

Box**Adjustment of GDP growth in 2007 Q1 by the impact of the change in legislation on VAT collection**

According to data released by the National Institute of Statistics, the annual GDP growth for 2007 Q1 stood at 6 percent, despite the 8.1 percent advance in gross value added, the difference between the two figures being generated by the negative contribution of net taxes on product. Behind this development stood the changes in VAT collection following Romania's accession to the EU, more precisely the permission to delay by up to 60 days the VAT payment for imported goods until they are sold or re-exported. As a result, the first quarter of 2007 saw a sharp decrease in VAT receipts, which thus represents only a delay in VAT collection by the government. Starting with April 15, the legislation was amended so as to allow customs collection of VAT on non-EU imports (which nevertheless hold less than 30 percent of total import value).

Owing to the temporary impact of this measure on budget revenues (VAT collection was only delayed from the moment of customs entry of imported goods until their being re-exported or sold in Romania), the assessment of excess demand in 2007 Q1 was made on the basis of a neutral effect attributed to the above-mentioned amendment in legislation. Based on a theoretical simulation, a more regular development in the value of collected taxes and the rise in budgetary subsidies in 2007 Q1 would have induced an economic growth higher by at least one percentage point than that reported by the NIS.

Other countries in the region also experienced a drop in VAT receipts around the date of their EU accession. Table 5.3 shows the percentage change in the value of budget revenues in Romania, the Czech Republic, Poland, Slovakia, Slovenia and Hungary.

Table 5.3: Changes in budget revenues following EU accession

Country	Period	Value changes of collected taxes (%)		Annual change in real GDP (%)	
		Receipts from taxes and duties	VAT	quarter prior to accession	quarter subsequent to accession
Romania	2007 Q1/2006 Q1	5.5	-21.7	7.7	6.0
Czech Republic	2004 Q2/2003 Q2	-2.9	-26.4	4.4	4.6
Poland	2004 Q2/2003 Q2	2.3	-5.2	5.8	3.8
Slovakia	2004 Q2/2003 Q2	2.1	2.7	5.4	5.2
Slovenia	2004 Q2/2003 Q2	3.8	-8.6	4.6	5.0
Hungary	2004 Q2/2003 Q2	-7.6	-26.9	5.1	4.9

Source: websites of the ministries of finance of the aforementioned countries; Eurostat.

Note: Data on Romania and the other countries are not entirely comparable due to the fact that the latter joined the EU on 1 May 2004, which means that their budget revenues were affected by changes in the tax legislation for only two months out of three of the first post-accession quarter. Furthermore, VAT data in Slovakia were influenced by the implementation on 1 January 2004 of a single VAT rate of 19 percent which replaced the differentiated rates of 14 percent and 20 percent respectively.