Romania

Country note, January 2018

România
Consiliul fiscal

Key messages:

- **After very strong growth in 2017 of around 6%, GDP growth is estimated to record a somewhat slower advance in 2018.**
- **In 2017 the Government's target of 3% of GDP for the nominal deficit was met on the account of much lower than planned investment spending, while the structural deficit widened up to 3.06% of GDP.**
- **For 2018, the Government's nominal deficit target of 3% of GDP is projected to be attained upon large one-off revenues, while the structural deficit is estimated to deepen to 3.17 % of GDP, i.e. by 2.17 pp more than the medium-term fiscal objective. Moreover, the balance of risks is significantly tilted on the downside.**
- **The Romanian Fiscal Council notes the continuous deviation from both national and European fiscal rules.**

Macroeconomic outlook

Economic growth accelerated in 2017, with real GDP advance estimated at around 6%, being mostly driven by private consumption stimulated by the continuation of fiscal policy loosening (tax cuts, significant increases in both public and private wages) and the low inflation rate. In 2018 real GDP growth is expected to record a smaller pace albeit above potential, between 4.4% and 5.5% (European Commission's, respectively, Romanian authorities' estimates).

Short-term and medium-term fiscal outlook

The government estimates the general government deficit for 2017 at 3.0% of GDP and for 2018 at 2.96% of GDP. The fiscal policy stance remains expansionary also in 2018, when the Unified Wage Law enters into force (with additional increases by more than 25% of gross public wages) and the personal income tax decreases from 16% to 10%, both measures being partially offset by shifting the social contributions from 22.75% for employer and 16.5% for employee to 2.25% for employer and 35% for employee. According to the Fiscal Strategy 2018-2020, the structural balance estimated by Ministry of Public Finance continue to deepen (from 2017: -3.06% of GDP to 2018: -3.17% of GDP), and only starting 2019 it is planned to enter on the adjustment path towards MTO (a structural deficit of 1% of GDP) by an adjustment pace of 0.5 pp/year.

Fiscal framework and national fiscal rules

On several occasions, the Romanian Fiscal Council drew attention to the non-compliance with the majority of fiscal rules when drafting the budgetary laws, to the systematic recourse to derogation from the Fiscal Responsibility Law and to the persistence of placing the budgetary deficit in the immediate proximity of the 3% reference level, in contradiction with the fiscal rules established by both national and European laws. This approach weakens the position of public finances, depriving it of fiscal space in the event of adverse shocks. As for the 2018 budget law, similar to 2017 budget law, only the 3% rule referring to the headline deficit target as percent in GDP was taken into account, all other rules being broken *ex-ante*, including setting the adjustment path to the MTO, after registering a major deviation from the MTO starting with 2016 (a structural balance of -2.2% of GDP from -0.3% of GDP in 2015).

Chart 1: Revenue, expenditure and public debt as % in GDP

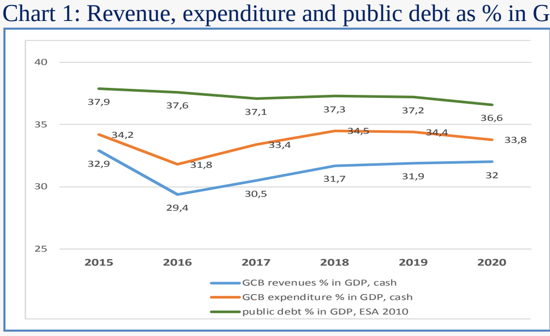
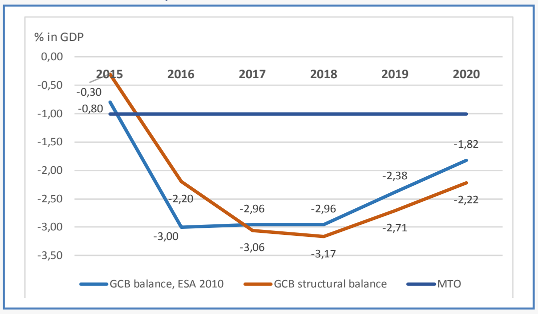


Chart 2: Headline, structural balances and MTO



Key indicator forecast

		2016	2017 f	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	4.8	6,1	5,5	5,7	5,7	*1*
Real GDP growth rate	[% y-to-y]	4.6	5.7	4.4	4.1	-	*2*
Potential GDP growth rate	[% y-to-y]	4.2	4.6	5.2	5.3	5.4	*1*
Potential GDP growth rate	[% y-to-y]	3.6	3.7	4.0	4.0	-	*2*
Real GFCF growth rate	[% y-to-y]	-3.3	2.0	7.9	8.4	8.6	*1*
Real GFCF growth rate	[% y-to-y]	-3.5	1.6	6.5	5.5	-	*2*
GG balance – targets	[% of GDP]	-3.0	-2.96	-2.96	-2.38	-1.82	*1*
GG headline balance	[% of GDP]	-3.0	-3.0	-3.9	-4.1	-	*2*
GG public debt.	[% of GDP]	37.6	37.1	37.3	37.2	36.6	*1*
GG public debt	[% of GDP]	37.6	37.9	39.1	40.5	-	*2*
GG structural balance	[% of GDP]	-2.2	-3.06	-3.17	-2.71	-2.22	*1*
GG structural balance.	[% of GDP]	-2.2	-3.3	-4.3	-4.6	-	*2*

Sources:

1 - Ministry of Public Finance (MPF);

2 – European Commission (EC), 2017 Autumn Forecast

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