

Fiscal Council estimates probable level of budget deficit of 9.8% for 2020

The Fiscal Council (CF) estimates a probable level of the budget deficit for 2020, according to the cash methodology, around 9.8% of GDP, by 0.7 percentage points above the estimate of the Ministry of Public Finance (MFP), according to the opinion of the institution regarding the third revision of the general consolidated budget for 2020.

The document states that the second wave of the pandemic interrupts / slows the recovery of economies in the fourth quarter of this year. The European Union is witnessing a W-shaped evolution of economies due to a probable economic contraction in the fourth quarter of this year, as anticipated by the ECB and the EC. The EU's economic activity is projected to decline by 7.4% this year. Recovery at the level of GDP is expected for 2022, but under conditions of profound changes in economies, which are accelerated by new technologies (digitization, robotics, etc.), by the need to respond to climate change. The development of vaccines and therapies will help recovery and help change the mood for optimism in society.

"The draft of the third budget revision increases the projection of the budget deficit for 2020 by 0.5 pp of GDP, respectively to a level of 9.1%, mainly due to the unfavorable and large-scale impact on the budget revenues of the facility for postponing the payment of budgetary obligations, the deterioration of the macroeconomic framework compared to the previous one, as well as some shortcomings in the budget construction, plus other revenues at the level of 2020 (according to the cash execution) of approximately 6.5-7.5 billion lei (about 0.65% - 0.75% of GDP). On the side of budgetary revenues, the CF considers as probable the materialization of a total gap of fiscal revenues and of insurance contributions part of the optimistic assessment of ANAF, of the amounts recoverable this year from the obligations deferred to the payment by the economic agents, as well as from the high probability that the amounts related to the rental of 5G frequency bands will not be cashed in the current year. Under these conditions, the CF estimates a probable level of the budget deficit for 2020 according to the cash methodology around 9.8% of GDP, with 0.7 pp above the MFP estimate. It should be mentioned that this revenue gap identified by CF at the level of 2020 is recoverable in the following year by supporting cash execution. From the perspective of execution according to the ESA methodology, it is not influenced by the elements identified by the CF that lead to this revenue gap for the current year," the document states.

According to the CF, beyond the extremely high level of the budget deficit for the current year, which will lead to a corresponding increase in public debt, the position of public finance at the end of 2020 is important because it is the starting point of budget construction for 2021.