multiannual financial framework 2007-2013, Romania benefited of an EU allocation of EUR 17.57 bn for 7 Operational Programs financed within the Convergence Objective (Regional operational programme, Sector operational programme for Transport, Operational programme *Environment*, Operational Program *Increase of Economic Competitiveness*, Human Resources Development operational program, Operational program *Administrative Capacity* and Technical Assistance operational programme).

According to the closure schedule of operational programmes for 2007-2013, by March 31, 2017 were sent the documents corresponding to the closure package (payment application of the final balance, expenditure declaration, final implementation report of the operational programmes, closure declaration accompanied by the final control report of the Audit Authority), for all operational programs, according to the requirements of European regulations.

Up to the present, the total amounts received from the European Commission, representing pre-financing and reimbursements, for the OP financed through the Cohesion Policy - objective 1, as mentioned above, are of ~EUR 16.9 bn, which represents ~96% of the EU allocation corresponding to these programs. The European Commission reimbursed EUR 14.8 bn.

The final absorption rate can be calculated only after the Commission accepts the closure package.

With regard to the programming period 2014-2020, Romania has over EUR 43 bn available, in accordance to the 2014-2020 MFF, out of which the allocation for European Structural and Investment Funds (ESIF) is EUR ~31 bn. The allocation for the cohesion policy, financed within ESIF, is EUR ~23 bn (OP Regional; OP Large Infrastructure; OP Competitiveness; OP Human Capital; OP Technical Assistance; OP Administrative Capacity).

Since 2015 there were launched project calls for all 6 operational programs of ESIF - OP of Large Infrastructure, Human capital, Competitiveness, Technical Assistance, Regional, Administrative Capacity, as well as for FEAD-POAD. The total budget for the launched calls is EUR ~26 bn, representing 97% of the total allocation available for the implementation of these programs.

Thus, on February 28, 2020, the contracting rate was of ~106.2% of the EU allocation of the OP financed from ESIF and FEAD, being signed 7,583 financing agreements with the beneficiaries of non-reimbursable funds, totaling EUR ~29.9 bn, out of which EUR 24.5 bn represents EU contribution. The management authorities made payments amounting to a total value of EUR ~7.4 bn.

Up to the present, the total amounts received from the EC, as pre-financing and reimbursements for the programs financed from ESIF (OP Large Infrastructure, OP Competitiveness, OP Regional, OP Administrative Capacity, OP Technical Assistance, OP Human Capital, NP of Rural Development, OP Fishing and Marine Affairs) reached EUR ~11.7 bn, representing ~38% of the EU allocation.

In addition, the EC has reimbursed EUR ~8.4 bn for direct payments in agriculture.

To reach a maximum absorption rate of EU funds in 2020-2023 corresponding to the financial exercise 2014-2020, several horizontal measures are required:

- Increasing the capacity of the fund management system, streamlining the process through improvement of internal work procedures, as well as revising the legal framework that generated implementation delays, especially in the field of public procurement;

- Supporting potential EU funds beneficiaries by simplifying the financing and implementation mechanism, for all project cycles, as well as continuing the horizontal and specific trainings for beneficiaries;
- Digitalization of EU fund management, including in relation with beneficiaries, through a permanent updating of applications;
- Speeding the launch of project calls for the remaining available amounts, seeking to cover with projects the entire financial allocation for every operational programme;
- Accelerating the pace of assessment and projects contracting, considering the need to finalize the process of engagement of the available financing at this advanced stage of the current EU financial exercise;
- Increasing and optimizing the implementation capacity of the projects already admitted for financing, by supporting the beneficiaries throughout the whole period of project implementation, through project managers from the management authority in order to monitor every project and intensify the periodical meetings with every beneficiary for the purpose of analyzing the project in question and identifying adequate solutions, in order to obtain a significant impact of the investments.

At the same time, we mention that in the Ministry of European Funds it is permanently monitored the implementation status, respectively the progress registered in the process of assessment, contracting, and payment, in order to identify possible delays and adopt remedy and delay recovery measures.

3.6. GOVERNMENT DEBT LEVEL³

Government Debt Level

At the end of 2019, the public debt was 35.2% of GDP (in accordance with the EU methodology), well below the 60% threshold set by the Maastricht Treaty. Out of the total public debt, the domestic debt represented 18.9% of GDP, while the foreign debt was of 16.3% of GDP.

Considering a 1.9% contraction estimated for 2020, a depreciation of the national currency relative to EUR (the main currency in which public debt is denominated), and a higher than 3% of GDP deficit, all these as a consequence of coronavirus spread, we estimate that the share of gross public debt (according to the EU methodology) increase to 40.9% of GDP at the end of 2020. If the liquid assets are considered⁴, the level of net public debt (gross public debt minus liquid assets) is estimated at 35.2% of GDP at the end of 2020.

In order to maintain the public debt below the 60% ceiling set out in the Maastricht Treaty, the Law no. 69/2010 related to fiscal and budgetary responsibility, as subsequently amended and supplemented, has introduced prudential interim ceilings for public debt, including automatic measures in case these ceilings are exceeded, as follows:

- If public debt is between 45% and 50% of GDP, the MoPF shall present a report to the Government, justifying the debt's increase and to propose measures to maintain the public debt at a sustainable level,
- If public debt is between 50% and 55% of GDP, it is proposed a program to reduce the debt-to-GDP ratio, which comprises, without limitation thereto, freezing total expenditures, respectively freezing public wages,
- If public debt is between 55% and 60% of GDP, in addition to the measures mentioned above, the Government freezes total expenditures related to social assistance in the public sector,
- If public debt is higher than 60% of GDP, in addition to the measures presented above, the Government initiates and applies a public debt reduction program by

³ All the indicators used in this chapter are compliant with the EU methodology.

⁴ Liquid assets refer to the following instruments: AF1 - gold and DST, AF2 - deposits and cash, AF3 - securities, other than shares consolidated at market value, AF5 - shares and other capital participations, if quoted on the stock exchange, including mutual funds' shares.

an average rate of 5% per year, as reference rate, as provided by art. 2 in the Regulation (EC) no. 1.467/1997, amended through the Regulation (EU) no. 1.177/2011 of the Council of November 8, 2011.

At the same time, in order to improve public debt management and avoid temporary pressure regarding the budget deficit financing needs and public debt refinancing, the MoPF intends to maintain the level of the financial reserve (buffer) in foreign currency, which would allow the management of refinancing risk and of liquidity risk - currently, the policy is to maintain this reserve at a level that covers up to 4 months of the gross financing needs.

State guarantees

In 2020, the MoPF intends to grant State guarantees within the governmental programs, mainly for:

- The “First Home” Program - ceiling of RON 2 bn;
- The IMM INVEST Program - ceiling of RON 15 bn,

the ceiling for issuance of guarantees by the Government through the MoPF and the administrative-territorial units/subdivisions for year 2020 being of RON 18 bn.

IMM Invest Program - guarantee programme to support SMEs` access to finance on the basis of GEO no. 110/2017 on the Support Programme for SMEs - IMM INVEST ROMANIA. The State guarantees shall be issued in the State’s name by FNGCIMM for investment and working capital credits, including for start-ups.

Through GEO no. 29/2020 and GEO no. 42/2020, there were approved amendments to GEO no. 110/2017 on the Support programme of SMEs - IMM INVEST ROMANIA, as follows:

- ✓ resizing the credits which shall be guaranteed within the Program,
- ✓ the MoPF subsidies 100% of the interest on loans to be guaranteed, including the management fee and the risk fee, corresponding working capital and investment credits. Once the State aid scheme’s applicability ends, for the new contracted credits or if the credit initially contracted is increased/extended, the amounts representing the risk fee shall be calculated by FNGCIMM and shall be transferred to the beneficiaries,
- ✓ establishment of the period during which the interest for the credits guaranteed by the State shall be subsidized,
- ✓ recalibration of the maximum financing term.

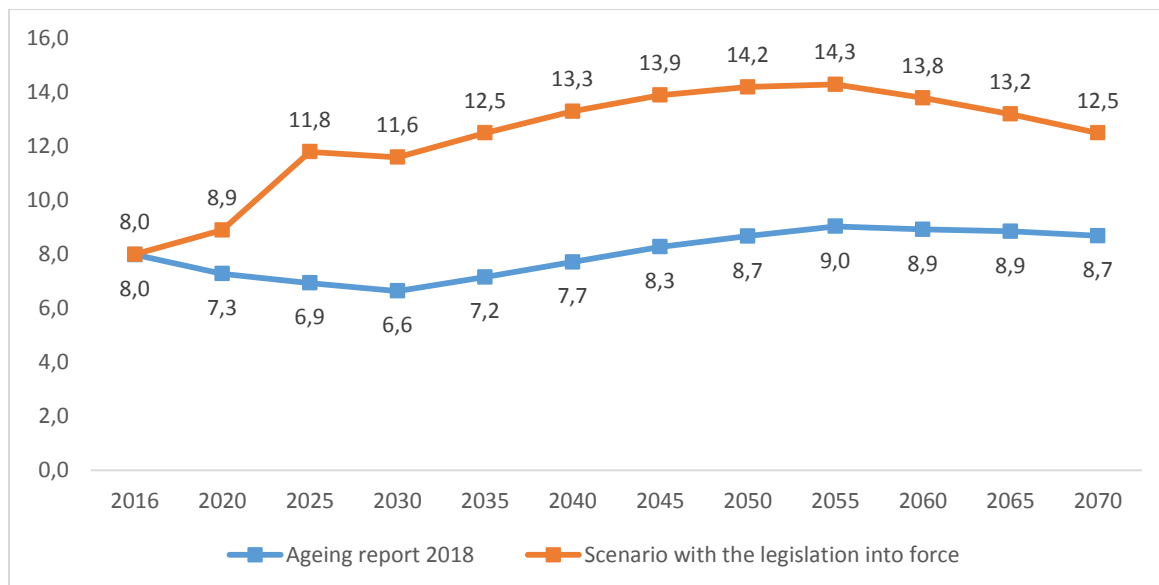
4. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCE

The European Commission analyses in details, once every three years, the public finance sustainability of the MSs through the Fiscal Sustainability Report and Aging Report-economic and budgetary projections.

The projections from 2018 Aging Report, figures updated in 2019 for Romania to include the legislative provisions in force (a European Commission requirement), estimates a hike of pension spending compared to the previous scenario.

The updated projection of expenditure hike strictly related to aging population (pension spending, education, health and long-term care) indicates for Romania a 6 pp of GDP increase for the period 2016-2070 (compared to 2.1 pp variation forecasted in the previous exercise), while the EU average stood at 1.8 pp in both scenarios.

Graph 7: Level of public pension expenditures, % of GDP



Source: NCSP and MoPF calculations

The dynamics of expenditure for the total public pensions, taking into account the legislation in force, shall increase considerably, with a peak of 14.4% of GDP in 2053. Pension spending shall reach 12.5% of GDP at the end of the projection horizon, compared to 8.7% of GDP estimated in accordance with the previous legislative provisions. This puts pressure on the medium and long term public debt level and affects public finance sustainability.

Pension spending hikes is determined by both ad-hoc indexations of the pension point, by a more generous indexation formula on the long term, as well as by a recalculation of

pensions in 2021.

In the *Debt Sustainability Monitor*⁵, published early 2020, the European Commission draws the attention on the on medium and long term sustainability risk generated by the legislation in force. Romania registers an increase of the risk from medium to high level with respect to public finance sustainability, both on medium and long term. Furthermore, an increase from medium to high risk is also registered for public debt sustainability.

Similar to other MSs, the hike of expenditures related to population aging is generated in Romania by a more accentuated reversal of the age pyramid.

Demographic changes will change the structure of Romania's population. The amplitude and speed of population aging depend on the future tendencies with regard to life expectancy, fertility and migration.

The fast aging process will change the ratio between the population at retirement age and the active population, which will lead to major changes in the age structure and to negative implications on the labor market. The ratio between people aged over 65 years and those at working ages (15 to 64 years) increases significantly, which means that in the perspective of the following years the public pension system will have much reduced resources relative to expenditures.

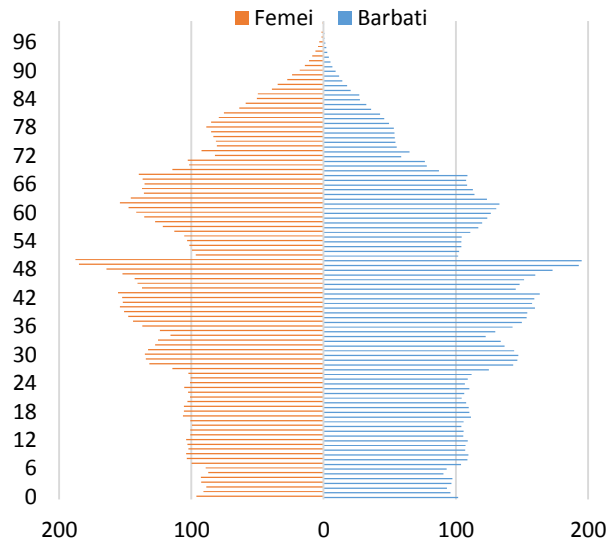
In the case of Romania, the results of the Eurostat demographic forecast indicate a significant population decline, by 4.7 mn people (2070 versus 2018).

Graph 8: Structure of Romania's population (2018 versus 2070)

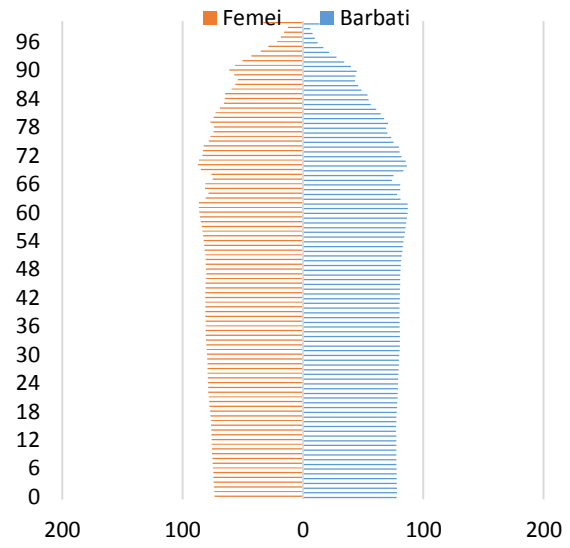
Structure of Romania's population (2018)

Structure of Romania's population (2070)

⁵ https://ec.europa.eu/info/sites/info/files/economy-finance/ip120_en.pdf



Source: Eurostat projections - EUROPOP 2016



Source: Eurostat projections - EUROPOP 2016

5. QUALITY OF PUBLIC FINANCES

Although on medium term the structural measures focused on increasing the transparency of public expenditure, improving their efficiency, modernizing the public procurement, prioritizing investment, strengthening corporate governance of SOEs are paramount in order to increase the quality of public finance, on short term, the current economic situation calls for macro-stabilization measures.

The Government has adopted a package of macro-stabilization measures using the fiscal and budgetary policy, in order to mitigate the negative effects of the pandemic. A summary of these measures can be found in Chapter 3.

On expenditure side, one of the major concerns regards the structure optimization towards an architecture that stimulates sustainable economic development, especially through the reorientation of public investment in order to make a gradual transition from investments financed entirely from domestic resources to investments financed through EU funds. Budget planning and prioritization of large public investment projects represent important steps in order to increase the absorption of EU funds, so as to create fiscal space and support economic growth.

According to the legal framework in force, for the purpose of consolidating the connection between the prioritization and the budgeting processes, the main spending authorities should finance with priority those public investment projects obtaining high scores after application of the prioritization principles and criteria.

According to the prioritization methodology (Chapter II of GEO no. 88/2013, as subsequently amended and supplemented, and GD no. 225/2014, as subsequently amended and supplemented), in 2019 there were 8 main spending authorities who assessed and presented information with respect to 158 large public investment projects, with a total updated value of RON 198,261.56 mn and an amount to be financed for their completion of RON 132,158.7 mn. The largest weight in this portfolio is held by the Ministry of Transport, Infrastructure and Communications, with 131 large public investment projects (total updated value of RON 179,746.65 mn), followed by the Ministry of Environment, Waters and Forests with 11 large public investment projects (total updated value of RON 6,604.36 mn). Out of the total of 158 large public investment projects, 43 projects are finalized (the execution works are fully performed), but payments are still required for: civil sentences, costs corresponding to the DAB procedure, arbitral payments, final certificates, legal assistance, road safety audit, litigations, etc.

Also, one of the recommendations of the World Bank, as part of the “Improvement of public investment management” project which was carried out during 2014-2015 was to rationalize the portfolio of public investments. In this regard, the MoPF, in collaboration with the Ministry of Transport, Infrastructure, and Communications started a pilot exercise of rationalization in order to test the rationalization mechanisms and criteria proposed by the World Bank. It is estimated that by the end of 2020, the working group will present the results of the rationalization exercise to MoPF management, and they shall form the object of a regulatory proposal which will be presented to the Government.

In order to create the assumptions to increase the efficiency and transparency of public resources spending, through OMPF no. 3903 was established a monitoring system which contains comprehensive information both with regard to the annual budget execution throughout the implementation of the investment process and data and information regarding the stage of implementation of large public investment projects (over RON 100 mn). Through the establishment of this reporting and monitoring system, the Government seeks to consolidate the decision-making process correlated with the process of elaboration of the Law on the State budget, to correlate the allocation level of financial resources with the stage of implementation of the projects, to identify the possibilities of redistributing with priority the budget resources towards large public investment projects, in order to reduce the implementation delays.

Medium-term improvement of the fiscal administration

In 2019, the National Agency for Fiscal Administration (ANAF) collected RON **271,639.4 mn, i.e. 10.9% (RON 26,806.9 mn)** more than in 2018 (RON 244,832.5 mn), backed by a real economic growth of 4.1% and a nominal growth of 11.3%.

The significant improvement in the collection area is mainly owed to the implementation of the measures included in the *“Package of measures to increase the efficiency of revenues collection to the General Consolidated Budget”*. The plan was published on the Agency’s website in June 2019; it comprises 5 major objectives, most of the measures being implemented from ANAF’s perspective, as follows:

1. Simplification of fiscal administration procedures to support voluntary compliance for declaration of tax liabilities;
2. Supporting compliance for payment of tax liabilities;
3. Measures of prevention and combating tax evasion;

4. Ensuring differentiated fiscal treatment according to the taxpayers' fiscal behavior;
5. ANAF, an efficient and transparent institution.

The first category refers to a decline of the number of forms and declarations for legal entities, the reduction of the frequency of submission of tax returns by legal entities, the simplification of the single return for private individuals, respectively the extension of the possibility of online receipt of tax returns.

There have been analyzed the possibilities of reduction through administrative measures (merging of forms) of the number of tax return forms that are submitted by legal entities, and the conclusion was that several tax returns could be merged. In order to ensure an easier transition for the taxpayers, the new form will include all the information provided by the current forms that it replaces.

Also, the ANAF elaborated proposals of amendment of the Fiscal Code, which refer to **the reduction of the frequency of declaration for certain categories of legal entities**, of the CIT, the tax on the income of microenterprises and VAT, respectively proposals of the Fiscal Code amendment for the simplification of the *"Single return on the personal income tax and social contributions owed by private individuals"* form. The proposals of amendment of the legislation related to the tax returns of legal entities were submitted for analysis to the Technical Advisory Panel established in the ANAF, and shall be finalized on the basis of the proposals of the Advisory Panel and sent to the MoPF. With respect to the single return for private individuals, in 2019 it was submitted by approximately 960,000 taxpayers, 80% of them using the virtual private space.

With regard to the extension of the possibility of online receipt of tax returns, the National Center for Financial Information (NCFI) of the MoPF is working to develop/adapt certain applications for the electronic filling in and submission of certain forms; it is considered the assurance of the technical support necessary for online submission of all tax returns.

For **the prevention and combating of tax evasion**, there were established a series of measures, among which:

- Initiating Tax inspections in accordance with the BEPS (Base Erosion Profit Shifting) plan and the ATAD directive - *European and international regulations on preventing and combating tax evasion*. In this respect, there were approved the model and content of the form *"Country-by-country report"* and in the specific risk analyses in the field of transfer pricing are also used the data obtained through the spontaneous exchange of information corresponding to Actions 5 and 13 in the BEPS-OECD package. A working group was established to elaborate

- the modalities of identification of the taxpayers that pose tax risk associated to transfer pricing and training sessions have been organized in the field of transfer pricing. In the following period, it shall be approved the manner of implementation of the amicable procedure and shall be elaborated the working procedures that would lead to the improvement of the manner of identification of the taxpayers with fiscal risk associated to transfer pricing.
- extension and improvement of the electronic audit techniques and implementation of the "*standard audit file for tax*" (SAF-T). On November 6, 2019 was launched the auction for the SAF-T information system, a type of file used by modern tax administrations for companies to report the financial/accounting data. The term of completion of the actions corresponding to the project's implementation is estimated to be December 31, 2020, according to the Project's Activity Schedule (respectively, the development of the application that corresponds to the implementation of SAF-T). On a parallel direction, in 2020, with support from the project advisors shall be elaborated the proposals of amendment of the existing legislation for the purpose of implementation of the SAF-T system.

On the line of **assurance of differentiated fiscal treatment according to the fiscal behavior of taxpayers**, the most important actions which are under implementation refer to:

- the harmonization of the risks identified at the level of the fiscal administration activity, of the tax inspection activity, of the customs activity, respectively of the activity of fiscal anti-fraud, with the purpose of creating a unique risk profile of taxpayers;
- the gradual implementation, depending on the taxpayers' behavior, of certain specific measures: (i) a simple notification of the taxpayer with regard to the possible irregularities that might lead to the establishment of differences in taxes and charges and mediation, (ii) unexpected control, (iv) partial tax inspection, and (v) general tax inspection;
- the transformation of forced execution into an investigative process.
- the revision of the VAT refunds procedure (reducing the number of tax inspections dedicated to the settlement of VAT refunds).

ANAF is also considering **increasing the institution's efficiency and transparency**. In order to ensure ANAF's operation on principles of efficiency and effectiveness, the

Agency proposes to implement a performance indicators system, as well as a just allocation of resources to the subordinated fiscal bodies. These measures will be considered in ANAF's reorganization process.

In 2019, the control actions of the Fiscal Antifraud were based on specific assessments and risk analyses meant to allow accurate targeting of the areas/fields where negative phenomena act, which might affect the achievement of budget revenues. Following the control actions, there were established/quantified prejudices corresponding to the notifications submitted to criminal prosecution bodies and sanctions for civil offences were applied (fines and seizures) for a total amount of RON 857.5 mn. In terms of the structure of quantifiable results, 68.3% represent prejudices corresponding to the notifications forwarded to the criminal prosecution bodies, while the sanctions for civil offences (fines and seizures) represent 31.7%.

As an effect of the fact that the Fiscal Antifraud actions and the institutional resources were focused on actions of operative control targeting the increase of the degree of tax compliance, the total value of sanctions for civil offences applied in 2019 increased by 24.6% compared to 2018. At the same time, the value of seizures increased by 105% (RON 114.4 mn, in 2019).

The efforts in fighting fraud in the field of VAT, including cross-border fraud, continued in 2019. The share of VAT in the total liabilities estimated in the notifications is of approximately 58.9 %.

With respect to **the prevention and fighting of customs frauds and frauds in the field of excises**, in 2019, the customs authorities intensified border controls, traffic controls, controls in markets and fairs, in order to fight the illegal trade of cigarettes and the illicit traffic of drugs, products with special regime and products which could breach intellectual property rights. Special attention has been given to the fight against the phenomenon of undervaluation of the goods declared in customs, to the prevention of fraud related to anti-dumping charges and avoidances of customs control.

In order to **increase the quality of taxpayer services**, it was introduced the standard of service in all county public finance administrations, and in the public finance administrations of districts 1-6 (since August 1, 2019).

In order to support taxpayers, it was elaborated the *Guide on registration of information related to electronic fiscal cash registers*. In 2019, there were organized numerous assistance sessions on the Agency's Facebook page regarding the electronic fiscal cash registers, which had an impact on 45,047 individuals.

As of October 2019, the ANAF has created and implemented an advisory mechanism

with the purpose of improving the collaboration with taxpayers, by increasing the degree of contact, in order to make them more accountable and aware of the measures taken for the tax administration's modernization, as well as to increase the level of participation and voluntary engagement of taxpayers and of their representatives.

With regard to **increasing the efficiency of tax collection** in order to reduce financial and time costs both for the taxpayers and for the administration, it was simplified the online declaration procedures. In 2019, it was registered a degree of online declaration of 97.1% compared to 95.2% in 2018.

The annual costs of ANAF relative to the collected revenues were reduced by RON 213.2. In 2019, they reached RON 10,062.9 spent for RON 1 mn of net budget revenues.

ANAF's strategic objectives for 2020-2023

According to *ANAF strategic objectives for 2020-2023*, the actions taken in 2019 shall continue, with priority on the following: increasing voluntary compliance, reducing tax evasion and underground economy, improving the relationship with the taxpayers, increasing tax collection efficiency, modernizing the Agency.

Targeted measures are considered in order *to improve the voluntary compliance*, such as:

Stimulating voluntary compliance for declaration and payment:

- a) simplifying fiscal administration procedures for declaration of tax liabilities in order to support voluntary compliance, by: reducing the number of forms and declarations, as well as reducing the frequency of submission thereof for legal entities; online submission of all tax returns; assessment of the quality of fiscal services from the perspective of the taxpayers on the basis of the assessment form; granting assistance at the initiative of the fiscal bodies on topics which arise from findings of the control bodies of ANAF;
- b) promoting the possibility of payment facilities through the organization of periodical meetings with the taxpayers and through publication on the website of informative materials;
- c) creating the technical and procedural conditions for payment of the fiscal liabilities through banking system;
- d) implementation of a surveillance system of debtors by the tax bodies subordinated to ANAF, with regard to the observance of the fiscal restructuring plan;

- e) offering tax incentives to good taxpayers for payment of tax liabilities;
- f) media coverage of the best taxpayers of taxes.

Increasing voluntary compliance by preventing the taxable base's erosion:

- a) promoting the possibilities of issuance of unilateral/bilateral/multilateral advance price agreements;
- b) promoting the possibility of initiating the amicable proceeding in the case of transactions adjusted as a result of the fiscal documents issued by the fiscal authorities from other jurisdictions.

Actions should continue in ***the field of tax evasion reduction and underground economy***, such as:

Harmonization of the risks identified at the level of the fiscal administration activity, of the tax inspection activity, of the customs activity, respectively of the activity of fiscal anti-fraud, with the purpose of creating a unique risk profile of taxpayers, which shall underline the lines of action of every structure within ANAF;

The gradual application, according to the taxpayers' behavior, of certain specific measures by the tax bodies:

- notifying the taxpayers on the possible irregularities that might lead to the establishment of different taxes and charges,
- mediation,
- unannounced control,
- partial tax inspection,
- general tax inspection.

Continuance of the actions related to the identification of cases of recovery of receivables through mutual assistance for recovery in the matter of tax receivables;

Defining the governance of implementation of the European noncompliance risk management model;

Organization of the anti-fraud control, in accordance with the European noncompliance risk management model;

- a) integrating and improving the risk analysis in the field of fiscal fraud;
- b) reducing the level and frequency of sanctions applied for actions with low social risk;

- c) improving the collaboration with the Public Prosecutor in order to develop the capacity of investigation and prosecution, to significantly contribute in the areas related to tax evasion and fiscal/customs fraud.

Fighting customs fraud:

- a) protecting the national and Community customs territory through activities of customs supervision and control in the field of fighting illegal trafficking;
- b) developing the structures of mobile teams and dog teams and implementing a more efficient operational management;
- c) re-operationalization and using at full capacity the non-destructive control equipment;
- d) making the cooperation with other authorities more efficient (IGPR, PGPF, DIICOT), including the performance of common control actions on the EU external border or in traffic;
- e) making operational the central coordination unit - Naples II Convention;
- f) implementing the Track & Trace system - traceability of tobacco products;
- g) implementing the common financial risk criteria.

Improving the methodological and procedural framework necessary to reduce the under-declaration of taxes, charges, and contributions:

- a) developing a modular training program for tax inspection;
- b) developing a system of individual anticipated solutions for complex fiscal fields;
- c) developing and implementing the compliance programme, through the performance of verifications of the personal fiscal situation over the revenues of private individuals selected on the basis of the risk analysis, both on the group of high net worth individuals (HNWI) and on the group of high fiscal risk individuals (HFRI).

Initiating Tax inspections in accordance with the BEPS (Base Erosion Profit Shifting) plan and the ATAD directive - European and international regulations on preventing and combating tax evasion.

Identification at national level of related persons, inventorying the transactions susceptible of being verified in the field of transfer pricing and notifying these taxpayers in order to correct/rectify the tax declarations. Intensification of the verifications in this field, monitoring and assessment of the results of the tax inspection activity.

The improvement of the relationship with taxpayers shall be achieved through:

The assurance of an efficient dialogue with taxpayers through the Advisory Council of the ANAF. The Advisory Council is a working group established as part of the ANAF with the main aim to offer support for the decisional and operational process of the institution's management and to ensure an efficient dialogue with taxpayers. During its meetings, the Advisory Council approaches in a transparent manner issues such as: improving the activity of tax collection; increasing voluntary compliance; simplifying the administrative procedures; preventing and fighting tax evasion; digitalization of ANAF, as well as measures dedicated to increasing the efficiency and effectiveness of the institution's activity. Among the members of the Advisory Council, there are representatives of professional associations, experts from academia and business environment.

Increasing the quality of taxpayer services:

- a) implementing/extending certain taxpayer services (web seminars - webinar; online appointment service);
- b) a step-by-step development of the call center;
- c) implementing at national level the system of line management and the concept of single counter;
- d) improving the activity of settlement within the legal term of negative VAT returns with refund option;
- e) elaborating a new procedure for the settlement of negative VAT returns with reimbursement option (DNOR), which would ensure a significant reduction of DNOR which are settled through anticipated control.

Increasing the institution's transparency and its prevention role:

- a) making campaigns of dialogue, guidance, and notification of taxpayers with regard to the obligation of declaration and payment of fiscal liabilities;
- b) publishing communications about the legislative novelties in the fiscal field.

Reducing taxpayer compliance costs:

- a) reducing compliance costs by reducing the complexity of the administrative framework and encouraging online declaration;
- b) developing the functionalities of the Virtual Private Space and promoting the service.
- c) developing the Patrimven service;

d) accelerating the digitalization of the relationship between ANAF and taxpayers.
The digitalization strategy provides 14 priority measures, as follows:

- Migration of SACF (System of Administration of Tax Liabilities - legal entities) to the central base;
- Unification of SACF and GOTICA;
- Electronic information transfer from PHEONIX to DECIMP-SACF;
- Implementing the “NOES Information System” (Operative Level of Forced Execution);
- Creation of the information system for garnishment of bank accounts through electronic means;
- Simplifying the analytical sheet per payer;
- Developing the platform through which the Virtual Private Space - SPV is managed, as well as of the capacity of supplementation of access, so as to increase the number of information/related documents;
- Implementing the obligation of registration in PATRIMVEN of the authorities, public institutions and public interest institutions which use information held by ANAF in order for them to execute their specific duties;
- Rewriting the “TRAFIC CONTROL” application, necessary for real time monitoring of transportation related to intra-Community procurement and deliveries of goods, as well as of transit;
- Development and implementation of an integrated risk analysis information system;
- Developing the “National information system of supervision and monitoring of tax data”, necessary in order to connect the electronic cash registers for data transmission;
- “Software development services to extend the functionalities of the information system - AEOI (Automatic Exchange of Information)”;
- Introducing a computer application for the implementation of the Standard Audit File;
- Development of the OSS (One Stop Shop) information system.

The following measures shall be taken into account **in order to increase the tax collection efficiency**:

Maximizing the involvement of ANAF in the establishment of the legal framework for making the administration activity more efficient:

- a) elaboration of an external communication plan.

Improving the modality of forecasting and reporting of fiscal revenues:

- b) developing the system of monitoring and reporting of monthly progress;

Transforming forced execution into an investigative process, continued actions with regard to the taxpayers that have certain current arrears through the triggering of joint liability.

Agency modernization

Restructuring ANAF so that it should become efficient in fighting tax evasion and promote voluntary compliance in relation to the taxpayers;

- assessment and revision of the manner of operation of ANAF on the efficiency and effectiveness principles;
- reforming the management and performance assessment system in the framework of just allocation of resources by ANAF to the subordinated tax bodies;
- establishing at the level of ANAF's own apparatus the General Directorate of Risk Analysis.

Improving the agency's governance and strengthening international cooperation:

- promoting actions for starting projects which will lead to the fulfillment of strategic objectives;
- strengthening the cooperation with the tax authorities from the other MSs, with the European Commission and with other international organizations involved in the prevention and fighting of tax evasion, by consolidating the base of revenues and eliminating the transfer of profits to the fiscal jurisdictions which encourage such practices;
- reducing collection costs;
- promoting the actions necessary to strengthen international cooperation and exchange of information with other countries/structures;
- strengthening the actions necessary to increase the integrity of the ANAF's personnel;
- adequate performance of the activities necessary for the Agency's operational support.

Improving human resources management:

- implementation of a new system of professional training for ANAF's employees in order to ensure the possibility of reallocating the human resources towards deficient fields of activity;
- introduction and maintenance of an efficient labor force planning system to ensure optimal allocation of employees;
- consolidating training and development policies and practices to help the employees develop their knowledge, skills and competences;
- elaboration and implementation of leadership training programs.

6. ANNEXES

Table no. 1 – Macroeconomic projections

	Code Sec	2019	2019	2020
		Level ¹⁾ Billion RON	Percentage change	
1. Real GDP	B1*g	991.3	4.1	-1.9
2. Nominal GDP	B1*g	1059.8	11.3	2.1
Real GDP components				
3. Private consumption	P3	640.6	5.9	-0.7
4. Public consumption	P3	169.8	6.4	2.4
5. Gross fixed capital formation	P51	236.1	18.2	-2.6
6. Change of stocks and net securities procurement (% of GDP)	P52+ P53	-10.7	-1.1	-1.7
7. Exports of goods and services	P6	414.2	4.6	-6.7
8. Imports of goods and services	P7	458.7	8.0	-5.6
Contributions to GDP growth				
9. Final domestic demand			8.6	-0.6
10. Change of stocks and net securities procurement	P52+ P53		-2.9	-1.0
11. Net export	B11		-1.7	-0.3

The real level of GDP and its components is in the prices of the previous year.

Table no. 1 b – Price evolution

	2019	2020
	Percentage change	
1. GDP deflator	6.9	4.1
2. Private consumption deflator	5.2	3.8
3. Harmonized consumer price index	3.9	2.9
4. Public consumption deflator	8.2	4.4
5. Investment deflator	6.1	3.9
6. Export deflator (goods and services)	3.2	2.5
7. Import deflator (goods and services)	2.1	1.8

Table no. 2 – Consolidated budget projection

	CODE SEC	2019	2019	2020
		LEVEL Mn RON	% of GDP	
Net balance (EDP B9), per sub-sectors				
1. Consolidated budget	S.13	-45,467.0	-4.29	-6.73
2. Central administration	S.1311	-44,904.5	-4.2	-6.4
3. State administration	S.1321	M		
4. Local administration	S.1313	-1,592.9	-0.2	0.0
5. Social insurance fund	S.1314	1,030.5	0.1	-0.3
Consolidated budget (S13)				
6. Total revenues	TR	336,137.7	31.7	32.7
7. Total expenditures	TE ¹⁾	381,604.7	36.0	39.5
8. Net balance	EDP B.9	-45,467.0	-4.3	-6.7
9. Interests	EDP D.41	13,047.5	1.2	1.4
10. Primary balance ²⁾		-32,419.5	-3.1	-5.4
11. One-off and other temporary measures ³⁾		-1,460.4	-0.1	
Selected revenue components				
12. Total taxes (12=12a+12b+12c)		163,107.7	15.4	15.2
12a. Production and import taxes	D.2	112,022.3	10.6	10.5
12b. Current taxes on income, wealth, etc.	D.5	51,085.4	4.8	4.8
12c. Capital taxes	D.91			
13. Social contributions	D.61	119,824.2	11.3	11.5
14. Property taxes	D.4	9,987.6	0.9	0.8
15. Others ⁴⁾		43,218.2	4.1	5.2
16=6. Total revenues	TR	336,137.7	31.7	32.7
Selected expenditure components				
17. Compensation of employees + intermediate consumption	D.1+P.2	176,438.9	16.6	17.2
17a. Compensation of employees	D.1	119,119.0	11.2	11.6
17b. Intermediate consumption	P.2	57,319.9	5.4	5.6
18. Social contributions (18=18a+18b)		125,119.8	11.8	13.2
of which Unemployment aid ⁵⁾		506.1	0.0	0.1
18a. Social contributions in kind	D.6311, D.6312, D.63131	8,748.0	0.8	0.9
18b. Social contributions, others	D62	116,371.8	11.0	12.3
19=9. Interests	EDP D.41	13,047.5	1.2	1.4
20. Subsidies	D.3	4,015.5	0.4	1.2
21. Gross fixed capital formation	P.51	36,351.2	3.4	3.7
22. Capital transfers	D.9	11,048.4	1.0	1.2
23. Others ⁶⁾		15,583.4	1.5	1.5
24=7. Total expenditures	TE1	381,604.7	36.0	39.5

¹⁾ Adjusted with the net swap flow, namely TR-TE=EDP B9

²⁾ The primary balance is calculated as (EDP B9, point 8) plus (EDP D.41, point 9)

³⁾ The plus sign means the reduction of deficit following one-off measures

⁴⁾ P.11+P.12+P.131+D.39+D.7+D.9 (different than D.91)

⁵⁾ Includes cash benefits (D.621 and D.624) and in kind benefits (D.631), related to unemployment aid

⁶⁾ D.29+D4 (different than D.41) +D.5+D.7+D.9+P.52+P.53+K.2+D.8

Table no. 3 – Public administration expenditures, by function % of GDP

	CODE COFOG	2018
1. General public services	1	4.6
2. Defense	2	1.7
3. Public order and safety	3	2.2
4. Economic affairs	4	4.2
5. Environmental protection	5	0.8
6. Housing and community amenities	6	0.9
7. Health	7	4.7
8. Recreation, culture, and religion	8	1.0
9. Education	9	3.2
10. Social protection	10	11.6
11. Total expenditures (=point 7=24 in Table 2a)	TE	34.9

Table no. 4 - Differences from the previous version

	SEC CODE	2019	2020
GDP increase (%)			
Previous version		5.5	5.7
Revised version		4.1	-1.9
Difference		-1.4	-7.6
Budget balance (% of GDP)			
Previous version	EDP B.9	-2.8	-2.7
Revised version	EDP B.9	-4.3	-6.7
Difference		-1.5	-4.0
Gross government debt (% of GDP)			
Previous version		35.4	35.4
Revised version		35.2	40.9
Difference		-0.2	5.5

Table no. 5 - Potential liabilities

% of GDP	2019	2020
Public guarantees*)	2.0%	3.1%
<i>Of which: related to the financial sector</i>	0.0%	0.0%

*) corresponding to the public administration sector, with elimination of the guarantees awarded between entities of the public administration sector