INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/79

ROMANIA

March 2015

2015 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ROMANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Romania, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 25, 2015, following discussions that ended on February 10, 2015, with the officials of Romania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 10, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of March 25, 2015 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its March 25, 2015 consideration of the staff report that concluded the Article IV consultation with Romania.
- A **Statement by the Executive Director** for Romania.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ROMANIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

March 10, 2015

KEY ISSUES

Background: Romania has in large part reduced internal and external imbalances through sound macroeconomic policies. However, income convergence with the EU has been slow and weak public infrastructure has emerged as a bottleneck for faster growth. At the same time, Romania remains vulnerable to external shocks and the repair of balance sheets is not yet complete.

Policy recommendations: Going forward, sustainable macroeconomic policies need to be combined with measures that boost the efficiency of public spending, reinvigorate delayed state-owned enterprise (SOE) reforms, and resolve crisis legacies in the financial sector.

- **Fiscal policy**. Maintain the fiscal adjustment achievements, put public debt on a firm downward path, ensure provision of higher quality public infrastructure, and improve revenue administration and public expenditure management including through higher absorption of EU funds.

- **Monetary policy**. Keep the easing bias as inflation has fallen below the target band and support a private credit rebound. Improve the policy framework by gradually moving to full-fledged inflation targeting.

- **Financial sector**. Maintain the intense watch on the banking system focused on asset quality and non-performing loans reduction, further strengthen non-bank supervision, develop capital markets, and create effective insolvency frameworks.

- **Structural reforms**. Improve financial performance and generate resources for investment of SOEs by implementing good governance principles, restructuring and increased private ownership; further deregulate energy markets.

Outlook and risks: Staff expects sustained growth supported by strong domestic demand. Better EU funds absorption could boost the growth potential by about ½ percent annually. However, increased volatility in the external environment and failure to implement a much needed infrastructure upgrade present downside risks.

Approved By
Thanos Arvanitis and Sanjaya Panth

Discussions were held in Bucharest during January 27–February 10, 2015. The mission met with President Iohannis, Prime Minister Ponta, Minister of Public Finance Valcov, other members of the government, National Bank of Romania Governor Isarescu and staff, other senior officials, and representatives of political parties, labor and business organizations, NGOs, and financial institutions. The staff team comprised A. Schaechter (head), J. Ralyea, V. Stepanyan, T. Xu (EUR); L. Liu (SPR); M. Mansilla (MCM); and I. Razafimahefa (FAD). G. Tolosa, G. Babici and V. Barnaure (Resident Representative office) assisted the mission. S. Matei (Senior Advisor to the Executive Director) attended some of the meetings. T. Scutaru and C. Rubio (both EUR) provided research and editorial assistance.

CONTENTS

TABLES

ANNEXES

BACKGROUND

1. Romania has in large part reduced internal and external imbalances. This has been achieved through impressive fiscal consolidation and prudent monetary and financial policies, broadly in line with the 2012 Article IV recommendations (Annex I) and the 2011 and 2013 precautionary Stand-By Arrangements (SBA). However, a negative output gap persists, inflation is well below target and income convergence with the EU has been slow. Weak infrastructure has emerged as a bottleneck for a higher growth trajectory, reflecting ineffective public spending and weak medium-term planning, delayed EU funds absorption and slow SOE reforms. At the same time, Romania remains vulnerable to global and euro area shocks, given its relatively high level of external debt. While fiscal and foreign exchange reserves provide a buffer and non-performing loans were reduced substantially, private balance sheets need to be strengthened further.

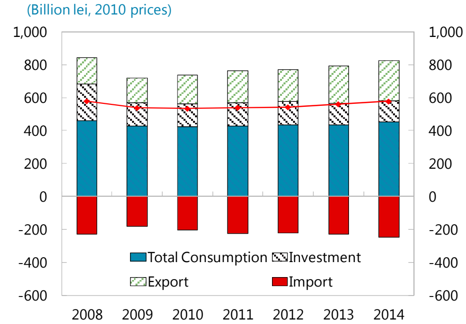
2. The reform momentum, however, has slowed amid elevated political uncertainty. General elections in December 2012 resulted in a period of political stability that lasted until February 2014 when the ruling social democratic-liberal alliance broke down. Since then, two new cabinets were formed with changes in key economic ministries that have complicated policy continuity. The surprising win by the centre-right President Iohannis in the December presidential elections has raised near-term political uncertainty as the opposition is striving to form a new government through changing the parliamentary majority. The political uncertainty has affected the implementation of structural reforms, in particular as regards SOEs and gas price deregulation, which has delayed the completion of the third review under the SBA (scheduled originally for June 2014). Nonetheless, some progress has been made toward tackling corruption as evidenced by the 2015 Correction and Verification Mechanism for Romania that pointed out progress in a number of governance areas.

RECENT ECONOMIC DEVELOPMENTS

3. Following robust growth in 2013–14, Romania's GDP almost returned to its pre-crisis level; however, a sizable output gap remains. Robust export growth was the initial driver of economic recovery while domestic demand remained weak and lagged behind those in peer countries (Figure 1). Recently, however, the recovery has been supported by a pick-up in private consumption on the back of rising real disposable income and low interest rates. Investment, however, has remained subdued. On the supply side, after a strong agricultural harvest in 2013, robust industrial output supported economic activity in 2014. Helped by the recent rebound in economic activity, labor market conditions improved and the unemployment rate declined to 6.8 percent in 2014. Youth unemployment remained elevated at 23.3 percent in 2014Q3, about 6 percentage points above the pre-crisis level.

GDP and Demand Components

(Billion lei, 2010 prices)

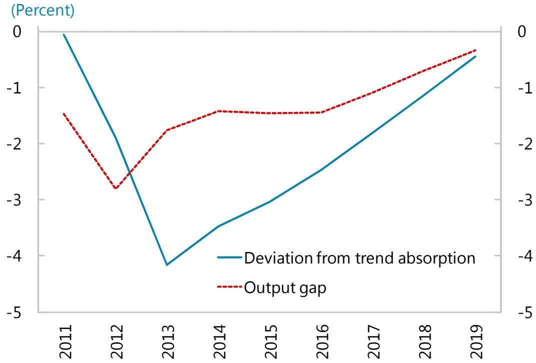


Sources: Haver Analytics and IMF staff calculations.

4. Inflation has decelerated substantially over the past two years. Annual headline inflation entered the central bank's new target range of 2.5 percent (±1 percent) in September 2013 and has subsequently fallen below the lower bound of the target band for most of 2014 (Figure 4). Headline average inflation was at a record low 1.1 percent in 2014, with core inflation at 0.3 percent.[1] In January 2015, inflation dropped to 0.4 percent. The fall in inflation reflects both domestic and external factors, including a reduction in VAT on flour and bakery products, low food prices, and a decline in oil prices. Furthermore, a persistent output gap and even slower recovery of domestic demand to its trend level (absorption gap), have also contributed to low inflation.

Deviation from Trend Absorption and Output Gap

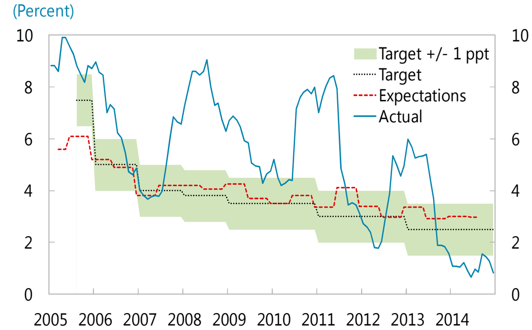
(Percent)



Note: The deviation from trend absorption and output gap measures are based on IMF staff calculations and may differ from the European Commission, due to differences in methodology.

Inflation and Two-Year Ahead Inflation Expectations

(Percent)



Sources: Consensus Forecasts and Haver Analytics.

5. Romania has considerably reduced fiscal imbalances. Over the past six years, it relied primarily on expenditure cuts to bring the fiscal deficit to 1.9 percent of GDP in 2014, a 7 percentage point reduction in structural terms (Figure 5). However, both revenues and expenditures under-performed relative to the initial 2014 budget, with almost all of the deficit spending occurring in December. Under-execution of the capital budget and current expenditures (until December) allowed for accelerated payment of obligations related to court-ordered wage claims and restitution as well as the clearance of most government arrears.

2014 Budget

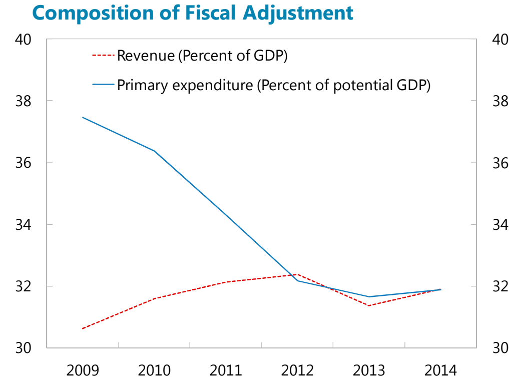
(Percent of GDP)

	Original	Outturn	Difference
Revenue	32.6	31.9	-0.7
Taxes	27.6	27.3	-0.3
Grants	2.2	1.7	-0.5
Other	2.8	2.9	0.1
Expenditures	34.8	33.8	-1.0
Current	28.4	28.6	0.2
Capital 1/	6.3	5.2	-1.1
Other	0.1	0	-0.1
Deficit	-2.2	-1.9	0.3

1/ Includes spending on EU-funded projects and other investment spending.

Source: Romanian authorities IMF staff calculations.

Composition of Fiscal Adjustment



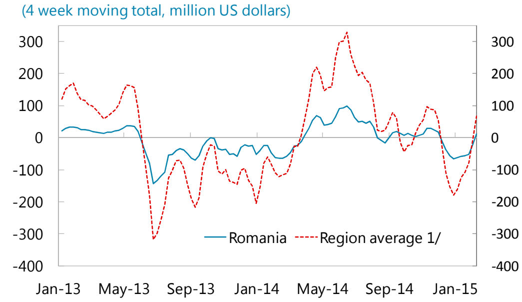
Sources: Romanian authorities; and IMF staff estimates.

[1] Food items comprise about 50 percent of the core index.

6. The current account deficit has narrowed significantly. At ½ percent of GDP, the deficit was the smallest in ten years, a sharp drop from almost 13½ percent of GDP in 2007 (Figure 2). While imports of goods and services continued to rise on the back of the domestic demand recovery, exports grew at an even faster pace supported by continued expansion in sales of machinery and transport equipment. Staff's analysis indicates that domestic push factors, particularly improvement in Romania's competitiveness, are main contributors to the strong export growth (see Selected Issues paper "Export Performance and External Competitiveness"). The income balance, on the other hand, deteriorated on account of increases in profit repatriation and interest payments. On the financing side, public sector capital inflows remained strong with a continued increase in EU fund absorptions. In contrast, private sector flows remained anemic as Europe-wide deleveraging continued to weigh on FDI, and prompted further intensification of capital outflows.

7. Romania's financial markets have remained relatively stable. Investor sentiment towards Romanian assets continued to be positive and Romania weathered well three episodes of enhanced volatility for emerging markets since 2013. Standard and Poor's upgraded Romania to investment grade in May 2014 and Romania successfully tapped international capital markets again in October with a ten-year €1.5 billion Eurobond issuance. Sovereign bond and CDS spreads continued to narrow to record low levels, and the exchange rate remained largely stable (Figure 7). The overall favorable market conditions have enabled the central bank to sustain international reserves at €34.3 billion as of end-January 2015, while making substantial repayments to the IMF.

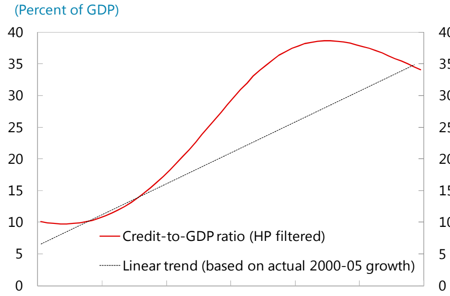
Bond Flows: ETFs/Mutual Funds
(4 week moving total, million US dollars)



Source: Haver Analytics.
1/ Region average weighted by GDP; includes Bulgaria, Hungary, and Poland. Excludes Bulgaria from August.

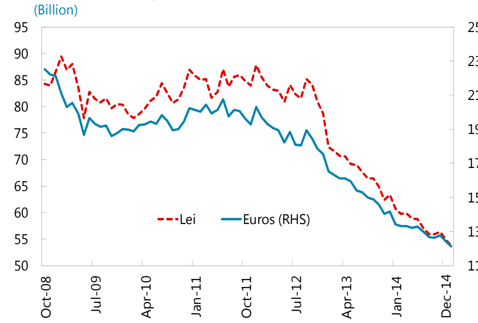
8. Bank credit growth has turned negative in early 2013. The credit–to-GDP ratio, which rapidly accelerated during the pre-crisis period, is now converging to a trend that is consistent with lower but likely sustainable credit growth. Banks are gradually changing their funding structure towards lei as foreign parent banks continue withdrawing funds from the system, though the pace has slowed. The banking system's solvency and liquidity position remain appropriate, although additional provisioning requirements have weighed on banks profitability (Figures 6 and 8).

Normalization of Credit
(Percent of GDP)



Sources: Haver Analytics, National Bank of Romania and IMF staff calculations.

Parent Funding
(Billion)



Sources: Haver Analytics; and National Bank of Romania.

9. Romania remains one of the poorest members of the EU. Despite a slight decline since 2008, Romania has the second highest at-risk-of-poverty or social exclusion rate in 2013, at 40.4 percent, almost twice as much as the EU average. However, the Gini coefficient in 2012 was below its pre-crisis level, signaling a progressivity of fiscal policy, and the effort to protect the lowest income groups from the fiscal consolidation (IMF, 2014, *Fiscal Policy and Income Equality*). Supported by the World Bank, some means-tested benefits programs have become better targeted but the envisaged merger of three programs has been delayed. Funding remains relatively tight for means-tested programs when compared to non-means-tested ones.

OUTLOOK AND RISKS

10. Staff's baseline scenario projects sustained growth and continued rebalancing towards domestic demand.

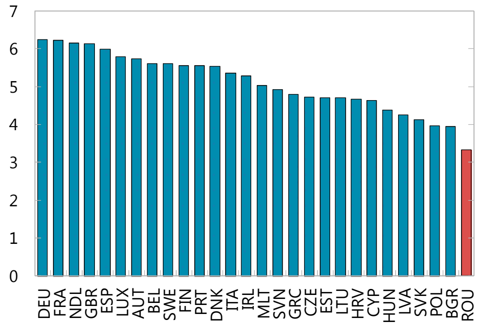
- ***Growth*** is projected at 2.7 percent in 2015 and 2.9 percent in 2016. Private consumption is expected to be the main driver, supported by improving consumer confidence, low oil prices, strong real wage growth, and record low interest rates. Investment is set to gradually recover due to greater absorption of EU funds. Potential growth is estimated to reach about 3 percent over the medium term, as higher EU funds absorption, a recovery in credit growth, and improvements in the quality of infrastructure investment through institutional reforms reduce bottlenecks to growth.

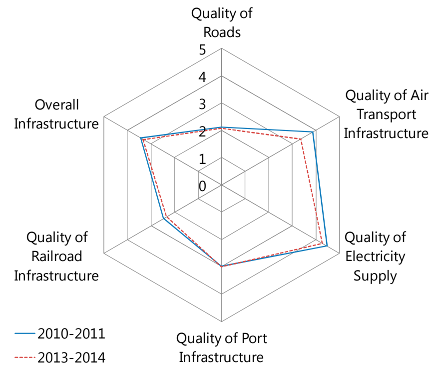
- ***Inflation*** is projected to remain low in 2015, reaching an annual average of about 1 percent. Low imported inflation and a persistent negative output gap will likely keep inflation below target for most of 2015, before returning to the target range toward the end of the year. In the medium term, inflation is expected to stay broadly within the target range, as expectations become better anchored.

- ***External position***. The current account deficit is projected to widen to around 1 percent of GDP in 2015, as domestic demand continues to recover. Over the medium term, staff expects the current account deficit to rise to about 3–3½ percent of GDP, in line with the current account norm for emerging market economies. Capital inflows are expected to pick up only gradually in 2015. While higher EU fund absorptions will support public sector inflows, net capital flows into the private sector are likely to remain low amid a subdued outlook in the euro area.

11. Addressing the infrastructure gap is critical for the medium-term growth outlook. Despite a history of above EU average capital spending (5 percent of GDP over the past decade), Romania's infrastructure density is low and its quality is perceived to be the lowest in the EU, reflecting inefficiencies and lack of medium-term planning (Box 1; see also Selected Issues paper "Benefits of Boosting Quality Public Infrastructure Spending in Romania"). The mission estimates that ratcheting up EU funds absorption substantially (0.7 percent of GDP annually), if it leads to a greater density and higher quality of infrastructure, could boost the growth potential by about ½ percentage point annually over the medium term.

Quality of Infrastructure
(Index)





1/ A higher score corresponds to better infrastructure.
Sources: The Global Competitiveness Report, 2013-2014

12. Risks to the outlook, particularly from the external environment, are tilted to the downside (Annex II). Renewed volatility in the global financial market or the euro area related to Greece could adversely impact portfolio flows and lead to deposit outflows. Moreover, a protracted period of slow growth and low inflation in the euro area could put strains on the Romanian economy. Direct economic and financial implications from geopolitical risks should be contained as trade and financial exposures to Ukraine and Russia are moderate and energy dependency is low. Large fiscal buffers, a flexible exchange rate, and an adequate level of international reserves could provide insurance in the event of an external shock. Domestically, continued underperformance of EU funds absorption and absence of structural reforms would delay a much needed infrastructure upgrade.

13. Authorities' views. The authorities broadly shared staff's assessment for 2015 but see risks as broadly balanced, given upside potential from agricultural output and EU funds absorption.

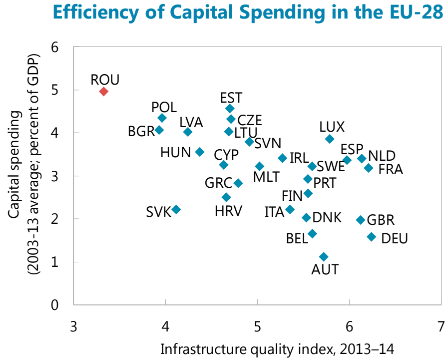
POLICY DISCUSSIONS

A. Fiscal Policy: Budgeting and Building Institutions for the Future

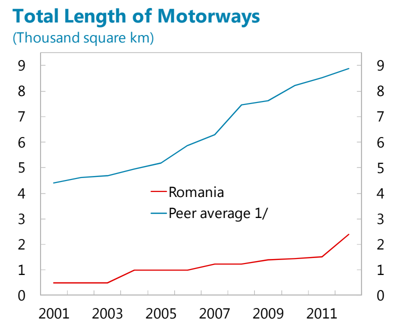
14. Sound fiscal policy has lowered vulnerabilities. Public debt, after tripling to 40 percent of GDP during 2007–14, is projected to decline gradually starting this year under unchanged policies, supported by solid debt management and falling gross financing needs. This would provide some room to absorb future shocks, in particular underperformance of real GDP growth or the realization of banking sector contingent liabilities (Annex III). Liquidity buffers are large, amounting to nearly 5 percent of GDP. They include foreign exchange (FX) holdings equivalent to four months of total gross financing needs and a year of FX financing needs. Going forward, the authorities plan to gradually reduce the FX buffer taking into consideration overall global financial market conditions and further progress in deepening government securities markets.

Box 1. Benefits of Boosting Quality Public Infrastructure Spending in Romania

Romania's high capital spending has been relatively inefficient in the past. Rail and road infrastructure is particularly deficient. A key factor for this performance is the lack of a robust framework and capacity for developing, vetting, prioritizing, and executing public-investment projects.



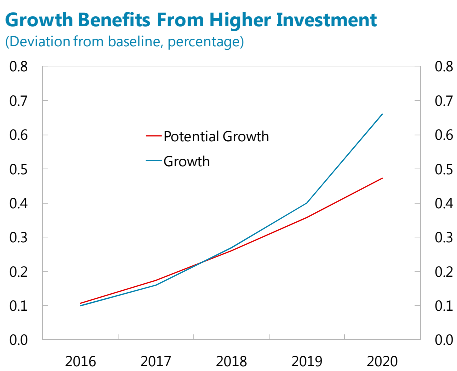
Sources: Eurostat; and World Competitiveness Report.



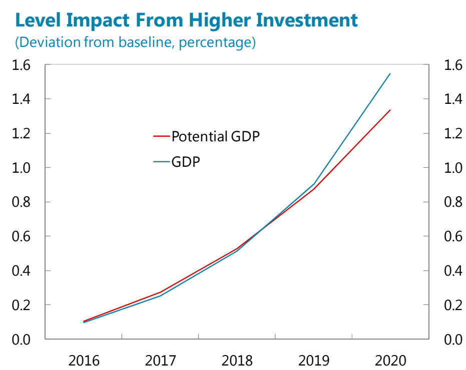
1/ Unweighted average of Bulgaria, Czech Republic, Hungary, Poland and Slovakia

Sources: Eurostat.

Staff simulations indicate that increased and more efficient infrastructure spending could boost growth. An immediate boost to efficiency could come from a reallocation of budget resources toward EU-funded projects, which are subject to a more stringent project management process than those funded solely from the state budget. Staff econometric analysis and simulations indicate that the GDP growth rate would be higher by ½ percentage point over the medium term, if available EU-funds were fully utilized.



Sources: IMF staff estimates.



Sources: IMF staff estimates.

The simulation results are highly dependent on reforms to improve the quality and management of national projects and absorption of EU-funded projects. Despite some reforms under the current SBA, domestic governance and capacity issues continue to undermine absorption of EU-funds. Initial efforts to improve the prioritization of significant projects should be advanced by better aligning the prioritization calendar with the budget calendar in order to ensure that the prioritization process informs budget preparation. In addition, the list of prioritized projects could be published to inform the broader public about the allocation of resources to national priorities, including those identified in the Transport Master Plan currently under preparation. Moreover, better use could be made of technical assistance to enhance Romania's capacity to absorb EU-funds. In the medium term, Romania should aim to establish one project management process that encompasses all projects notwithstanding funding sources.

15. In 2015, fiscal policy remains anchored by the medium-term budgetary objective (MTO). The 2015 budget targets a deficit of 1.8 percent of GDP (1.5 percent of GDP in ESA terms). This is consistent with the MTO of 1.0 percent of GDP deficit in structural terms (ESA base) boosted by a 0.25 percent adjuster in 2015 for a faster absorption of EU funds,[2] which is expected to pick up as the authorities aim to fully use the funds associated with the 2007–13 programming period. Fiscal policy is thus no longer a significant drag for the economy with just ¼ percent of GDP further consolidation in ESA terms needed next year.

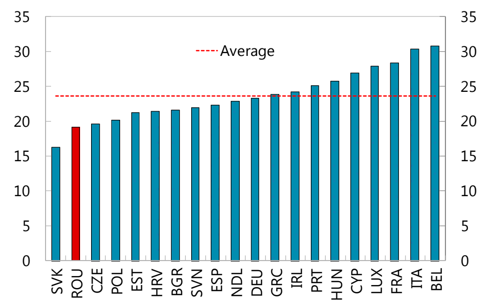
16. However, medium-term spending pressures are building. First, the potential for future restitution and court-ordered payments represents a contingent fiscal liability, potentially amounting to 6 percent of GDP. Second, the 2015 budget foresees higher capital spending to address infrastructure needs. This will require faster EU funds absorption and more efficient public investment. Shifting more projects toward EU funding should ensure more scrutiny and a higher multiplier. Third, the authorities plan to increase defense spending. Finally, Romania faces age-related social spending pressures (estimated cost of 1¾ percent of GDP by 2030). To ensure the financial sustainability of the health care system and improve health outcomes, the authorities are already implementing a comprehensive reform of the healthcare system. They have introduced a basic health package in 2014, which contributes to gradually shifting health services away from hospital-based treatments to more cost-effective ambulatory care, and are revising the reimbursement policy.

17. At the same time, the authorities tentatively aim to lower tax rates possibly putting fiscal discipline at risk. Only about a fifth of the fiscal consolidation since the crisis was revenue based. It left Romania with a relatively high VAT rate (24 percent), increased excises, a new tax on non-building constructions, and one of the highest labor tax wedges in the EU. The revenue measures were later partly offset by a reduction in the VAT rate on bakery and flour products (September 2013), a tax exemption for reinvested profits (October 2014), and a 5 percentage-points cut in the employers' pension contribution rate (October 2014). A new taxation regime for the oil and gas sector is set to be applied from 2016. Its design should aim at fostering investment while ensuring a fair government take. The authorities also propose for 2016 to lower the VAT rate, excises, and taxes on dividends as well as cancel the tax on non-building constructions with an estimated direct revenue loss of 2.2 percent of GDP. Staff's baseline scenario does not include the proposed tax changes since the authorities' plans have not yet sufficiently taken shape. In staff's view, any tax reduction plans should go hand-in-hand with stronger revenue administration, better compliance—the VAT collection gap is the highest in the EU at 44 percent—and formalizing the economy, in particular, further efforts to advance a risk-based compliance oversight approach, given that at 18.7 percent of GDP the tax revenue-to-GDP ratio is still lower than in most EU member states. Until such reforms deliver results, there is no room to lower tax rates unless fully offset by other fiscal measures, including possibly lower inefficient capital spending until the absorption

[2] Under the EC/IMF-supported program, the cash and ESA-budget deficits would be narrowed by the amount of the adjuster in case EU-funds absorption underperforms.

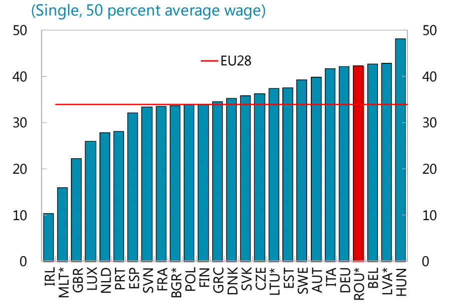
capacity improves. However, a targeted tax cut for low-income employees or youth could be financed by base broadening and would likely create more employment than the recent broad-based cut (see Selected Issues paper "Cutting Labor Taxes in a Constrained Budget Environment").

General Government Taxes, 2014
(Percent of GDP)



Sources: IMF World Economic Outlook.

Labor Tax Wedge, 1/
(Single, 50 percent average wage)

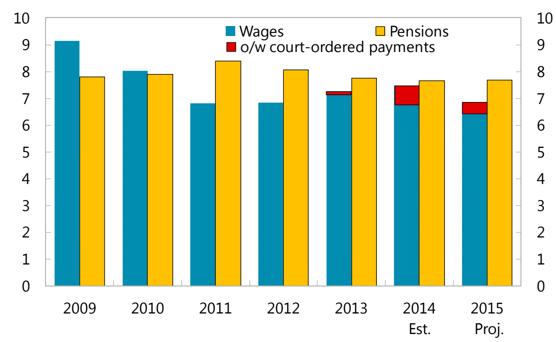


1/ Data for 2013, unless denoted by star. Recent data for Cyprus and Croatia are not available. Romania cut employer pension contribution by 5 percentage points effective of October 1, 2014, lowering the tax wedge by about 2.3 percentage points.
Source: European Commission, DG Economic and Financial Affairs.

18. Fiscal structural reforms will be key to sustain the lower deficits.

- **The pension and civil service wage reforms of 2010 were essential pillars for fiscal sustainability**. Parametric reforms to the pension system, including the removal of special pension regimes, and the introduction of a unified wage system have helped contain entitlement and wage costs. The public wage bill in 2014 was 1½ percent of GDP below its 2009 peak level and consistent with the 7 percent of GDP cap set through the Fiscal Responsibility Law (when excluding one-off court-ordered payments). However, the subsequent reinstatement of prior pension benefits for select categories of retirees and increases in the minimum wage pose risks. While an adjustment to the pay scale may be necessary, further amendments to the Pension and Unified Wage Laws of 2010 should be considered very carefully.

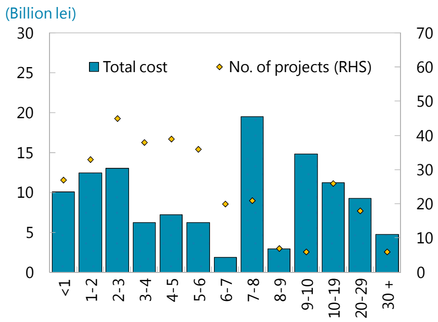
Wage and Pension Expenditures
(Percent of GDP)



Sources: Romanian authorities and IMF staff calculations.

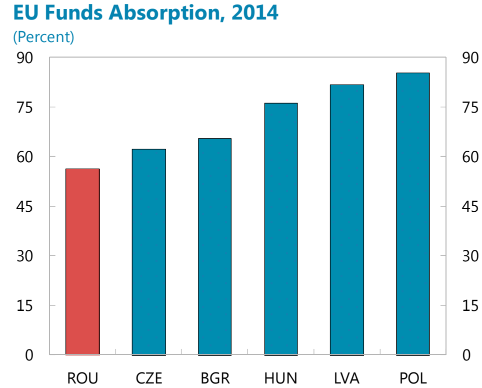
- **Public expenditure management and tax administration need to be strengthened**. The creation of a public investment evaluation unit is an important achievement, but the integration of the project prioritization process into the budget planning and across government levels remains weak. A commitment control system has been pilot-tested and needs to be extended to all public institutions as a safeguard against the re-accumulation of arrears. In addition, efforts to strengthen tax administration, including extension of pilot audits on under-reported labor and modernization of the information systems with support from the World Bank, should advance and the large taxpayer unit should retain its key role. Moreover, fiscal decentralization provides in principle an opportunity to improve service delivery (in social sectors and on public investments), but capacity and governance at the local level should be improved first and fiscal rules (including on local government debt) should be continuously respected (see Selected Issues paper "More Fiscal Decentralization: The Prerequisites").

Total Cost of Public Investment Projects by Duration (Years), 2013



1/ Reflects 322 central-government projects with known dates.
Sources: World Bank, Romanian authorities and IMF staff calculations.

EU Funds Absorption, 2014



Source: European Commission.

Authorities' views

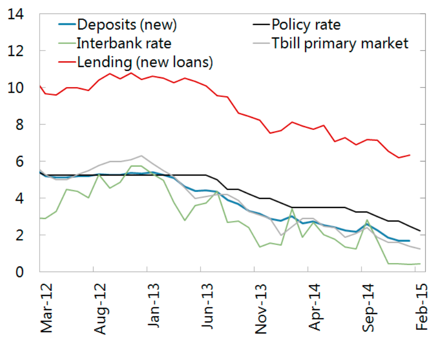
19. The authorities reiterated their commitment to sound fiscal policies and stronger public financial management. They will determine the preferred timing for reaching the MTO when submitting their Convergence Program to the EC this spring. The authorities propose to reduce tax rates in 2016 and beyond with a view to stimulating the economy and incentivizing shifts from the informal to the formal sector. They estimate that the direct revenue loss of 2.2 percent of GDP in 2016 would be offset by more than half through these dynamic effects (estimated net revenue loss of 0.9 percent of GDP). In addition, the authorities are determined to improve revenue collection and view a reorganization of the large tax payer unit as essential.

B. Monetary Policy: Anchoring Expectations in Uncharted Waters

20. There is room for further monetary easing. The National Bank of Romania (NBR) has implemented monetary policy in an environment of record low interest rates and inflation. In August 2014, the NBR resumed the rate cutting cycle lowering the policy rate since July 2013 by a cumulative 300 basis points to 2.25 percent in February 2015. The rate reductions were accompanied by a narrowing of the interest rate corridor, in line with the staff advice. Moreover, the NBR started to lower the still high minimum reserve requirements (MRRs). The latter, coupled with treasury operations related to growing disbursements of EU funds, has created excess liquidity in the banking system which is likely to stay in the near term. Monetary policy should maintain an easing bias, as lower-than-targeted inflation could become entrenched amid a negative output gap, imported low inflation, and declining inflation expectations.

Selected Interest Rates

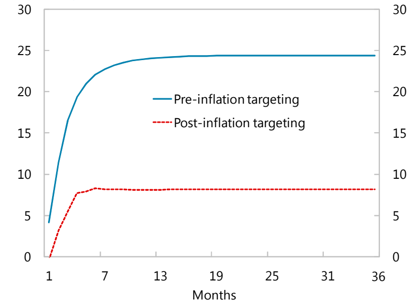
(Percent)



Sources: Haver Analytics and National Bank of Romania.

Pass-through of Euro-Lei Exchange Rate to CPI

(Percent)



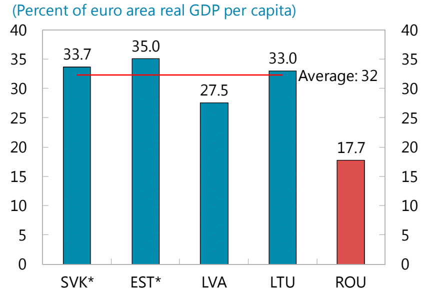
Source: Selected Issues Paper "Exchange Rate Pass-Through and Inflation Targeting". The degree of pass through is defined as the ratio of the cumulative impulse response in CPI to one Cholesky standard deviation shock on the euro-lei exchange rate.

21. Staff also recommends a gradual transition of the conduct of monetary policy to a full-fledged inflation targeting regime. This could be achieved by reducing the role of the exchange rate in the policy framework and further narrowing the interest rate corridor. The latter would reduce the gap between the policy rate and interbank rates and help strengthen the clarity of monetary policy signals and the transmission channel. Staff analysis shows that greater exchange rate volatility should be a lesser concern as the share of foreign currency-denominated loans is declining and the exchange rate pass-through has diminished substantially with the adoption of inflation targeting-light (see Selected Issues paper "Exchange Rate Pass-through and Inflation Targeting").

22. Joining the euro area is the authorities' medium-term policy objective. Staff views this objective as an important anchor for economic policies, especially for accelerating structural reforms. At the same time, staff called for a careful review of the euro adoption timeline, which is likely to take longer, as joining the euro zone constrains macro-policy options in the face of shocks and requires reaching a sufficient level of real convergence (see also IMF "Central and Eastern Europe: New Member States Policy Forum, 2014"). Romania not only lags in its real per capita income convergence but also in its economic transition when compared to those countries that recently joined the euro area.

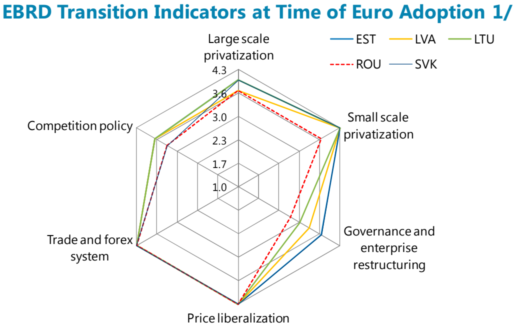
Real GDP Per Capita at Time of Euro Area Membership, 2013 1/

(Percent of euro area real GDP per capita)



1/ Data for 2013, except where denoted by star. Euro area membership: SVK (2009), EST (2011), LVA (2014), LTU (2015).
Sources: Eurostat and IMF World Economic Outlook.

EBRD Transition Indicators at Time of Euro Adoption 1/



1/ Euro area membership: SVK (2009), EST (2011), LVA (2014) and LTU (2015). Data for Lithuania and Romania as of 2014. Values range from 1 to 4.3.
A value higher than 4 characterizes an industrialized market economy.
Source: EBRD.

23. Staff's exchange rate assessment indicates that the Romanian leu is broadly in line with medium-term fundamentals. Reserve coverage is generally adequate according to most reserve adequacy metrics (Box 2). Going forward, staff recommends limiting interventions in the foreign exchange market to smoothing excessive volatility and maintaining a prudent stance with moderate reserve accumulation in light of continued downside external risks.

Authorities' views

24. The NBR was cautious on the speed of moving to full-fledged inflation targeting and agreed with staff's assessment on external competitiveness and reserve adequacy. Regarding the gap between the policy and interbank rates, the NBR acknowledged the related risk of weakening the signaling power of policy decisions. While a gradual shift to full-fledged inflation targeting is envisaged, the NBR sees a role for the exchange rate as long as euroization in balance sheets is significant. The authorities also recognized the importance of maintaining adequate reserves, particularly against heightened uncertainty in international financial markets, but pointed out that reserve accumulation should also take into account the cost of holding reserves.

C. Financial Sector: Reinvigorating Intermediation

25. The banking sector continues to maintain adequate capital, liquidity and provisioning buffers, and asset quality has improved. Following a comprehensive NBR action plan and EU-wide methodological changes, NPLs declined in 2014 by about 8 percentage points but bank balance sheet repair is still incomplete (Figures 6 and 8). Measures included NPLs sales, write-offs and higher provisioning. NBR stress tests indicate that the solvency of the banking system would generally be resilient to severe scenarios, but require additional capital in a few banks. Instability related to Greece warrants intense monitoring and timely action by the NBR to mitigate the potential impact contagion could have on bank funding. Given the high but falling share of FX-denominated loans (56 percent), indirect FX risk remains the largest risk for the sector. However, pressure from the Swiss franc appreciation is manageable for the banking system, since the share of Swiss franc loans is relatively low at about 4.5 percent of total loans across about 75,000 borrowers. Staff encouraged voluntary bilateral loan restructurings taking into account the repayment capacity of the borrower.

26. Reinvigorating financial intermediation remains a challenge. Foreign bank deleveraging has slowed but together with other supply factors have held back a rebound in credit growth. On the demand side, a scarcity of bankable loans and the relatively high indebtedness of SMEs contributed to negative credit growth. Enabling long-term bank funding—including by adopting a covered bond legislation—and strengthening the existing support schemes for SME lending would benefit intermediation.

27. Legal risks remain a key concern for the banking system. A wave of recent lawsuits based on the Civil Code enacted in 2013 regarding abusive clauses in loan contracts has led to lower court decisions that are being appealed on the grounds that they go counter to market practices. If those verdicts become the basis of class action lawsuits, they could pose a threat to the system's stability. In response, the authorities have put forward a plan to establish a specialized court that would handle such cases. However, its establishment has been repeatedly delayed for administrative reasons.

Box 2. External Sector Assessment

Current account. Romania's current account deficit narrowed significantly over the past two years, largely driven by strong export growth. Notwithstanding a weak external environment, exports of goods and services surged to about 40 percent of GDP in 2013–14 from the pre-crisis level of 25 percent of GDP in 2007. Goods exports as a share of the imports of Romania's main trading partners have been steadily increasing, with transportation equipment market share in the EU more than doubling from 2008–13. A decomposition of export growth suggests that domestic push factors played an important role in explaining the recent improvement.

Real exchange rate. Standard CGER-type methodologies (Consultative Group on Exchange Rates) for assessing the equilibrium exchange rate suggest that the real exchange rate is broadly in line with medium-term fundamentals. The macroeconomic balance approach indicates that the projected underlying current account deficit is lower than the current account norm of 4.1 percent of GDP. Assuming that only exchange rate changes can deliver a current account adjustment, an appreciation of 3.1 percent would be needed to close the gap between the underlying current account and the norm. Similarly, the external sustainability approach points to a modest undervaluation of 3.2 percent, given that the current account norm required to maintain the international investment position at the current level (60 percent of GDP) is higher than the projected underlying deficit. Finally, taking into account the adjustment in the baseline projection, the equilibrium real exchange rate approach suggests a marginal overvaluation of 2.1 percent. Romania's average wage has increased following the crisis, broadly mirroring economy-wide productivity gains since end-2008. Caution is needed to ensure that future minimum wage increases do not undermine competitiveness.

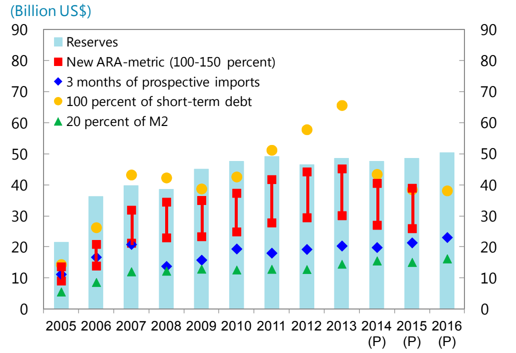
Exchange Rate Assessment
(Percent of GDP, unless otherwise indicated)

Approach		Over- (+) or Under- (-) Valuation
Macroeconomic Balance		-3.1
Current account norm	-4.1	
Underlying current account	-3.3	
External Sustainability		-3.2
Current account norm	-4.1	
Underlying current account	-3.3	
Equilibrium Real Exchange Rate		2.1

Source: IMF staff calculations.

Reserve adequacy. Reserve coverage in Romania is broadly adequate according to most reserve adequacy metrics. The reserve level of EUR 34.3 billion at end-January 2015 was above the standard rules-of-thumb for three months coverage of prospective imports and 20 percent of broad money. It was also in line with the new reserve adequacy metric for emerging markets developed by Fund staff. Comparing with the 100 percent short-term debt (at remaining maturity) benchmark, reserves are estimated to have regained a full coverage of short-term external debt by end-2014 after temporarily falling short in 2013 and during most of 2014. The improvement largely reflects a major reduction in short-term external liabilities. Going forward, in light of continued downside external risks, and potential volatility in capital flows, a prudent stance with moderate reserve accumulation remains appropriate.

Gross international reserves vs. traditional metrics
(Billion US$)



Sources: World Economic Outlook, International Financial Statistics, and Fund staff calculations.

28. Romania is in the process of modernizing its insolvency regime but not all elements are yet in place to ensure its efficacy. The new Corporate Insolvency Law has only recently been adopted and experience with its implementation is limited. The authorities are currently drafting a personal insolvency law. Several design issues need to be carefully considered and before adopting the law, the authorities should conduct an impact assessment and broad stakeholder consultations, ensure consistency with the corporate insolvency law, and strengthen the institutional framework to support effective implementation of the law. This is critical in ensuring that the personal insolvency law successfully provides those with unsustainable debt a fresh start without endangering the payment culture.

29. The authorities plan to opt into the EU banking union but have not yet announced a timetable. While many operational issues remain to be resolved, the authorities see merit from opting in before euro adoption as the Romanian banking system comprises mostly subsidiaries of foreign banks. Staff supports the plan but called for careful preparation (see also IMF "Central and Eastern Europe: New Member States Policy Forum, 2014"). In line with euro area practices, the NBR is planning to conduct a third party-led asset quality review of the banking system in late 2015.

30. The non-bank financial sector and its supervisor face important challenges. Significant progress has been made on institutional restructuring of the Financial Supervisory Authority (FSA) since it became the single supervisor of the non-bank financial sector in 2013. A number of barriers to capital market development were removed, which is to be enshrined in a revised capital market law. However, the insurance market is troubled by insolvency issues and weak business practices, which need to be tackled forcefully by the supervisor (Box 3). Legal reforms are urgently needed to enhance resolution powers of the FSA.

Authorities' views

31. The authorities' views converged to a significant extent with those of staff. They stated the intention to ensure good asset quality in the banking and insurance sectors through regular audits and with the support of third party reviews. The authorities aim to swiftly finalize the legislation for covered bonds and insurance resolution powers.

Box 3. Need for Reforms in the Insurance Sector

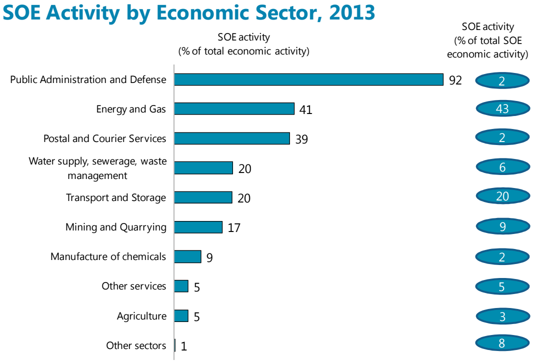
Romania's insurance sector is non systemic in magnitude but plagued by weaknesses. The sector had a spurt of growth in the last decade but since then stagnated at the pre-crisis level. Total assets stood at about 3 percent of the GDP at end-2013 and total gross underwritten premiums reached 1.3 percent of GDP. There are 39 insurers in the industry many of which are foreign subsidiaries. Non-life business represents about 80 percent of total activity. The sector has considerable weaknesses resulting from a history of lax supervision and enforcement. Intervention and resolution are constrained by shortcomings in the legal framework. Risks for the overall financial sector derive mostly from reputational risks as direct linkages are limited.

The failure of the largest insurer has revealed an urgent need for policy action. A price war in the car and housing insurance lines led to low levels of reserve coverage in some entities. In February 2014, the largest insurance company (Astra, a domestically owned non-life insurer with about 15 percent of market share and mostly in the motor vehicle insurance business) was put under special administration by KPMG. The supervisor needs to move decisively to ensure recapitalization or an orderly resolution. Moreover, the insurance law and the legislation on the insurance guarantee fund need to be urgently amended to enhance the resolution procedures and to provide resolution financing. The European Commission is providing technical support and the FSA will engage in a comprehensive asset quality review with third party involvement later this year.

D. Structural Reforms: Rekindling Momentum and Focusing on Infrastructure

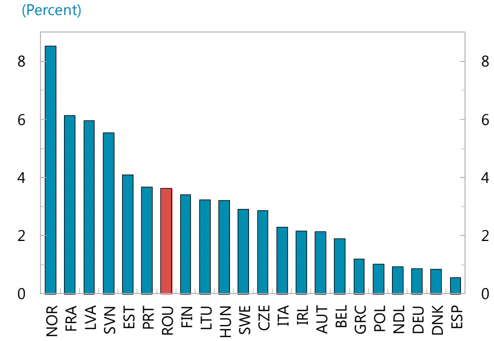
32. **Romania needs to advance structural reforms to address its infrastructure gap and improve its growth prospects** (Box 1). The poor infrastructure is due partly to the dominance of inefficient SOEs in the transportation and energy sectors where quality of public investment is low. The role of SOEs has shrunk considerably in Romania, but about 1,000 SOEs (of which three quarters are owned by local governments) still play a notable role in key sectors, such as electricity and gas, postal and courier services and transport (see Selected Issue paper "Romanian State-Owned Enterprises: Challenges and Reform Priorities").

SOE Activity by Economic Sector, 2013



Sources: Ministry of Public Finance; Romanian Fiscal Council; and IMF staff estimates.

Share of SOE Employment in Total Employment, 2013 1/
(Percent)



1/ Majority government-owned SOEs.
Sources: OECD; Ministry of Public Finance; and IMF staff estimates.

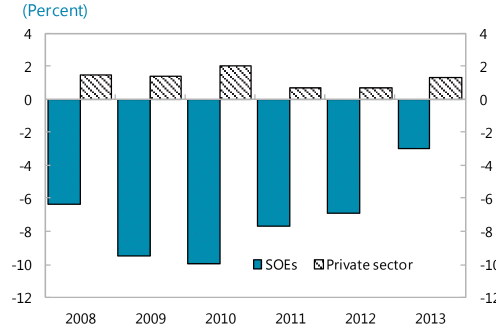
33. Despite improvements in the financial performance of some SOE, performance of many others remains weak. Central government-owned SOE arrears have been reduced by 1½ percent of GDP over the past two years, but local government-owned SOE arrears were on the rise and lingered around one percent of GDP at end-2014. In 2013, the SOE sector became profitable following several years of aggregate losses. Profits were concentrated in four energy companies which benefited from electricity and gas market deregulation while the rest continue to be largely loss-making. Losses and arrears are concentrated in a few SOEs of the transport and energy sectors (coal-based energy producers). Their financial weakness remains a burden on the state budget, either directly through transfers or indirectly through foregone revenue. Improving the operational efficiency of some large SOEs will require aggressive restructuring and, in some cases, liquidation.

SOE Arrears and Budget Subsidies and Transfers
(Percent of GDP)

	Arrears under SBA 1/	Total Arrears 2/	Subsidies and Transfers 3/
2010	3.9	5.3	1.0
2011	3.1	4.7	0.7
2012	2.1	4.3	0.8
2013	1.1	2.8	0.7
2014	0.5	…	…

1/ Only central government-owned solvent SOEs.
2/ Includes all SOEs except those under liquidation.
3/ 2008–09 data covers only central government SOEs.
Sources: Romanian authorities; and IMF staff estimates.

Net Profit Margin 1/
(Percent)



1/ Excludes four highly profitable energy SOEs.
Sources: Romanian authorities; and IMF staff estimates.

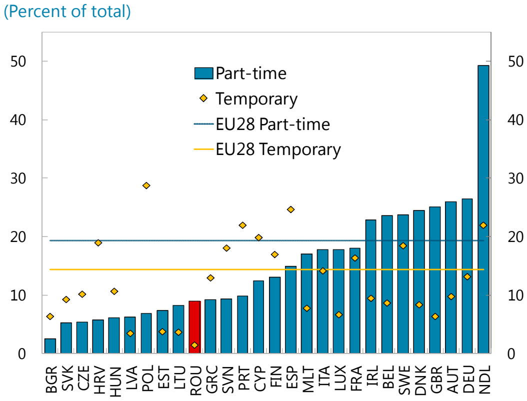
34. Better SOE corporate governance would enhance SOE performance and infrastructure service delivery. SOE corporate governance suffered a setback in 2014, reflected in heavy intervention by line ministries in SOEs decisions. Going forward, strict implementation of good governance principles, underpinned by a stronger legal framework and an effective enforcement mechanism, is needed to rebuild the reforms' credibility. This also implies adopting the SOE corporate governance law based on recent recommendations from the World Bank.

35. Initial public offerings (IPOs) have expanded the role of private capital in the energy sector while the transport sector lags in this respect. Private sector involvement through majority or minority ownership is a useful tool to bring in expertise and funding as well as to raise transparency. Successful IPOs in three large energy companies, undertaken during 2013–14, point the way for a greater role for private capital in the future. The transport sector needs to urgently catch up to these developments. In the railway sector, the authorities made significant headway in restructuring the rail freight operator Marfa by downsizing its staff by more than one fourth. However, Marfa's privatization process has stalled and a further restructuring may be needed. Romania's rail network needs to be rationalized in line with the recently prepared Transport Master Plan.

36. Romania has taken welcome steps to participate more fully in the European energy market. The authorities removed physical and legal obstacles to gas exports and linked Romania's electricity grid to those of four neighbors. Moreover, they deregulated the gas and electricity markets for non-residential consumers, which is a major achievement as it accounts for the bulk of energy consumption. This should be followed by restarting the gas tariff deregulation for households, which was interrupted in July 2014, while at the same time strengthening the support for the most vulnerable consumers. The recent decline in global commodity prices and record low inflation in Romania provide a conducive environment for such a deregulation.

37. The authorities are taking steps to reduce youth unemployment and skill mismatches. The Labor Code has introduced more flexibility in employment relations and supported employment growth. The share of fixed-term and temporary contracts has increased, but remains lower than in most EU countries. To reduce the high youth unemployment, the authorities are adopting measures under the National Job Plan and implementing the secondary legislation for the Apprenticeship Law. Regarding the Social Dialogue Law, which covers collective bargaining, the government has started a consultation process on proposed amendments to this legislation. The minimum wage was increased by about 29 percent in 2013–14. While it is still the second lowest in the EU, it has significantly compressed the public sector wage scale and would reach nearly 50 percent of the average wage if the announced increase of 15 percent is implemented in 2016.

Part-Time and Temporary Employment, 2014Q3
(Percent of total)



Sources: Eurostat.

Minimum Wage, 2015
(Euro)

	Monthly minimum wage	Minimum wage in percent of average wage	2016 announced minimum wage in percent of average wage
Bulgaria	174	39	37
Romania	238	43	47
Lithuania	300	42	39
Latvia	360	46	43
Hungary	328	39	37
Slovakia	380	39	38
Estonia	391	37	34
Croatia	398	37	37
Poland	414	43	41

Sources: National authorities; and IMF staff estimates. 2015 data include planned minimum wage increases.

Authorities' views

38. While broadly agreeing with staff's view on the importance of structural reforms, the authorities argued for more gradual measures. In particular, they stressed that the original road map for the gas tariff deregulation for households was too fast and steep given their fragile incomes after the crisis. Improving the performance of SOEs would require more time to carefully analyze their situation, prepare restructuring plans, and align decisions with the national strategies for energy and transport. The authorities expressed commitment to good SOE governance principles, though the concept was not always fully embraced. Regarding job creation, the authorities agreed with the importance of removing barriers to employment and measures to reduce skill mismatches, especially for the young. They considered broad-based measures to lower the tax wedge further preferable over targeted ones.

STAFF APPRAISAL

39. **Romania has in large part reduced internal and external imbalances through impressive fiscal consolidation and prudent monetary and financial sector policies**. Growth is becoming more broad-based and sustained amid improved confidence. However, income convergence with the EU has been slow and youth unemployment remains elevated.

40. **Reinvigorating structural reforms, including by addressing the large infrastructure gap, is critical for faster growth**. Raising growth prospects over the longer term requires continuity of sustainable economic policies, underpinned by stronger fiscal and regulatory institutions, and a more stable and predictable business environment which is crucial for investor confidence. In addition, maintaining adequate reserve buffers and strengthening further public and private sector balance sheets would better position to withstand shocks and respond with mitigating policies if risks materialize. Slippages or failure in implementing these policies and increased volatility in the external environment present key downside risks to the outlook.

41. **Fiscal discipline needs to be maintained, underpinned by structural fiscal reforms**. The announced tax reduction plans threaten to undermine five years of consolidation gains. Efforts should instead focus on broadening the tax base and reducing the collection gap to help cover medium-term spending pressures. Moreover, stronger public expenditure management and planning as well as better project management are needed to improve spending efficiency and ensure provision of higher quality public infrastructure. Expenditure quality could be improved through an extension and enforcement of the investment prioritization initiative; scaling up of EU funds absorption; and rolling out of the commitment control system to all public institutions. Meanwhile, the private sector participation in the financing of health services should be supported and accelerated to address the projected expansion of age-related spending.

42. **Monetary policy should keep the easing bias**. Staff sees room for further lowering the policy rate and the MRRs. Further changes to the MRRs should aim to maintain disincentives for foreign-currency lending by keeping differentiated MRRs for domestic-versus foreign currency-denominated liabilities. Staff also recommends strengthening the policy framework by gradually moving to full-fledged inflation targeting as well as the operational framework by implementing recommendations of the recent IMF technical mission.

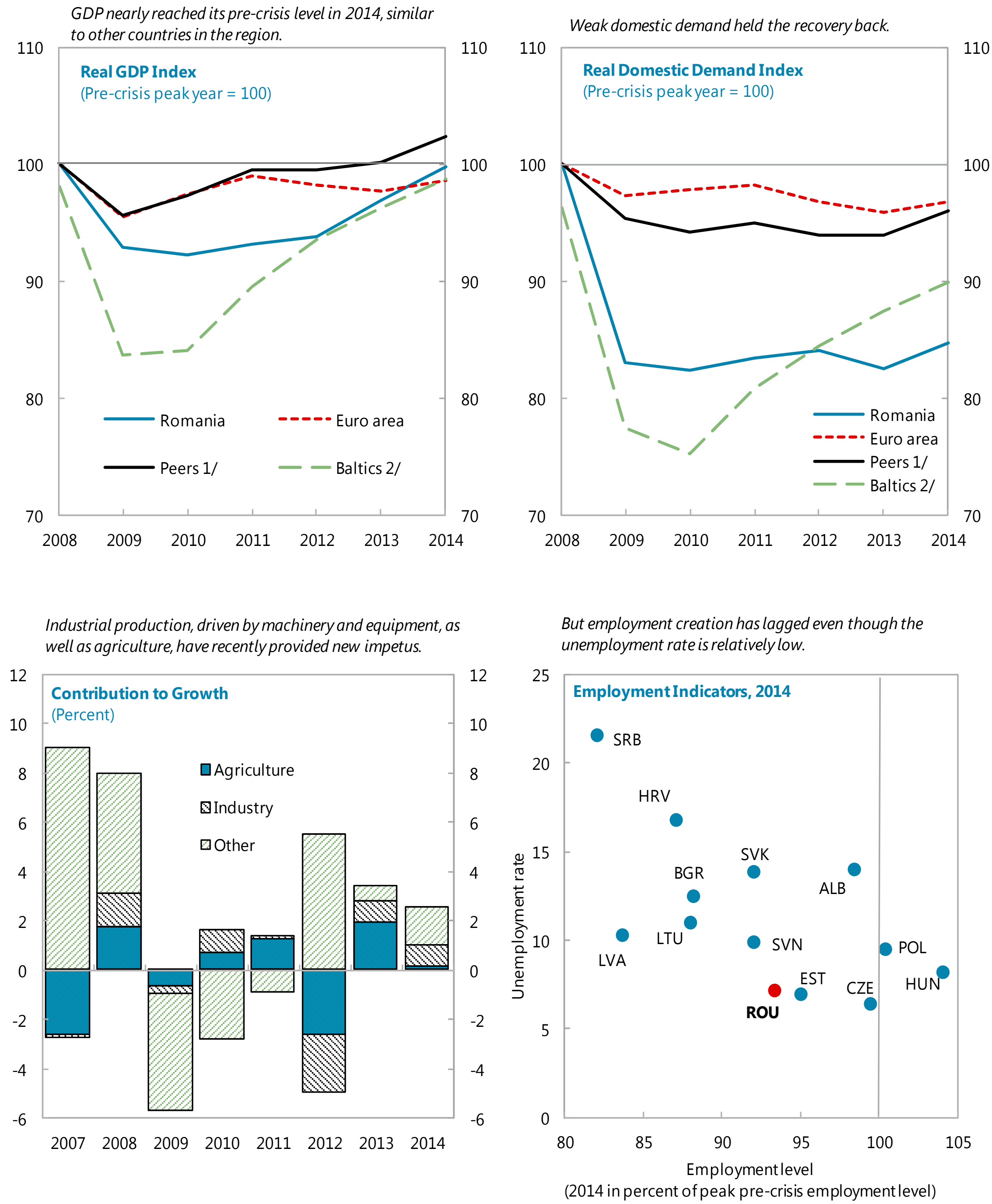
43. **Reinvigorating financial intermediation is important for growth**. A continued intense supervision of the banking system should focus on improving its asset quality and resolving NPLs. Making the existing support schemes for SME lending more efficient, facilitating loan restructuring processes, and enabling long-term bank funding would benefit intermediation. Strengthening the non-bank financial sector supervision and providing it with resolution powers for insurance companies is another priority. Any new personal insolvency law should be designed keeping in mind cross-country experiences, and be adopted only after a thorough impact assessment, broad stakeholder consultations, and enhancing the institutional infrastructure.

44. Strong structural reform efforts will be critical to making growth more sustainable and increasing Romania's growth potential. Efforts should focus on reforming SOE governance practices and legislation; restructuring of SOEs—to improve infrastructure service delivery, strengthen their financial performance, generate resources for investment, and increase private ownership in the SOE sector—as well as on further deregulating energy markets.

45. Boosting medium-term growth prospects also requires continued efforts to encourage higher labor participation. Focus should be on the young, low-skilled and women, among which participation in the formal labor market is far below the EU average. Recommended measures include implementing the new vocational training programs and further lowering the labor tax wedge for low-income earners through targeted measures.

46. It is expected that the next Article IV consultation with Romania will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.

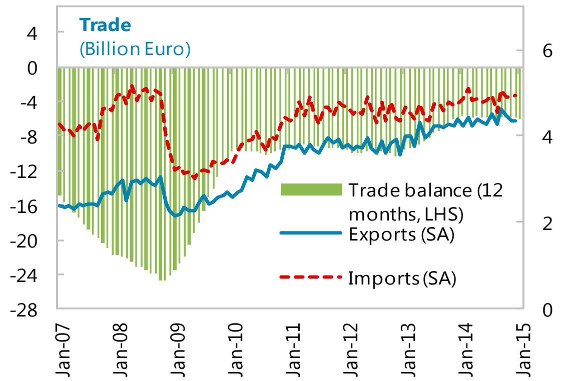
Figure 1. Romania: The Crisis Legacy for the Real Economy



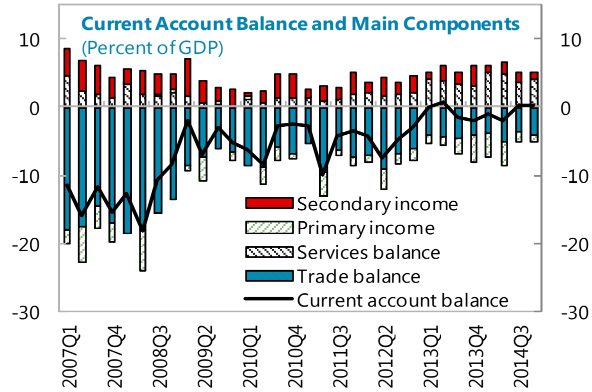
Sources: IMF World Economic Outlook; Haver Analytics; and IMF staff estimates and calculations.
1/ Unweighted average for Bulgaria, Croatia, Czech Republic, Hungary, Poland, and Slovakia.
2/ Unweighted average for Estonia, Latvia, and Lithuania. Peak pre-crisis GDP for Estonia and Latvia was 2007.

Figure 2. Romania: External Sector, 2007–15

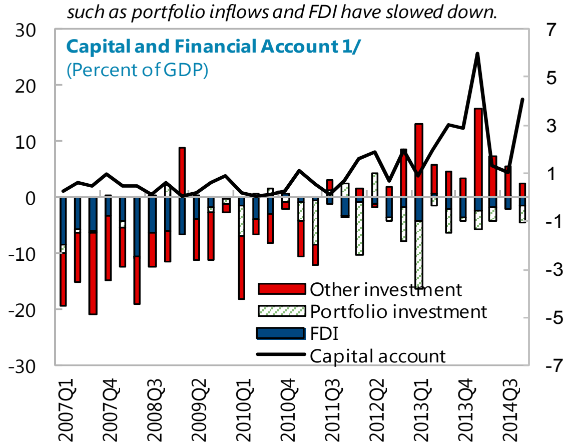
The trade balance, which was relatively stable since 2010, has improved further in the past two years.



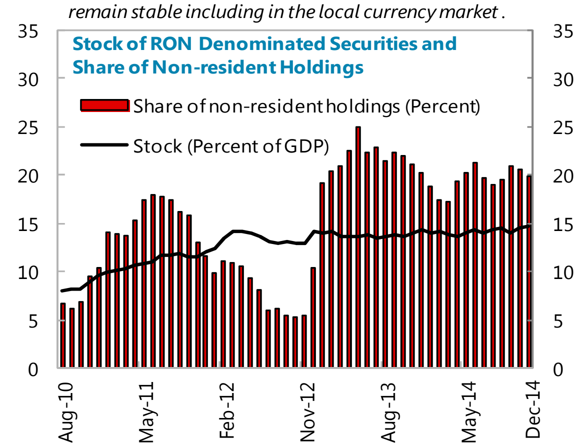
Together with a higher surplus in the services balance, this sharply reduced the current account deficit.



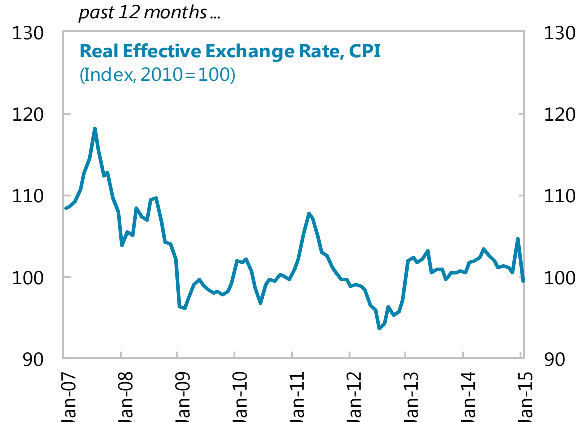
After a temporary surge in 2013, private capital flows such as portfolio inflows and FDI have slowed down.



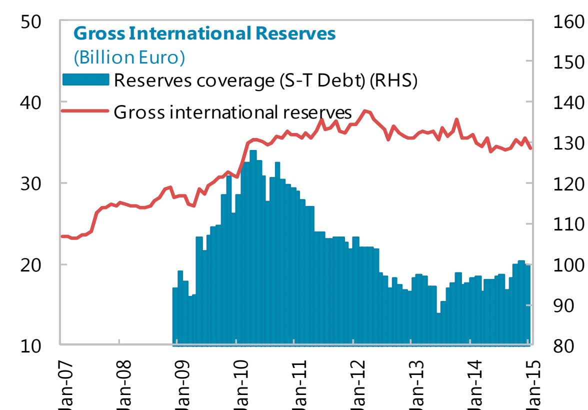
Nevertheless, non-resident holdings of government debt remain stable including in the local currency market.



The real exchange rate has been largely stable over the past 12 months…

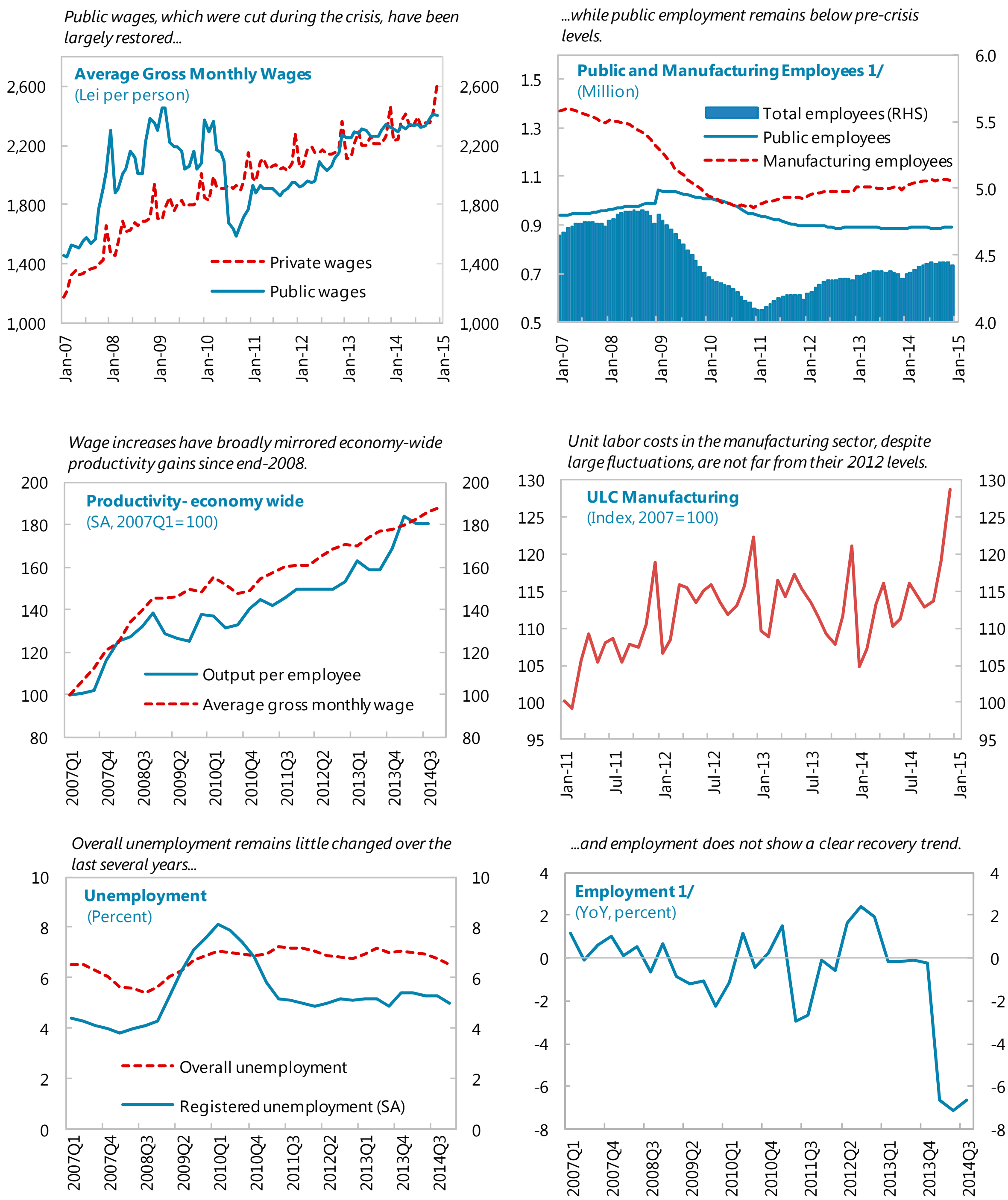


…while foreign reserve coverage remains broadly adequate.



Sources: Haver; National Bank of Romania; IMF Information Notice System (INS); and IMF staff calculations.
1/ Financial account data follows BPM6 format, so positive numbers represent outflows while negative numbers are inflows.

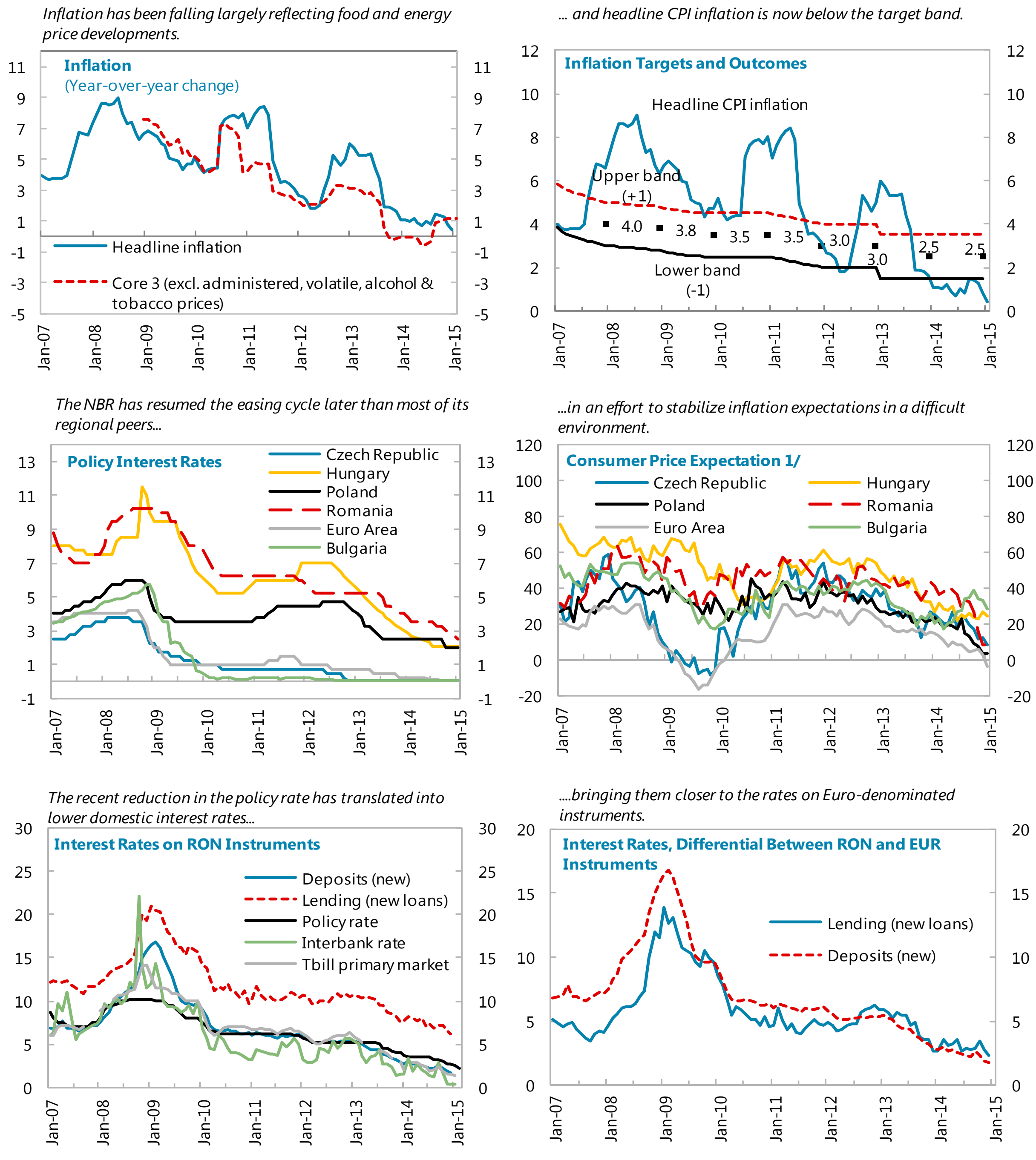
Figure 3. Romania: Labor Market, 2007–14



Sources: Eurostat; and Haver.
1/ The indicator "employees" refers to the formal civil sector, while "employment" is a broader concept that also includes the informal market, self-employed and defense. The sharp employment drop in 2014 is due to a methodological change.

Figure 4. Romania: Monetary Sector, 2007–15

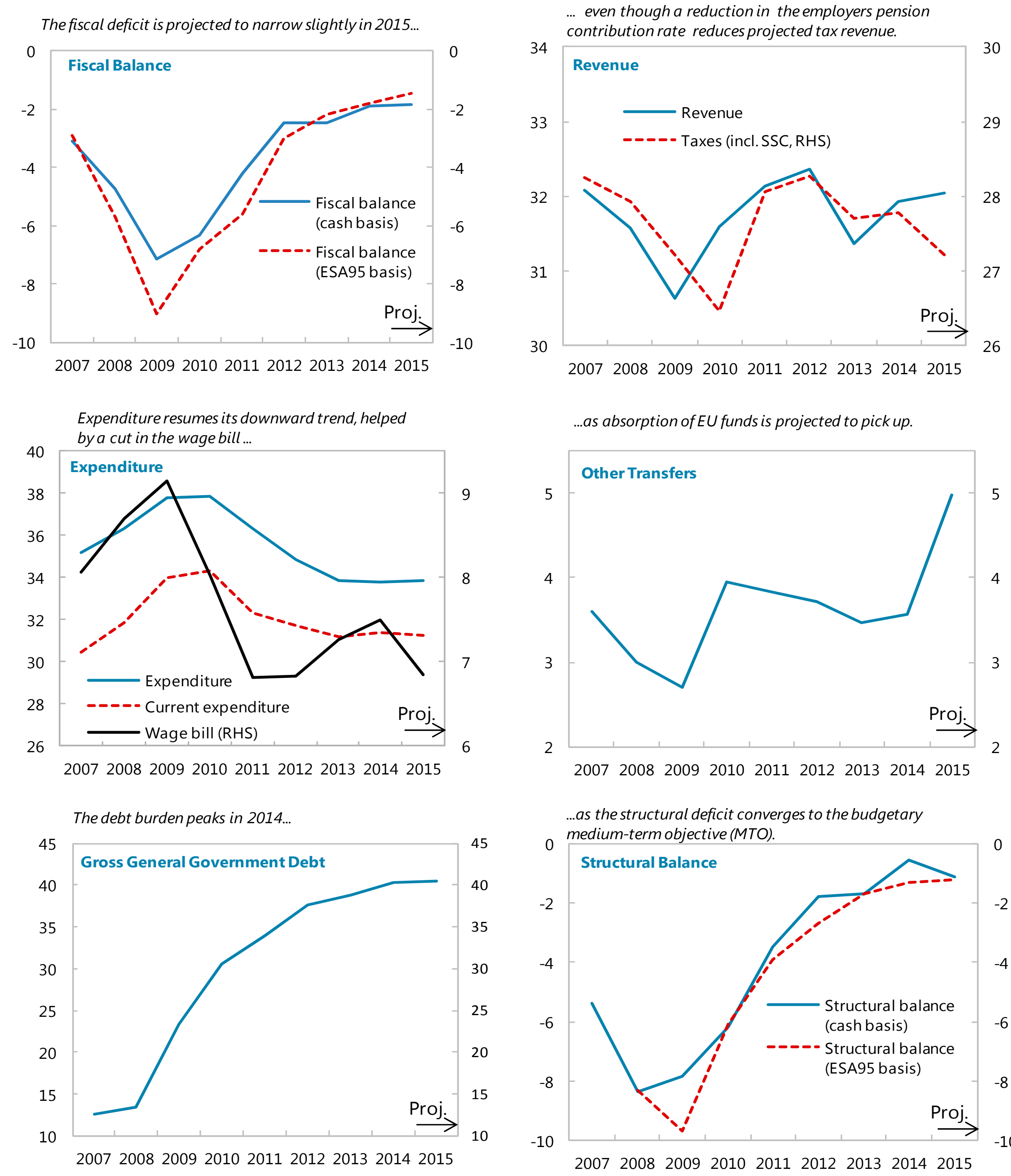
(Percent)



Sources: Haver Analytics; National Bank of Romania; Consensus Forecast; and IMF staff estimates.
1/ Value equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease.

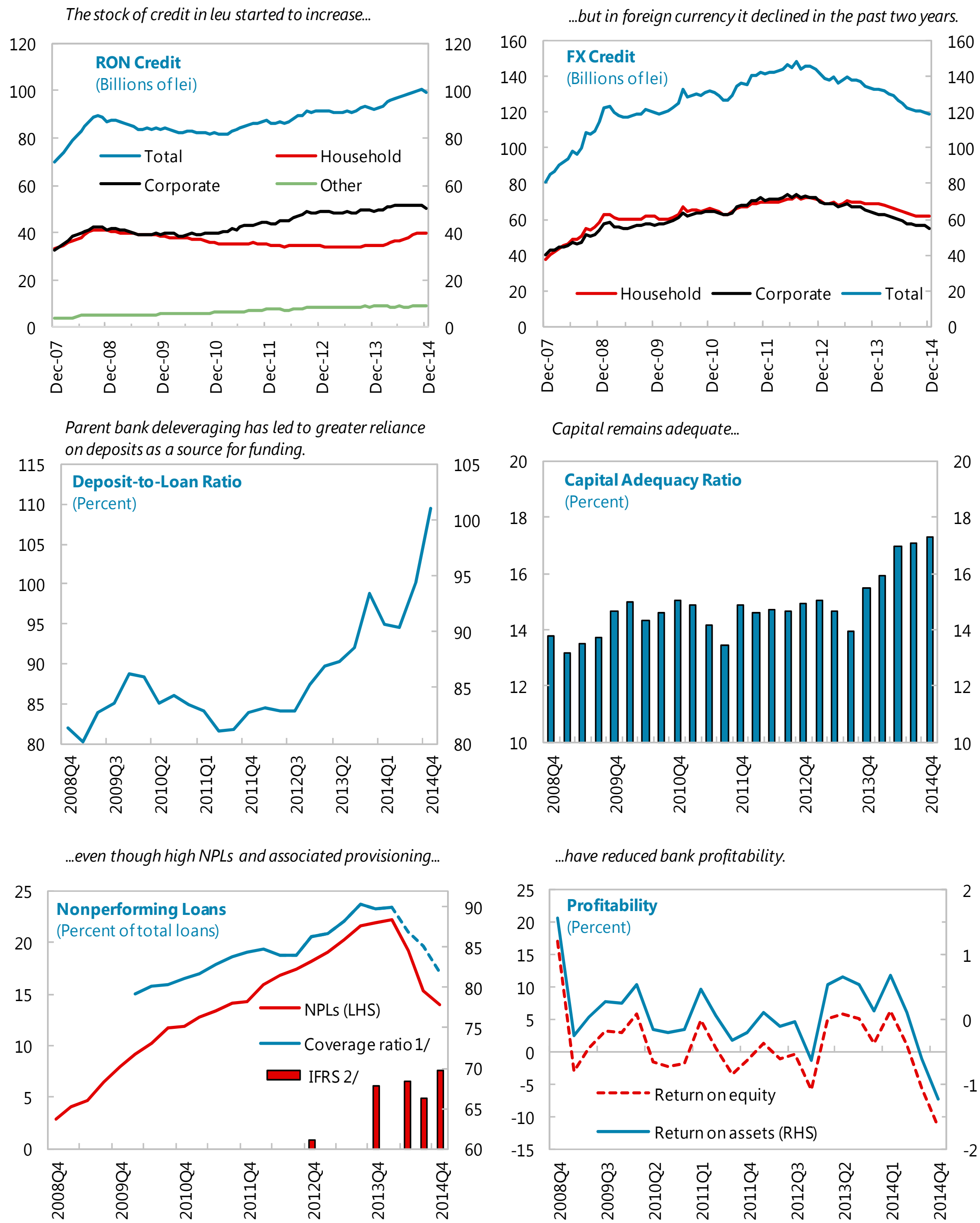
Figure 5. Romania: Fiscal Operations, 2007–15

(Percent of GDP)



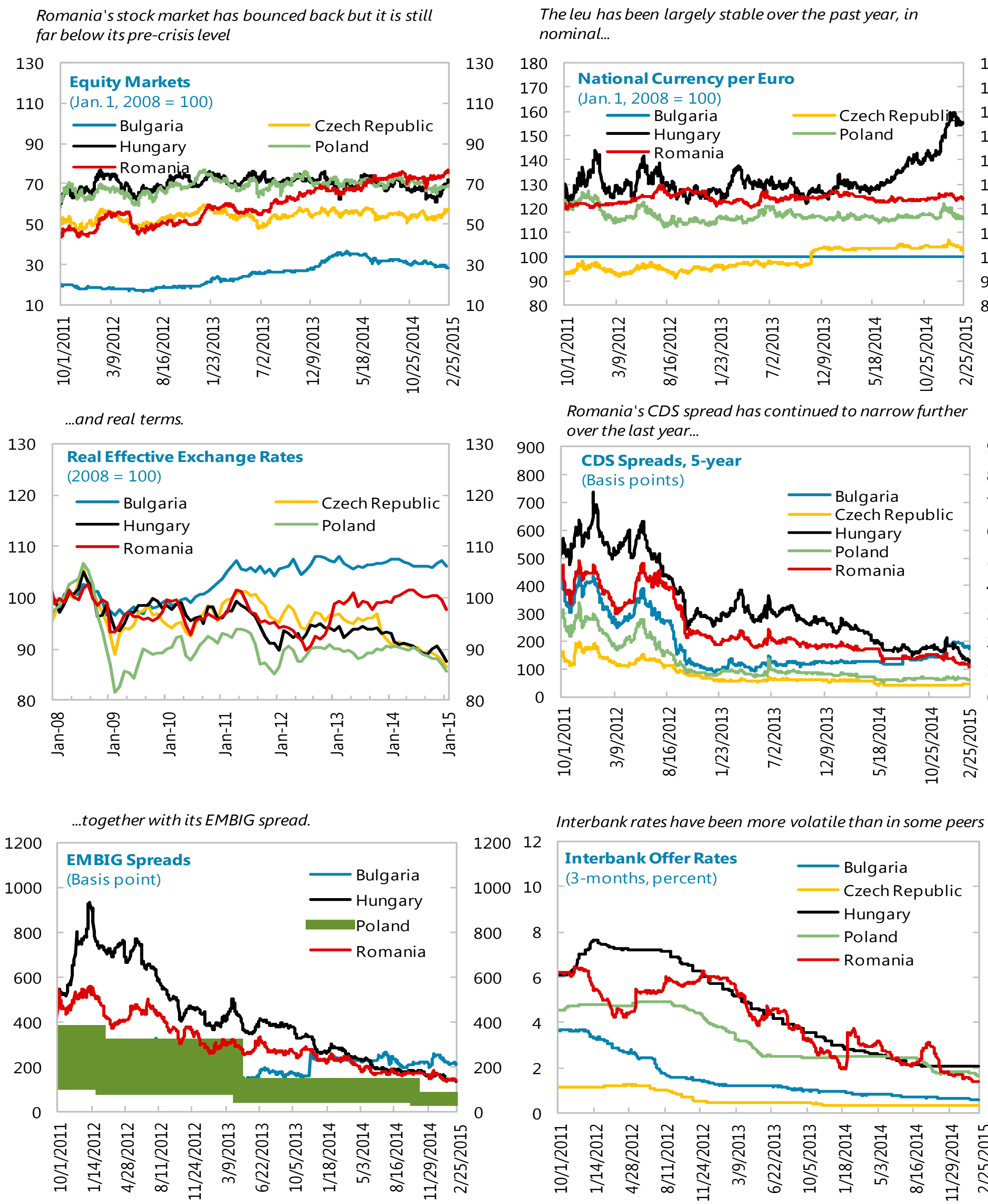
Sources: Romanian authorities; and IMF staff estimates and projections.

Figure 6. Romania: Financial Sector, 2007–14



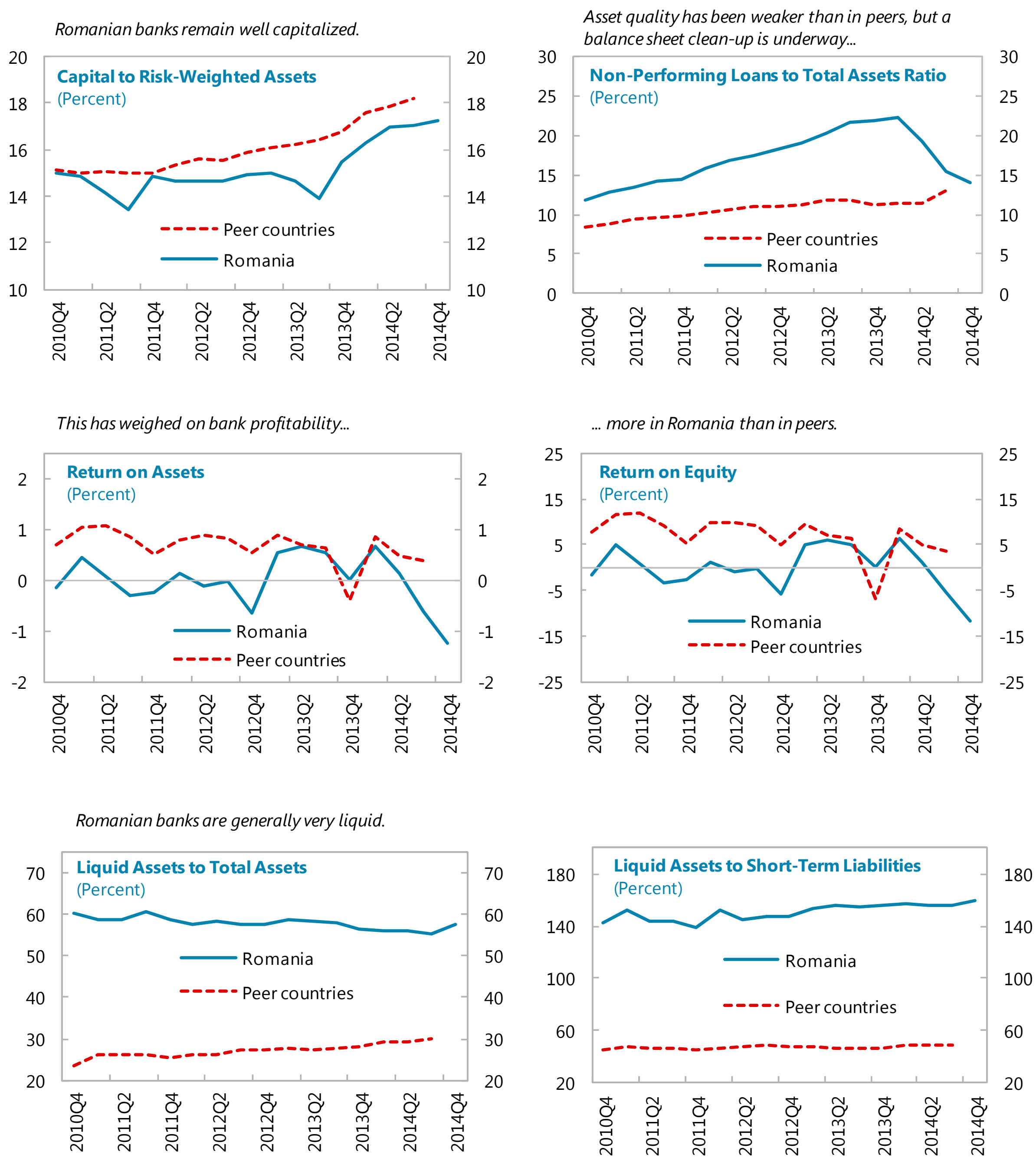
1/ Includes prudential filter, which is being phased out since January 2014. December 2014 is an estimate.
2/ Standard IFRS provisions coverage ratio.
Sources: Dxtime; and National Bank of Romania.

Figure 7. Romania: Financial Developments, 2011–15



Sources: Bloomberg and Haver Analytics.

Figure 8. Romania and Peer Countries: Financial Soundness Indicators, 2010–14 1/



1/ Unweighted average of Bulgaria, Croatia, Czech Republic, Hungary, Poland, Slovakia and Slovenia. Return on assets, return on equity and liquid assets to total assets peer average exclude Slovakia.
Sources: Haver Analytics, and National Bank of Romania.

Table 1. Romania: Selected Economic and Social Indicators, 2009–15

	2009	2010	2011	2012	2013 Prelim.	2014 Prelim.	2015 Proj.
Output and prices			(Annual percentage change)				
Real GDP	-7.1	-0.8	1.1	0.6	3.4	2.9	2.7
Contributions to GDP growth							
Domestic demand	-14.0	-0.7	1.1	-0.5	-0.9	2.8	3.1
Net exports	6.9	-0.1	-0.1	1.1	4.3	0.1	-0.2
Consumer price index (CPI, average)	5.6	6.1	5.8	3.3	4.0	1.1	1.0
Consumer price index (CPI, end of period)	4.8	8.0	3.1	5.0	1.6	0.8	2.2
Core price index (CPI, end of period)	2.3	4.1	2.4	3.3	-0.1	1.2	1.2
Producer price index (average)	2.5	4.4	7.1	5.4	2.1	-0.1	...
Unemployment rate (average)	6.5	7.0	7.2	6.8	7.1	6.8	6.7
Nominal wages	8.4	2.5	4.9	5.0	5.0	5.2	5.3
Saving and Investment			(In percent of GDP)				
Gross domestic investment	27.1	26.8	27.9	27.0	24.5	23.0	23.7
Gross national savings	22.6	22.3	23.2	22.5	23.7	22.5	22.6
General government finances 1/							
Revenue	30.6	31.6	32.1	32.4	31.4	31.9	32.0
Expenditure	37.8	37.9	36.3	34.8	33.8	33.8	33.9
Fiscal balance	-7.1	-6.3	-4.2	-2.5	-2.5	-1.9	-1.8
External financing	2.6	2.8	2.7	3.2	2.1	1.9	0.8
Domestic financing	4.6	3.5	1.5	-0.8	1.4	1.2	1.5
Primary balance	-5.9	-4.9	-2.6	-0.7	-0.8	-0.3	-0.4
Structural fiscal balance 2/	-8.0	-6.1	-3.4	-1.7	-1.7	-0.6	-1.1
Gross public debt (including guarantees) 3/	23.3	30.5	33.9	37.5	38.8	40.4	40.5
Money and credit			(Annual percentage change)				
Broad money (M3)	9.0	6.9	6.6	2.7	8.8	8.1	7.5
Credit to private sector	0.9	4.7	6.6	1.3	-3.3	-3.1	3.5
Interest rates, eop 4/			(In percent)				
NBR policy rate	8.0	6.25	6.0	5.25	4.0	2.75	2.25
NBR lending rate (Lombard)	12.0	10.25	10.0	9.25	7.0	5.25	4.25
Interbank offer rate (1 week)	10.7	3.6	6.0	5.9	1.8	0.7	0.6
Balance of payments			(In percent of GDP)				
Current account balance	-4.5	-4.6	-4.6	-4.5	-0.8	-0.5	-1.1
Merchandise trade balance	-7.2	-7.1	-6.7	-6.7	-3.8	-3.7	-4.5
Capital account balance	0.5	0.2	0.5	1.4	2.1	2.6	2.3
Financial account balance	2.1	-0.8	-1.0	-1.7	-3.0	0.1	0.9
Foreign direct investment balance	-2.8	-1.8	-1.3	-1.8	-2.0	-1.6	-1.6
International investment position	-62.1	-62.3	-64.2	-67.7	-61.7	-56.6	-52.4
Gross official reserves	25.6	28.3	27.9	26.4	24.6	23.6	22.7
Gross external debt	67.4	72.9	74.0	74.4	66.6	59.9	54.3
Exchange rates 4/							
Lei per euro (end of period)	4.2	4.3	4.3	4.4	4.5	4.5	4.4
Lei per euro (average)	4.2	4.2	4.2	4.5	4.4	4.4	4.4
Real effective exchange rate							
CPI based (percentage change)	-7.5	1.9	2.9	-6.0	4.7	1.0	...
GDP deflator based (percentage change)	-8.3	1.2	1.8	-4.6	4.1	...	...
Memorandum Items:							
Nominal GDP (in bn RON)	510.5	533.9	565.1	596.7	637.6	669.5	706.6
Potential output growth	2.5	2.0	1.9	2.1	2.3	2.5	2.7

Social and Other Indicators

GDP per capita (current EUR, 2013): 7,100; **GDP per capita, PPP** (current international $, 2013): 18,635

People at risk of poverty or social exclusion: 40.4% (2013)

Sources: Romanian authorities; IMF staff estimates and projections; and World Development Indicators database, Eurostat.

1/ General government finances refer to cash data.

2/ Fiscal balance (cash basis) adjusted for the automatic effects of the business cycle and one-off effects.

3/ Increase in ratio in 2015 relative to 2014 reflects projected debt financing of an increase in Treasury deposits of 0.5 percent of GDP.

4/ For 2015: Latest available data.

Table 2. Romania: Medium-Term Macroeconomic Framework, Current Policies, 2009–20

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Prelim.	Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)												
Real GDP	-7.1	-0.8	1.1	0.6	3.4	2.9	2.7	2.9	3.4	3.5	3.5	3.5
Agriculture 1/	-8.8	9.4	15.0	-27.9	28.5	1.5	…	…	…	…	…	…
Non-Agriculture 1/	-7.0	-1.7	-0.2	3.6	1.6	3.0	…	…	…	…	…	…
Real domestic demand	-12.3	-0.7	1.1	-0.4	-0.8	2.7	3.1	3.4	3.9	4.1	4.3	4.3
Consumption	-7.3	-0.4	0.8	1.1	0.0	4.6	3.0	3.5	3.8	4.2	4.3	4.3
Investment	-36.6	-2.4	2.9	0.1	-7.9	-3.6	2.9	3.6	4.1	4.2	4.3	4.3
Exports	-5.3	15.2	11.9	1.0	16.2	8.1	6.4	6.1	6.2	6.1	6.2	6.1
Imports	-20.7	12.6	10.2	-1.8	4.2	7.7	6.8	7.2	7.2	7.3	7.7	7.6
Consumer price index (CPI, average)	5.6	6.1	5.8	3.3	4.0	1.1	1.0	2.4	2.5	2.5	2.5	2.5
Consumer price index (CPI, end of period)	4.8	8.0	3.1	5.0	1.6	0.8	2.2	2.2	2.5	2.5	2.5	2.5
Saving and investment (in percent of GDP)												
Gross national saving	22.6	22.3	23.2	22.5	23.7	22.5	22.6	22.4	22.0	21.6	21.2	24.3
Gross domestic investment	27.1	26.8	27.9	27.0	24.5	23.0	23.7	23.9	24.0	24.1	24.2	24.3
Government	5.1	7.1	7.6	6.4	5.6	5.3	6.6	6.4	6.2	6.0	5.8	5.7
Private	22.0	19.7	20.3	20.6	18.9	17.7	17.1	17.6	17.8	18.1	18.4	18.7
General government (in percent of GDP)												
Revenue	30.6	31.6	32.1	32.4	31.4	31.9	32.0	31.5	31.3	31.1	31.0	30.9
Tax revenue	26.7	26.0	27.6	27.8	27.2	27.3	26.7	26.7	26.6	26.6	26.6	26.6
Non-tax revenue	2.8	3.7	3.2	3.1	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Grants	1.0	1.8	1.2	1.4	1.4	1.7	2.7	2.1	2.0	1.9	1.8	1.7
Expenditure	37.8	37.9	36.3	34.8	33.8	33.8	33.9	33.2	32.7	32.5	32.3	32.2
Fiscal balance 2/	-7.1	-6.3	-4.2	-2.5	-2.5	-1.9	-1.8	-1.7	-1.5	-1.4	-1.3	-1.3
Structural fiscal balance 3/	-8.0	-6.1	-3.4	-1.7	-1.7	-0.6	-1.1	-1.0	-1.0	-1.0	-1.1	-1.1
Gross general government debt (direct debt only) 4/	21.3	27.6	31.8	35.2	36.5	38.0	38.3	37.8	37.2	36.4	35.7	34.9
Gross general government debt (including guarantees) 4/	23.3	30.5	33.9	37.5	38.8	40.4	40.5	40.0	39.2	38.3	37.5	36.6
Monetary aggregates (annual percent change)												
Broad money (M3)	9.0	6.9	6.6	2.7	8.8	8.1	7.5	7.0	7.5	7.0	6.0	5.0
Credit to private sector	0.9	4.7	6.6	1.3	-3.3	-3.1	3.5	5.3	4.2	4.7	5.0	4.3
Balance of payments (in percent of GDP)												
Current account	-4.5	-4.6	-4.6	-4.5	-0.8	-0.5	-1.1	-1.5	-2.0	-2.5	-3.0	-3.6
Trade balance	-7.2	-7.1	-6.7	-6.7	-3.8	-3.7	-4.5	-4.9	-5.3	-5.6	-5.9	-6.3
Services balance	0.8	1.2	1.2	1.8	3.3	3.9	3.7	3.6	3.6	3.5	3.4	3.3
Income balance	-1.3	-1.2	-1.3	-1.7	-2.2	-1.9	-2.1	-2.1	-2.2	-2.2	-2.3	-2.3
Transfers balance	3.2	2.5	2.1	2.0	1.9	1.2	1.7	1.9	1.9	1.8	1.8	1.7
Capital account balance	0.5	0.2	0.5	1.4	2.1	2.6	2.3	1.7	1.6	1.5	1.4	1.4
Financial account balance	2.1	-0.8	-1.0	-1.7	-3.0	0.1	0.9	-0.6	-1.4	-1.4	-1.2	-2.0
Foreign direct investment, balance	-2.8	-1.8	-1.3	-1.8	-2.0	-1.6	-1.6	-1.7	-1.9	-1.9	-1.9	-1.9
Memorandum items:												
Gross international reserves (in billions of euros)	30.9	36.0	37.3	35.4	35.4	35.5	36.0	37.2	38.9	39.8	39.1	38.3
Gross international reserves (in months of next year's imports)	7.7	7.7	7.9	7.3	6.9	6.4	6.1	5.9	5.8	5.8	5.8	5.8
International investment position (in percent of GDP)	-62.1	-62.3	-64.2	-67.7	-61.7	-56.6	-52.4	-49.6	-47.1	-45.4	-44.3	-43.9
External debt (in percent of GDP)	67.4	72.9	74.0	74.4	66.6	59.9	54.3	52.9	50.7	48.5	45.9	43.6
Short-term external debt (in percent of GDP)	12.9	15.4	17.1	15.6	13.3	11.8	10.5	10.0	9.4	8.8	8.3	7.8
Terms of trade (merchandise, percent change)	1.2	1.3	1.8	-3.3	-1.1	-0.6	-1.8	-0.3	-0.1	0.2	0.5	0.0
Nominal GDP (in billions of lei)	510.5	533.9	565.1	596.7	637.6	669.5	706.6	745.5	789.8	837.8	888.9	943.2
Output gap (percent of potential GDP)	2.4	-0.4	-1.3	-2.6	-1.6	-1.2	-1.2	-1.2	-0.9	-0.5	-0.2	0.0
Potential GDP (percent change)	2.5	2.0	1.9	2.1	2.3	2.5	2.7	2.9	3.0	3.1	3.2	3.3

Sources: Romanian authorities; and IMF staff estimates and projections.

1/ Based on gross value added data from the National Institute of Statistics (NIS) in Romania. Note that there is a small discrepancy between the supply side GDP data from the NIS and the demand side data from Eurostat.

2/ Includes in 2011–12, the National Program for Infrastructure Projects (PNDI), which was cancelled thereafter.

3/ Actual fiscal balance adjusted for the automatic effects related to the business cycle and one-off effects.

4/ Increase in ratio in 2015 relative to 2014 reflects projected debt financing of an increase in Treasury deposits of 0.5 percent of GDP.

Table 3. Romania: Balance of Payments, 2009–15

(In billions of euros, unless otherwise indicated)

	2009	2010	2011	2012	2013 Prelim.	2014 Prelim.	2015 Proj.
Current account balance	-5.4	-5.8	-6.2	-6.1	-1.2	-0.7	-1.8
Merchandise trade balance	-8.6	-9.0	-9.0	-8.9	-5.4	-5.5	-7.1
Exports (f.o.b.)	24.1	32.7	40.1	39.9	43.9	46.6	49.2
Imports (f.o.b.)	32.7	41.7	49.1	48.8	49.3	52.2	56.3
Services balance	1.0	1.5	1.7	2.5	4.7	5.9	5.9
Exports of non-factor services	8.5	7.8	8.7	9.9	13.4	15.1	15.9
Imports of non-factor services	7.5	6.3	7.0	7.4	8.7	9.2	10.0
Primary income, net	-1.6	-1.5	-1.7	-2.3	-3.1	-2.9	-3.3
Receipts	1.8	1.6	2.0	2.4	2.5	2.5	2.7
Payments	3.4	3.1	3.7	4.7	5.6	5.3	6.0
Secondary income, net	3.8	3.2	2.8	2.7	2.7	1.8	2.7
Capital account balance	0.6	0.2	0.7	1.9	3.0	4.0	3.6
Financial account balance	2.6	-1.0	-1.3	-2.2	-4.4	0.1	1.4
Foreign direct investment balance	-3.4	-2.3	-1.8	-2.4	-2.9	-2.5	-2.6
Portfolio investment balance	-0.5	-0.9	-1.6	-3.4	-5.5	-2.8	-1.7
Other investment balance	6.4	2.2	2.0	3.5	4.0	5.4	5.7
General government	2.0	-0.1	0.4	0.4	0.9	-0.1	2.8
Domestic banks	4.5	-1.0	0.2	2.2	2.5	4.1	1.9
Other private sector	-0.1	3.3	1.5	0.8	0.7	1.4	0.9
Errors and omissions	-1.4	0.1	0.7	1.1	-0.2	-0.3	0.0
Multilateral financing	2.1	3.7	3.5	1.0	0.7	0.3	1.5
European Commission	1.5	2.2	1.4	0.0	…	…	…
World Bank	0.3	0.0	0.7	0.0	0.7	0.3	1.5
EIB/EBRD/IFC	0.3	1.5	1.4	1.0	…	…	…
Overall balance	-6.7	-0.8	0.0	0.1	6.8	3.2	1.9
Financing	6.7	0.8	0.0	-0.1	-6.8	-3.2	-1.9
Gross international reserves ("-": increase)	-1.1	-3.5	-0.9	1.5	-2.1	1.2	-0.5
Use of IMF credit, net	6.8	4.3	0.9	-1.6	-4.6	-4.4	-1.4
Purchases 1/	6.8	4.3	0.9	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	-1.6	-4.6	-4.4	-1.4
Other liabilities, net	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(In percent of GDP)				
Current account balance	-4.5	-4.6	-4.6	-4.5	-0.8	-0.5	-1.1
Foreign direct investment balance	-2.8	-1.8	-1.3	-1.8	-2.0	-1.6	-1.6
Merchandise trade balance	-7.2	-7.1	-6.7	-6.7	-3.8	-3.7	-4.5
Exports	20.0	25.8	30.1	29.8	30.4	31.0	31.0
Imports	27.2	32.9	36.8	36.5	34.2	34.6	35.4
Gross external financing requirement	29.7	26.4	28.9	33.5	31.4	32.3	21.6
			(Annual percent change)				
Terms of trade (merchandise)	1.2	1.3	1.8	-3.3	-1.1	-0.6	-1.8
Export volume	-5.3	15.2	11.9	1.0	16.2	6.5	6.4
Import volume	-20.7	12.6	10.2	-1.8	4.2	5.0	6.8
Export prices	-6.2	18.0	9.5	-1.5	-5.4	0.4	-0.7
Import prices	-15.4	13.3	6.8	1.3	-3.1	1.0	1.1
			(In billions of euros)				
Gross international reserves 2/	30.9	36.0	37.3	35.4	35.4	35.5	36.0
Excluding IMF credit	24.1	24.7	25.3	24.4	29.5	35.5	35.9

Sources: Romanian authorities; and IMF staff estimates and projections.
1/ Includes IMF disbursement to the Treasury of €0.9 billion in 2009 and €1.2 billion in 2010.
2/ Operational definition, reflecting valuation effects and the allocation of SDR 908.8 million that was made available in two tranches in August and September 2009.

Table 4. Romania: Gross External Financing Requirements, 2012–15

(In billions of euros, unless otherwise indicated)

	2012	2013	2014	2015				
				Q1	Q2	Q3	Q4	Year
		Prelim.	Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.
I. Total financing requirements	**38.2**	**48.5**	**45.9**	**6.0**	**6.0**	**5.6**	**7.2**	**24.9**
I.A. Current account deficit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I.B. Short-term debt	25.8	22.2	20.1	3.4	2.9	3.2	3.5	13.0
Public sector	7.5	8.6	7.7	0.6	0.6	0.6	0.6	2.5
Banks	14.1	9.0	7.8	1.7	1.6	1.2	1.4	5.9
Corporates	4.2	4.6	4.6	1.1	0.7	1.3	1.5	4.6
I.C. Maturing medium- and long-term debt	12.1	26.5	24.3	2.6	3.1	2.4	3.7	11.9
Public sector	2.8	15.2	15.8	1.1	0.7	0.3	0.5	2.6
Banks	4.9	6.5	3.9	0.6	1.1	1.2	1.2	4.1
Corporates	4.4	4.8	4.7	1.0	1.4	1.0	1.9	5.3
I.D. Other net capital outflows 1/	0.3	-0.2	1.4	0.0	0.0	0.0	0.0	0.0
II. Total financing sources	**42.3**	**56.3**	**49.1**	**6.5**	**5.7**	**8.1**	**8.2**	**28.6**
II.A. Foreign direct investment, net	2.2	3.1	2.5	0.6	0.5	0.8	0.7	2.6
II.B. Capital account inflows	1.9	3.2	4.0	1.0	0.7	0.7	1.2	3.6
II.C. Short-term debt	23.3	22.4	18.7	2.9	2.6	3.1	3.4	11.9
Public sector	6.7	8.1	7.7	0.6	0.6	0.6	0.6	2.5
Banks	12.1	9.0	6.4	1.2	1.4	1.1	1.3	5.1
Corporates	4.5	5.2	4.6	1.0	0.6	1.3	1.5	4.4
II.D. Medium- and long-term debt	14.9	27.5	24.0	2.1	1.9	3.5	2.9	10.4
Public sector	6.7	20.5	18.0	1.0	0.0	1.7	0.1	2.9
Banks	5.1	3.8	2.3	0.3	0.7	1.0	1.1	3.0
Corporates	3.1	3.2	3.7	0.8	1.2	0.8	1.7	4.5
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. Increase in gross international reserves	-1.4	2.1	-1.0	-1.1	-1.1	1.7	1.1	0.5
IV. Financing gap	**-0.6**	**-3.9**	**-4.1**	**-1.4**	**-0.3**	**-0.3**	**0.6**	**-1.4**
V. Program financing	**-0.6**	**-3.9**	**-4.1**	**-1.4**	**-0.3**	**-0.3**	**0.6**	**-1.4**
IMF 2/	-1.6	-4.6	-4.4	-0.6	-0.3	-0.3	-0.1	-1.4
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	-1.6	-4.6	-4.4	-0.6	-0.3	-0.3	-0.1	-1.4
European Commission	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	-1.5
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal repayments	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	-1.5
Others	1.0	0.7	0.3	0.8	0.0	0.0	0.7	1.5
World Bank	0.0	0.7	0.3	0.8	0.0	0.0	0.7	1.5
EIB/EBRD/IFC	1.0	...	...	...	...	...	...	...
Memorandum items:								
Rollover rates for amortizing debt ST (in percent)								
Public sector	90	95	100	100	100	100	100	100
Banks	85	100	82	75	85	90	95	86
Corporates	107	113	99	90	90	100	100	96
Rollover rates for amortizing debt MLT (in percent)								
Public sector	240	134	114	92	7	617	28	114
Banks	104	59	60	55	65	80	85	74
Corporates	71	67	78	80	85	85	90	86
Rollover rates for total amortizing debt (in percent)								
Public sector	131	120	110	95	51	262	67	107
Banks	90	83	75	70	77	85	90	81
Corporates	89	90	89	85	87	94	94	91
Gross international reserves 3/	35.4	35.4	35.5	...	...	...	...	36.0
Coverage of gross international reserves								
- Months of imports of GFNS (next year)	7.3	6.9	6.4	...	...	...	...	6.1
- Short-term external debt (in percent)	93.1	95.5	109.2	...	...	...	...	125.9

Sources: Romanian authorities; and IMF staff estimates and projections.
1/ Includes portfolio equity, financial derivatives and other investments.
2/ SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of January 15, 2015.
3/ Operational definition.

Table 5a. Romania: General Government Operations, 2009–15 1/

(In percent of GDP)

	2009	2010	2011	2012	2013	2014 Prelim.	2015 Proj.
Revenue	30.6	31.6	32.1	32.4	31.4	31.9	32.0
Taxes	26.7	26.0	27.6	27.8	27.2	27.3	26.7
Corporate income tax	2.6	2.1	2.0	2.0	1.9	2.0	1.9
Personal income tax	3.6	3.4	3.4	3.5	3.6	3.5	3.7
VAT	6.7	7.4	8.5	8.5	8.1	7.6	7.9
Excises	3.1	3.2	3.4	3.4	3.3	3.6	3.6
Customs duties	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	9.4	8.6	9.0	8.7	8.5	8.6	7.8
Other taxes	1.2	1.3	1.2	1.6	1.7	1.8	1.7
Nontax revenue	2.8	3.7	3.2	3.1	2.7	2.6	2.6
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Grants, including EU disbursements	1.0	1.8	1.2	1.4	1.4	1.7	2.7
Expenditure	37.8	37.9	36.3	34.8	33.8	33.8	33.9
Current expenditure	34.0	34.3	32.3	31.7	31.2	31.4	31.3
Compensation of employees	9.1	8.0	6.8	6.8	7.3	7.5	6.8
Goods and services	5.5	5.5	5.6	5.8	6.1	5.9	5.7
Interest	1.2	1.4	1.6	1.8	1.7	1.5	1.5
Subsidies	1.4	1.3	1.1	1.0	0.8	0.9	0.8
Transfers	16.3	17.8	16.8	16.0	15.3	15.4	16.4
Pensions	7.8	7.9	8.4	8.1	7.7	7.7	7.7
Other social transfers	4.7	5.0	3.6	3.2	3.0	2.9	2.8
Other transfers 2/	3.3	4.4	4.3	4.3	4.0	4.2	5.4
Other spending	0.5	0.5	0.6	0.5	0.5	0.6	0.5
Projects with external credits	0.4	0.3	0.4	0.3	0.1	0.1	0.1
Capital expenditure 3/	4.3	3.6	4.1	3.2	2.8	2.6	2.6
Reserve fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and expense refunds	-0.5	-0.1	-0.1	-0.1	-0.2	-0.1	0.0
Fiscal balance	-7.1	-6.3	-4.2	-2.5	-2.5	-1.9	-1.8
Primary balance	-6.1	-5.0	-2.8	-0.7	-0.8	-0.4	-0.5
Financing	7.1	6.3	4.2	2.5	2.5	1.9	1.8
External borrowing (net)	2.6	2.8	2.7	3.2	2.1	1.9	0.8
Domestic borrowing (net)	5.7	3.9	2.2	0.9	1.4	1.2	1.5
Use of deposits	-1.2	-0.4	-0.7	-1.7	-1.0	-1.3	-0.5
Privatization proceeds	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financial liabilities							
Gross general-government debt 4/	23.3	30.5	33.9	37.5	38.8	40.4	40.5
Gross general-government debt excl. guarantees	21.3	27.6	31.8	35.2	36.5	38.0	38.3
External	9.8	12.7	15.1	17.0	18.0	19.9	19.6
Domestic	11.5	14.9	16.7	18.2	18.5	18.1	18.7
Memorandum items:							
Total capital spending	5.1	7.1	7.6	6.4	5.6	5.3	6.6
Fiscal balance (ESA95 basis) 5/	-8.8	-6.7	-5.6	-3.0	-2.2	-1.8	-1.5
Structural balance (ESA95 basis) 5/	-9.7	-6.1	-3.9	-2.5	-1.7	-1.3	-1.2
Gross general government debt (ESA95 basis) 5/	23.2	30.5	34.2	37.3	38.0	38.7	39.1
Output gap 6/ 7/	2.4	-0.4	-1.3	-2.6	-1.6	-1.2	-1.2
Cyclically adjusted balance	-8.0	-6.1	-3.7	-1.6	-1.9	-1.5	-1.4
Structural fiscal balance	-8.0	-6.1	-3.4	-1.7	-1.7	-0.6	-1.1
Gross general government debt (authorities definition) 8/	28.9	36.4	39.5	40.4	41.9	44.1	...
Nominal GDP (in billions of lei)	510.5	533.9	565.1	596.7	637.6	669.5	706.6

Sources: Ministry of Public Finance; Eurostat; and IMF staff estimates and projections.

1/ Unless otherwise noted, the table is on a cash basis following GFSM 86. The general government is composed of the central government, local governments, social security funds, and the road fund company.

2/ Includes EU-financed capital projects.

3/ Does not include all capital spending.

4/ Total consolidated general-government debt, including state government debt, local government debt, and guarantees. Increase in ratio in 2015 relative to 2014 reflects projected debt financing of an increase in Treasury deposits of 0.5 percent of GDP.

5/ European Commission estimate.

6/ Percentage deviation of actual from potential GDP.

7/ Recalculation of potential GDP growth and output gap since program approval resulted in a narrowing of the output gap in 2013 and prior years.

8/ Includes guarantees and intra-governmental debt.

Table 5b. Romania: General Government Operations, 2009–15

(In millions of lei)

	2009	2010	2011	2012	2013	2014 Prelim.	2015 Proj.
Revenue	156,373	168,635	181,567	193,148	200,038	213,834	226,360
Taxes	136,350	138,667	155,710	165,702	173,489	182,586	188,703
Corporate income tax	13,466	10,969	11,030	11,826	12,191	13,684	13,707
Personal income tax	18,551	17,957	19,461	20,956	22,736	23,692	25,863
VAT	34,322	39,246	47,917	50,516	51,827	50,879	55,536
Excises	15,646	17,312	19,105	20,260	21,106	24,095	25,531
Customs duties	656	574	674	707	620	643	675
Social security contributions	47,829	45,704	50,637	51,658	54,379	57,612	55,311
Other taxes	5,879	6,905	6,885	9,778	10,630	11,982	12,080
Nontax revenue	14,487	19,796	18,217	18,328	17,153	17,188	18,029
Interest Revenue	864	595	718	279	182	157	1,064
Capital revenue	546	685	766	653	650	1,073	854
Grants	5,057	9,494	6,874	8,422	9,112	11,189	18,775
o/w EU pre-accession funds	2,959	4,054	765	443	201	15	176
Financial operations and other	-67	-6	0	43	-365	1,798	0
Expenditure	192,782	202,256	205,277	207,921	215,810	226,327	239,364
Current expenditure	173,445	183,243	182,709	189,274	198,957	210,136	220,937
Compensation of employees	46,676	42,839	38,496	40,799	46,299	50,247	48,374
Goods and services	28,028	29,541	31,643	34,444	38,580	39,582	40,037
Interest	6,063	7,275	8,883	10,710	10,749	10,199	10,529
Subsidies	7,215	6,735	6,407	6,122	5,150	6,094	5,489
Transfers	83,407	95,060	95,172	95,585	97,310	103,422	115,711
Pensions	39,851	42,107	47,469	48,051	49,374	51,539	54,228
Other social transfers	24,101	26,505	20,539	18,997	19,005	19,663	19,867
Other transfers 1/	16,931	23,514	24,049	25,569	25,712	27,942	38,197
Other spending	2,523	2,933	3,115	2,968	3,219	4,278	3,420
Projects with external credits	2,056	1,794	2,108	1,614	869	592	796
Capital expenditure 2/	21,828	19,441	23,056	19,305	17,855	17,140	18,427
Reserve fund	0	0	0	0	0	0	0
Net lending and expense refunds	-2,490	-428	-488	-657	-1,002	-949	0
Fiscal balance	-36,409	-33,621	-23,710	-14,774	-15,772	-12,493	-13,005
Primary balance	-31,210	-26,941	-15,545	-4,343	-5,206	-2,451	-3,539
Financing	36,409	33,621	23,710	14,774	15,772	12,493	13,005
External borrowing (net)	13,144	14,807	15,250	19,271	13,351	12,591	5,406
Domestic borrowing (net)	29,129	20,841	12,377	5,305	8,972	8,194	10,749
Use of deposits	-6,129	-2,161	-3,827	-9,916	-6,630	-8,745	-3,200
Privatization proceeds	291	289	0	5	25	0	50
Discrepancy	-26	-155	-91	109	54	453	0
Financial liabilities							
Gross general-government debt 3/ 4/	119,195	163,022	191,423	224,040	247,499	270,338	286,493
Gross general-government debt excl. guarantees 4/	108,528	147,261	179,639	210,254	232,766	254,472	270,627
External	49,993	67,717	85,382	101,476	114,997	133,248	138,654
Domestic	58,535	79,544	94,257	108,778	117,769	121,224	131,973
Memorandum item:							
Gross general government debt (authorities definition) !	147,329	194,459	223,268	240,843	267,151	295,579	…

Sources: Ministry of Public Finance; Eurostat; and IMF staff estimates and projections.

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

3/ Total consolidated general-government debt, including state government debt, local government debt, and guarantees.

4/ Part of increase in debt in 2015 relative to 2014 reflects projected debt financing of an increase in Treasury deposits of 0.5 percent of GDP.

5/ Includes guarantees and intra-governmental debt.

Table 5c. Romania: Consolidated General Government Balance Sheet, 2010–13

(In millions of lei, unless otherwise indicated)

	2010				2011			2012			2013		
	Opening balance	Transactions	Other economic flows 1/	Closing/ Opening balance 2/	Transactions	Other economic flows 1/	Closing/ Opening balance 2/	Transactions	Other economic flows 1/	Closing/ Opening balance 2/	Transactions	Other economic flows 1/	Closing balance
Net worth and its changes:	592,558	(42,752)	(38,202)	511,604	(20,003)	(15,005)	476,596	(2,282)	3,092	477,405	1,600	4,271	483,276
Nonfinancial assets	578,265	(7,744)	....	570,521	12,038	....	582,559	15,335	....	597,893	16,402	....	614,296
Fixed assets	564,592	(7,852)	....	556,739	11,930	....	568,669	14,903	....	583,573	16,226	....	599,799
Buildings and structures	....	9,011	....	....	8,849	....	....	22,588	....	....	25,964	....	....
Machinery and equipment	....	1,180	....	....	1,823	....	....	1,466	....	....	1,219	....	....
Other fixed assets	....	(18,043)	....	....	1,257	....	....	(9,150)	....	....	(10,958)	....	....
Inventories	13,673	109	....	13,782	108	....	13,889	431		14,321	176		14,497
Valuables	....	....	....	....	....	....	....	....	....	....	....	....	....
Nonproduced assets	....	....	....	....	....	....	....	....	....	....	....	....	....
Financial assets	177,755	411	(36,441)	141,724	8,886	(15,987)	134,623	13,689	4,229	152,541	2,746	(285)	155,002
by instrument													
Monetary gold and SDRs	-	-	-	-	-	-	-	-	-	-	-	-	-
Currency and deposits	21,151	(2,329)	1,028	19,850	5,717	(5,910)	19,658	10,595	411	30,664	5,870	483	37,017
Securities other than shares	-	-	-	-	-	-	-	-	-	-	-	-	
Loans	6,271	513	(439)	6,345	258	30	6,633	115	(81)	6,666	80	(344)	6,403
Shares and other equity	111,369	580	(38,425)	73,524	897	(11,183)	63,238	(408)	2,445	65,275	(2,044)	(74)	63,157
Insurance technical reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-
Other accounts receivable	38,964	1,647	1,394	42,005	2,013	1,077	45,095	3,387	1,454	49,936	(1,160)	(350)	48,426
by debtor													
Domestic	....	(1,204)	....	....	8,935	....	....	11,621	....	....	2,557	....	....
Foreign	....	1,614	....	....	(49)	....	....	2,068	....	....	213	....	....
Liabilities	163,461	35,419	1,761	200,642	40,926	(982)	240,587	31,306	1,138	273,030	17,548	(4,556)	286,022
by instrument													
Special Drawing Rights (SDRs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Currency and deposits	2,358	2,390	(70)	4,677	1,720	0	6,398	(1,410)	0	4,987	(765)	-	4,222
Securities other than shares	62,882	21,427	422	84,731	22,742	3,117	110,589	31,013	3,563	145,165	22,745	(5,985)	161,925
Loans	56,680	16,006	1,077	73,763	7,029	734	81,526	(2,573)	2,876	81,829	(2,064)	1,216	80,980
Shares and other equity	5,654	1,041	1,234	7,930	1,618	(3,964)	5,583	3	(5,584)	2	-	(2)	-
Insurance technical reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives	2,282	(1,105)	-	1,177	-	(1,108)	69	-	(69)	-	-	-	-
Other accounts payable	33,606	(4,340)	(901)	28,365	7,818	239	36,421	4,274	352	41,047	(2,368)	215	38,894
by debtor													
Domestic	82,460	17,868	889	101,216	21,418	(1,267)	121,367	12,519	3,848	137,733	19,979	-	157,712
Foreign	81,001	17,552	873	99,426	19,509	285	119,220	18,787	(2,710)	135,297	(2,396)	-	132,901
Memorandum items													
Net financial worth	14,294	(35,009)	(38,202)	(58,918)	(32,041)	(15,005)	(105,963)	(17,617)	3,092	(120,489)	(32,041)	21,510	(131,020)
Maastricht debt 3/	118,491	35,552	5,574	159,511	30,901	2,682	193,144	17,423	12,170	222,794	....	....	242,194
Obligations for social security benefits 4/	....	....	....	....	....	....	....	....	....	(143,805)	....	....	....
Memorandum:													
Nominal GDP (Lei - billions)				533.9			565.1			596.7			636.6

Sources: Romanian authorities; Eurostat; and IMF staff calculations

1/ Calculated as a residual. Reflects holding gains and losses and other changes in the volume of assets and liabilities.

2/ Closing balance in precedeing year is opening balance in current year.

3/ Transaction column data represents government net lending (-)/net borrowing (+) in ESA terms.

4/ Unfunded pension liabilities only.

Table 6. Romania: Monetary Survey, 2010–15

(In millions of lei, unless otherwise indicated; end of period)

	2010	2011	2012	2013	2014 Prelim.	2015 Proj.
			I. Banking System			
Net foreign assets	**19,086**	**15,740**	**30,203**	**60,613**	**94,332**	**110,612**
In millions of euros	4,454	3,644	6,820	13,516	21,046	24,857
o/w commercial banks	-21,086	-21,846	-18,594	-15,963	-11,767	-9,837
Net domestic assets	**183,687**	**200,468**	**191,815**	**180,937**	**166,715**	**170,013**
General government credit, net	43,140	52,596	49,599	44,769	39,091	39,965
Private sector credit	209,294	223,037	225,836	218,465	211,652	218,405
Other	-68,747	-75,165	-83,620	-82,297	-84,028	-88,357
Broad Money (M3)	**202,773**	**216,208**	**222,018**	**241,550**	**261,047**	**280,625**
Money market instruments	3,201	4,149	188	296	258	278
Intermediate money (M2)	199,572	212,059	221,830	241,254	260,788	280,347
Narrow money (M1)	81,592	85,834	89,020	100,314	118,219	116,811
Currency in circulation	26,793	30,610	31,477	34,786	39,906	45,465
Overnight deposits	54,799	55,224	57,543	65,528	78,313	71,346
			II. National Bank of Romania			
Net foreign assets	**109,433**	**110,106**	**112,552**	**132,202**	**147,071**	**154,388**
In millions of euros	25,540	25,489	25,414	29,479	32,813	34,694
Net domestic assets	**-54,330**	**-48,541**	**-55,244**	**-63,537**	**-78,719**	**-76,513**
General government credit, net	-12,795	-13,564	-24,973	-31,204	-41,757	-36,757
Credit to banks, net	-26,148	-19,529	-14,443	-23,266	-24,064	-25,868
Other	-15,387	-15,448	-15,828	-9,067	-12,898	-13,888
Reserve money	**55,103**	**61,565**	**57,308**	**68,666**	**68,352**	**77,874**
			(Annual percent change)			
Broad money (M3)	6.9	6.6	2.7	8.8	8.1	7.5
NFA contribution	0.7	-1.7	6.7	13.7	14.0	6.2
NDA contribution	6.2	8.3	-4.0	-4.9	-5.9	1.3
Reserve money	6.7	11.7	-6.9	19.8	-0.5	13.9
NFA contribution	16.3	1.2	4.0	34.3	21.7	10.7
NDA contribution	-9.6	10.5	-10.9	-14.5	-22.1	3.2
Domestic credit, real	3.2	5.9	-4.8	-5.9	-5.5	1.1
Private sector, real	-3.0	3.3	-3.5	-4.8	-3.9	1.3
Public sector, real	49.4	18.2	-10.2	-11.1	-13.4	0.1
Broad money (M3), in real terms	-1.0	3.4	-2.2	7.1	6.9	5.2
Private credit, nominal	4.7	6.6	1.3	-3.3	-3.1	3.5
Memorandum items:						
CPI inflation, eop	8.0	3.1	5.0	1.6	0.8	2.2
NBR inflation target band	2.5 - 4.5	2.0 - 4.0	2.0 - 4.0	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5
Interest rates (percent) 2/						
Policy interest rate	6.25	6.0	5.25	4.00	2.75	2.25
Interbank offer rate, 1 week	3.6	6.0	5.9	1.8	0.7	...
Corporate loans 1/	9.4	9.7	9.8	6.8	5.5	...
Household time deposits 1/	7.6	6.6	5.6	3.9	2.8	...
Share of foreign currency private deposits 2/	36.1	33.6	36.7	34.5	34.0	...
Share of foreign currency private loans 2/	63.0	63.4	62.5	60.9	56.2	...
M2 velocity	2.68	2.66	2.69	2.65	2.66	2.53
Money multiplier (M3/reserve money)	3.68	3.51	3.87	3.52	3.82	3.60
NIR (in billion Euro, at program exchange rates)	...	...	16.3	23.7	28.3	...

Sources: National Bank of Romania; and IMF staff estimates and projections.

1/ Rates for new local currency denominated transactions.

2/ For interest rates and shares of foreign currency loans and deposits, latest available data.

Table 7. Romania: Financial Soundness Indicators, 2008–14

(In percent)

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec. Prelim.
Core indicators							
Capital adequacy							
Capital to risk-weighted assets	13.8	14.7	15.0	14.9	14.9	15.5	17.3
Tier 1 capital to risk-weighted assets (1/)	11.8	13.4	14.2	14.3	13.8	14.1	14.3
Asset quality							
Nonperforming loans (2/) to total gross loans	2.7	7.9	11.9	14.3	18.2	21.9	13.9
IFRS Provisions for NPLs / NPLs	...	...	...	...	61.0	67.9	69.8
Earnings and profitability							
Return on assets	1.6	0.2	-0.2	-0.2	-0.6	0.0	-1.2
Return on equity(3/)	17.0	2.9	-1.7	-2.6	-5.9	0.1	-11.6
Net interest income to operating income	44.8	44.1	60.6	62.0	62.3	58.8	58.3
Noninterest expense to operating income (cost to income)	55.7	63.9	64.9	67.8	58.7	56.5	55.4
Personnel expense to operating income	23.4	20.3	21.0	21.9	26.0	25.4	24.9
Liquidity							
Liquid assets (4/)to total assets	47.1	57.4	60.0	58.7	57.6	56.2	57.4
Liquid assets (4/) to short-term liabilities (5/)	230.5	132.0	142.2	151.8	147.7	156.3	159.2
Liquid assets (4/) to total attracted and borrowed sources	116.2	79.4	80.9	75.8	76.4	73.4	74.1
Foreign exchange risk							
Net open position in foreign exchange, in percent of capital	1.6	2.3	-1.4	-4.7	-1.8	2.5	-2.0
Lending in foreign exchange, in percent of non-gov. credit	57.8	60.1	63.0	63.4	62.5	60.9	56.2
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.8	43.5	44.8	46.3	45.1	42.9
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	38.8	36.0	33.5	36.4	34.1	33.2
Encouraged indicators							
Deposit-taking institutions							
Leverage ratio (6/)	8.1	7.6	8.1	8.1	8.0	8.0	7.3
Personnel expenses to noninterest expenses	41.9	31.8	32.3	32.3	44.3	44.9	45.0
Customer deposits to total (non-interbank) loans	81.9	88.7	84.8	84.0	87.3	98.7	109.5
Loan to Deposit (LTD) Ratio	122.0	112.8	117.9	119.1	114.5	101.3	91.3

Structural indicators (December 2014):

Number of banks : 40; Number of foreign-owned subsidiaries/branches: 25/9; Share of deposits/loans of 5 largest banks: 54.3 percent/52.9 percent

Source: National Bank of Romania.

1/ For 2008–2011, market and operational risk are not used in compiling risk weighted assets.

2/ The NPLs represent un-adjusted exposures of loans and related interests overdue for more than 90 days and/or for which legal proceedings were initiated.

3/ Return on equity is calculated as net profit/loss to average own capital.

4/ Liquid assets = balance sheet assets and off balance sheets items with residual maturity of up to 3 months.

5/ Short term liabilities =balance sheet liabilities and off balance sheet items with residual maturity of up to 3 months.

6/ Tier 1 capital to average assets.

Annex I. Implementation of the 2012 Article IV Key Recommendations

Key recommendtions	Policy actions
	Strengthen fiscal discipline
Exit EU Excessive Debt Procedure (EDP)	Exited EDP in 2013 after reducing the headline deficit 3 percentage points of GDP in 2012 in ESA terms.
Establish framework to anchor fiscal policies	Established a structural deficit target rule; transposed EU fiscal compact into national legislation.
Manage fiscal impact of ageing population	Implemented a basic health care package; proposed increase in retirement age for woman to 65.
Increase EU funds absorption	Raised EU-funds absorption sevenfold to 52 percent as of December 2014.
	Limit financial sector vulnerability
Maintain exchange rate flexibility	Reduced FX interventions, though the exchange rate has continued to play an important role in monetary policy.
Continue intensive bank supervision	Undertook several collateral audits, on-site visits, and stress tests of banks and required capital injections where necessary.
Mitigate rise in nonperforming loans (NPL)	Implemented an NPL reduction plan from mid-2014, including facilitating the sale and writeoff of fully provisioned NPLs.
	Accelerate EU convergence through structural reforms
Modernize key network sectors	Implemented energy market deregulation through end-2014; however, gas tariff deregulation for residential consumers was postponed.
Privatize public enterprises	Held initial or secondary public offerings in four energy companies and liquidated two others.
Improve corporate governance of SOEs	Failed to fully introduce professional managers in SOEs, particularly in the transportation sector
Address labor market inefficiencies	Promulgated Apprenticeship Law to expand vocational training.

Annex II. Romania Risk Assessment Matrix (RAM)

Risk	Relative Likelihood and Transmission Channels	Expected Impact if Risk is Realized	Policy Response
1. Surge in global financial market volatility	High • Investors may sell Romanian financial assets after reassessing risks in light of rise in volatility.	Medium • Increase in borrowing costs which could depress GDP growth. • Risk of overshooting with implications for ability to service FX loans (57 percent of total bank loans).	• Allow for exchange rate flexibility while offsetting excessive market volatility. • Utilize some of fiscal financing buffer until markets settle down.
2. Shortfall in accelerating EU funds absorption	High • Weak capacity and complex bureaucracy continue to hamper EU funds absorption.	Medium • Delay in much-needed infrastructure upgrade would lower actual and potential economic growth. • Weaker quality of public outlays as budgeted co-financing could be redirected to current spending.	• Redouble efforts to improve EU project implementation capacity. • Strictly adhere to national procurement rules to reduce regulatory arbitrage between spending on EU-funded projects and other items.
3. Protracted period of slower growth or low inflation in the euro area	High • Exports could fall. In the short run, the substitution effect mitigates against this risk (i.e., shift in euro area demand toward cheaper products produced in Romania). • FDI could drop as investors reassess future euro area demand for Romanian exports. • Import low inflation from euro zone, reducing inflation expectations.	Medium • Lower actual and potential growth. • Potential widening of the current account deficit, possibly offset in part through substitution effect of shift in EU demand toward lower cost products.	• Allow automatic stabilizers to work. • Accelerate absorption of EU funds. • Allow for exchange rate flexibility while offsetting excessive market volatility.
4. Foreign banks rebalance portfolio exposure.	Medium • Foreign parent banks accelerate ongoing deleveraging of remaining stock of funding (stock estimated at EUR 11.6 billion). • Reduction in credit supply.	High/Medium • Exchange rate pressure and possible deterioration in bank balance sheets given that FX loans comprise 57 percent of bank loans. • Other commercial banks may seek to grow market share, offsetting potential reduction in credit.	• Reduce minimum reserve requirements. • Engage host country supervisors to develop a coordinated response to deleveraging. • Intensify liquidity monitoring. • Stand ready to provide liquidity support.
5. Sustained tensions surrounding Russia/Ukraine	Medium • Lower investor risk appetite for emerging Europe assets. • Disruption of normal trade relations through sanctions. • Interruption of Russian gas supply.	Low • Increase in borrowing costs, but conversely potential for safe haven inflows in emerging Europe. • Modest direct financial and trade linkages limit potential impact. • Possible rationing of gas for some industrial users during winter months, though stored gas is likely sufficient to cover a large portion of domestic demand.	• Communicate clearly limited economic and financial links with Russia/Ukraine. • Ease monetary policy in case low inflation becomes entrenched.

1/ The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks is staff's subjective assessment of risks surrounding the baseline. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Public and External Debt Sustainability Analysis

Romania's public debt is sustainable. The main vulnerability is a projected gross financing need of 8.2 percent of GDP in 2015. The main risks arise from underperformance of GDP growth and a banking sector contingent liability, which could push the public debt ratio to nearly 50 percent of GDP in 2017 in the DSA scenario. Exchange rate volatility and exposure to international capital outflows are also risks. Risks from contingent liabilities are contained, however, since all outstanding guarantees are already included in public debt and banks are well capitalized with limited exposure to short-term external debt. External vulnerabilities persist due to relatively high external debt and rollover needs, but the projected current account deficits are sustainable.

The macroeconomic and fiscal assumptions underpinning the DSA are those of the medium-term baseline scenario. The output gap is expected to close by 2020 and real GDP growth to reach 3½ percent, more than 3 percentage points below the pre-crisis boom period average. Analysis of real GDP forecasts errors indicates that the size of the output slump during the crisis and the slow recovery were underestimated, an experience shared with many crisis countries. Growth projections proved optimistic in part because domestic demand growth was lower than anticipated. However, should the pace of structural reforms and EU funds absorption accelerate substantially, staff sees upside potential for medium-term growth. Fiscal policy assumes that the authorities reach a cash deficit target of 1.8 percent of GDP in 2015 (-1.45 percent of GDP in ESA terms), consistent with the medium-term budgetary objective. This path is in line with the new fiscal rules under the Fiscal Compact. In addition, the projected primary balances are greater than the debt-stabilizing balance. Considering the risks of adjustment fatigue, a zero primary balance rather than a small surplus is included as a possible scenario in assessing the distribution of debt dynamics in the fan chart.

Public debt is low but relatively high gross financing needs are a vulnerability. Public debt, including guarantees, is projected to peak in 2015 at 40.4 percent of GDP, due in part to a projected financing of an increase in Treasury deposits of 0.5 percent of GDP. Without the projected increase, the public debt-to-GDP ratio would have reached its peak in 2014 at 40.2 percent of GDP. Gross financing needs are projected to continue declining from 9 percent of GDP in 2014 to below 6 percent of GDP by 2020. To manage some of the financing risk, the authorities maintain a foreign-currency financing buffer (excluding privatization proceeds), which was four months of gross financing needs in January 2015, though the authorities have signaled a desire to reduce the buffer gradually to three months, depending on market conditions. Most of longer-term debt is official financing (about 28 percent of total public debt) while the average maturity of government securities issued on the domestic market is about 3 years. The authorities have been addressing rollover risks under their debt management strategy with a view to issuing longer-term securities as well as lengthening the yield curve. With foreign currency-denominated debt accounting for about 60 percent of public debt, public debt is also exposed to exchange rate risk. Moreover, due to strong portfolio investment by non-residents over the past 12 months their share in domestic debt securities holdings is about 20 percent, raising the exposure to shifts in international capital flows.

Overall, public debt is sustainable. The stress test scenarios indicate that the main risk arises from weaker GDP growth, which could push the debt ratio to nearly 50 percent of GDP but still below the 60 percent threshold under the Stability and Growth Pact. The scenario assumes that real output growth rates in 2015–16 are lower by one standard deviation, which leads to worsening of the fiscal position and debt levels. In the baseline scenario, continued fiscal adjustment would ensure debt sustainability. Barring unexpected events, potential contingent liabilities of the government would also be limited. SOE debt is estimated at around 7 percent of GDP (including SOEs under insolvency procedures or in liquidation). A banking sector contingent liability shock involving a one-time bailout that increases non-interest expenditure by 10 percent of banking sector assets would increase debt to 45.4 percent of GDP in 2015, which would also be the peak under this shock. Despite remaining vulnerabilities of the banking system, including due to a large share of foreign currency denominated loans and high rollover needs, downside risks are contained as banks are generally well capitalized and their short-term external liabilities are below 4 percent of GDP.

The external debt sustainability analysis indicates that the projected current account deficits remain sustainable. Gross external debt was about 66 percent of GDP at end-2013, around one-third of which was public debt. Almost one-fifth of external debt is at short-term maturities, mainly of the non-bank private sector. The short-term financing risk for non-bank private sector is expected to be limited, as around half of the short-term debt is intra-company loans with relatively low rollover risks. The projected medium-term current account deficit of 3.6 percent of GDP is in line with a declining external debt-to-GDP ratio. Bound tests indicate that 30 percent depreciation would substantially increase the external debt-to-GDP ratio over the medium term, while other standard shocks would only lead to a slower decline in the external debt-to-GDP ratio.

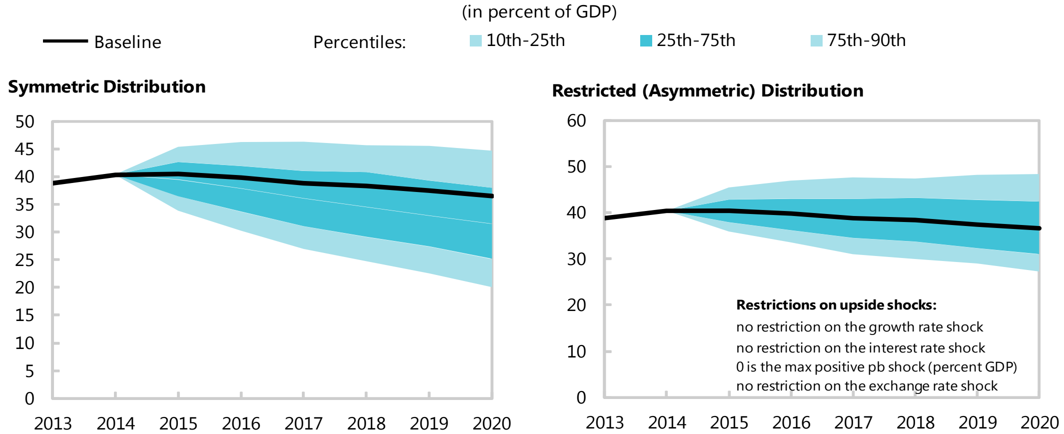
Romania Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

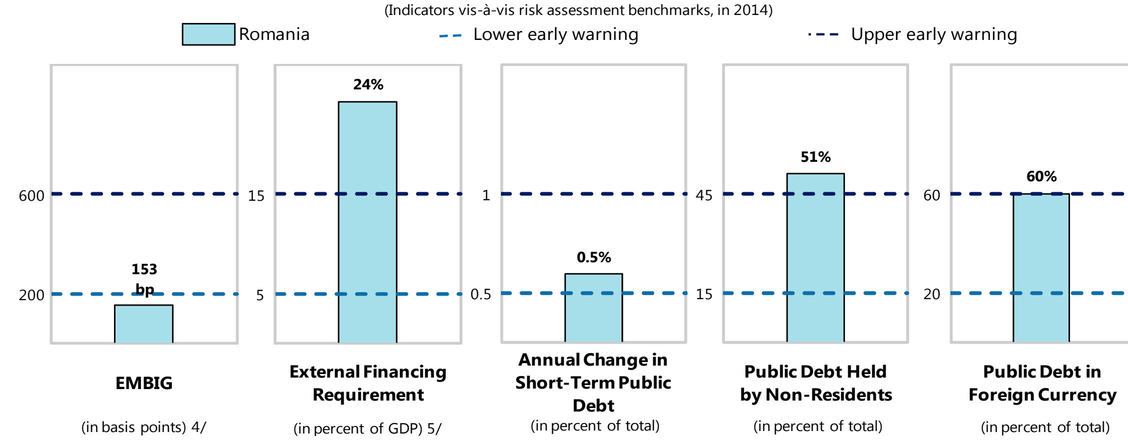
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

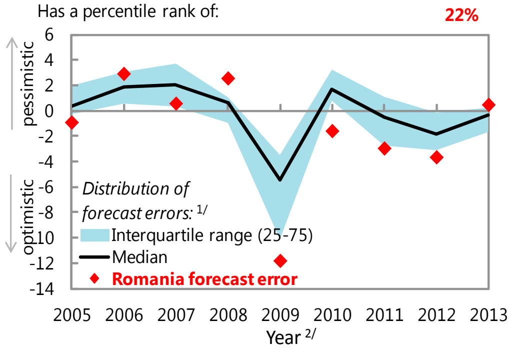
4/ EMBIG, an average over the last 3 months, 27-Nov-14 through 25-Feb-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

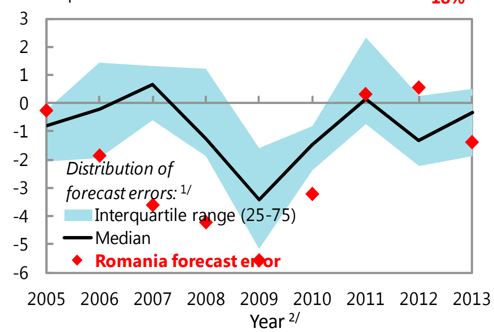
Romania Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus program countries

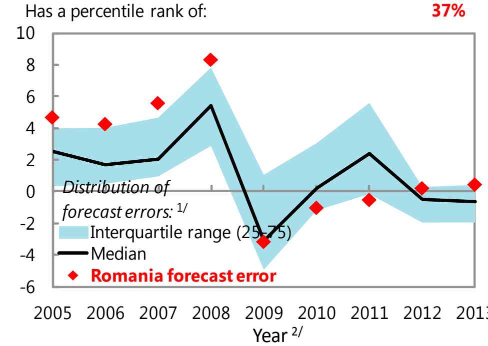
Real GDP Growth
(in percent, actual-projection)
Romania median forecast error, 2005-2013: -0.93
Has a percentile rank of: 22%



Primary Balance
(in percent of GDP, actual-projection)
Romania median forecast error, 2005-2013: -1.86
Has a percentile rank of: 18%

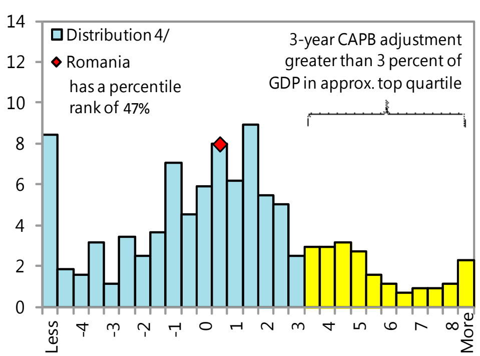


Inflation (Deflator)
(in percent, actual-projection)
Romania median forecast error, 2005-2013: 0.44
Has a percentile rank of: 37%

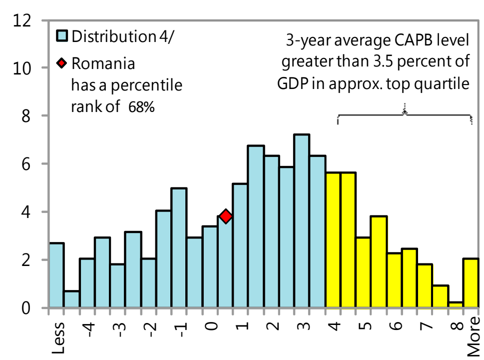


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

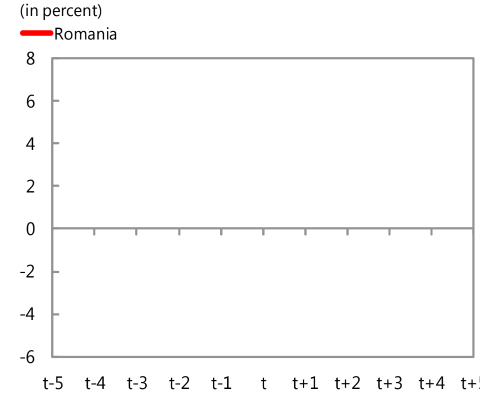


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis [3/]

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Romania.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Romania Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

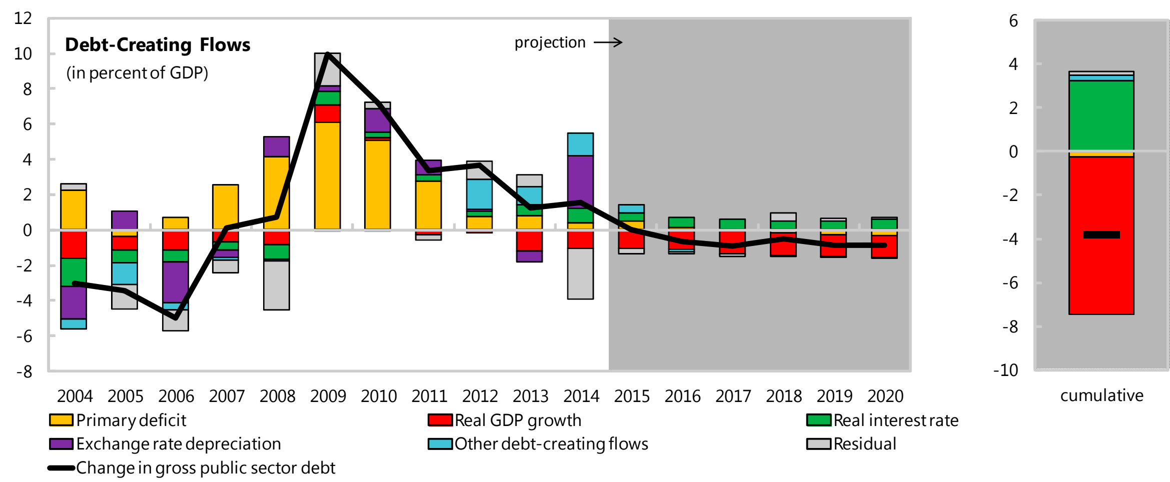
	Actual			Projections					
	2004-2012 2/	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	22.5	38.8	40.4	40.4	39.7	38.8	38.3	37.4	36.6
Of which: guarantees	2.9	2.3	2.4	2.2	2.1	2.0	1.9	1.8	1.7
Public gross financing needs	9.6	11.6	9.1	8.2	8.2	6.1	6.4	6.2	5.9
Real GDP growth (in percent)	3.3	3.4	2.9	2.7	2.9	3.4	3.5	3.5	3.5
Inflation (GDP deflator, in percent)	9.6	3.4	2.1	2.8	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	13.4	6.9	5.0	5.5	5.5	5.9	6.1	6.1	6.1
Effective interest rate (in percent) 4/	7.9	5.1	4.4	4.1	4.1	4.2	3.9	4.0	4.2

As of February 25, 2015

Sovereign Spreads		
EMBIG (bp) 3/	138	
5Y CDS (bp)	106	
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	1.5	1.3	1.6	0.0	-0.7	-0.9	-0.5	-0.9	-0.9	-3.8	
Identified debt-creating flows	1.8	0.6	4.4	0.4	-0.6	-0.8	-1.0	-1.0	-1.0	-4.0	
Primary deficit	2.7	0.8	0.4	0.5	0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.7
Primary (noninterest) revenue and grants	31.4	31.3	31.9	31.9	31.4	31.2	31.1	31.0	30.8	187.4	
Primary (noninterest) expenditure	34.0	32.2	32.3	32.4	31.6	31.1	30.9	30.7	30.5	187.2	
Automatic debt dynamics 5/	-0.7	-1.3	2.8	-0.6	-0.5	-0.7	-0.8	-0.8	-0.7	-4.0	
Interest rate/growth differential 6/	-0.8	-0.6	-0.3	-0.6	-0.5	-0.7	-0.8	-0.8	-0.7	-4.0	
Of which: real interest rate	-0.3	0.6	0.8	0.5	0.6	0.6	0.5	0.5	0.6	3.2	
Of which: real GDP growth	-0.5	-1.2	-1.1	-1.0	-1.1	-1.3	-1.3	-1.3	-1.2	-7.2	
Exchange rate depreciation 7/	0.0	-0.6	3.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	1.0	1.3	0.4	-0.2	0.0	0.0	0.0	0.0	0.3	
Privatization receipts (negative)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Increase in deposits	0.2	1.0	1.3	0.5	-0.2	0.0	0.0	0.0	0.0	0.3	
Residual, including asset changes 8/	-0.3	0.7	-2.9	-0.3	-0.1	-0.2	0.5	0.2	0.1	0.2	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as .

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

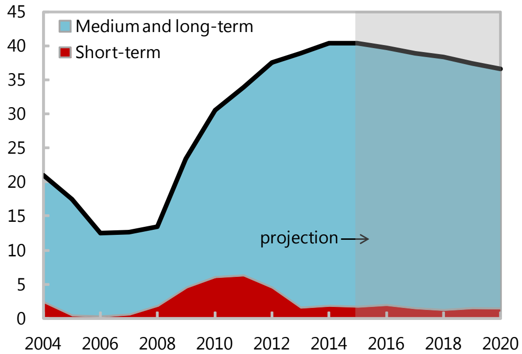
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Romania Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

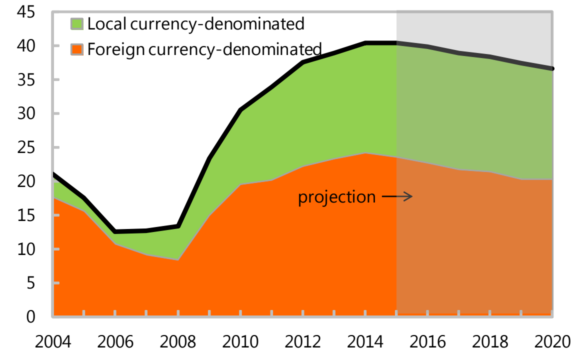
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

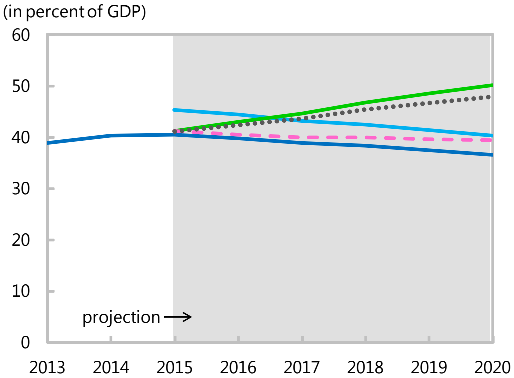


Alternative Scenarios

Baseline
Historical
Constant Primary Balance
Contingent Liability Shock
Customized shock 1

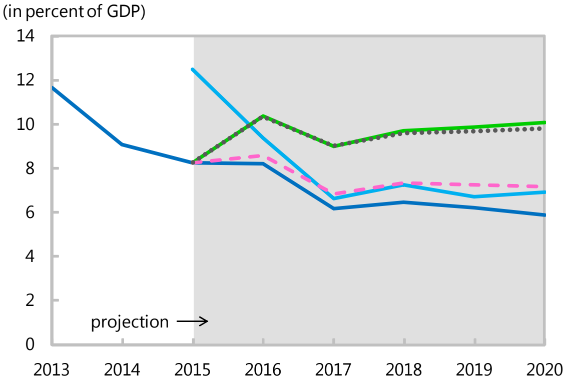
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-0.1	0.1	0.2	0.3	0.3
Effective interest rate	4.1	4.1	4.2	3.9	4.0	4.2
Constant Primary Balance Scenario						
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	4.1	4.0	4.1	3.9	4.0	4.3
Customized shock 1						
Real GDP growth	2.7	0.9	1.4	1.5	1.5	1.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-2.1	-1.9	-1.8	-1.7	-1.7
Effective interest rate	4.1	4.0	4.2	4.0	4.2	4.5

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.7	2.8	2.8	2.8	2.8	2.8
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate 1/	4.1	4.0	3.7	3.3	3.2	3.3
Contingent Liability Shock						
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-0.1	0.1	0.2	0.3	0.3
Effective interest rate 1/	4.1	4.6	4.2	4.0	4.1	4.3

1/ Declining effective interest rate reflects negative historical real interest rates in Romania during the reference period.

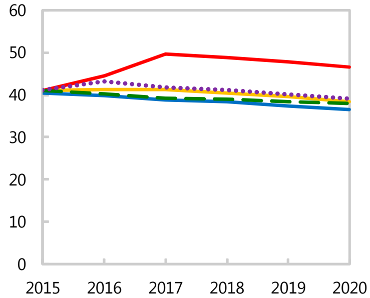
Source: IMF staff.

Romania Public DSA – Stress Tests

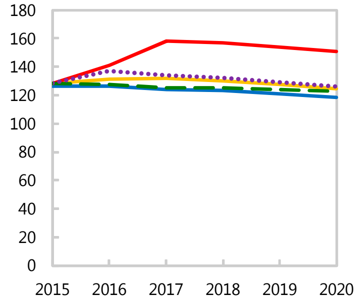
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

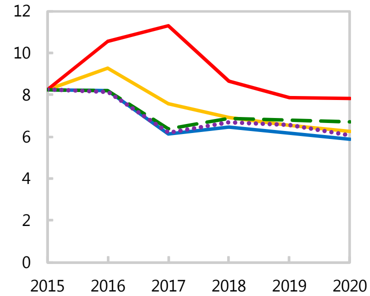
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



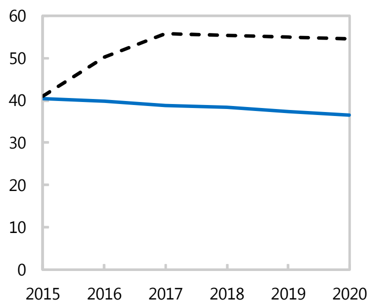
Public Gross Financing Needs
(in percent of GDP)



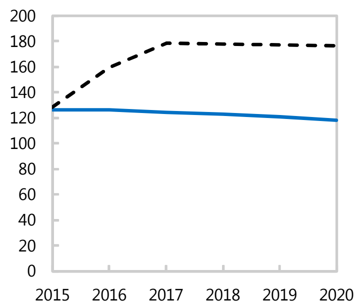
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock

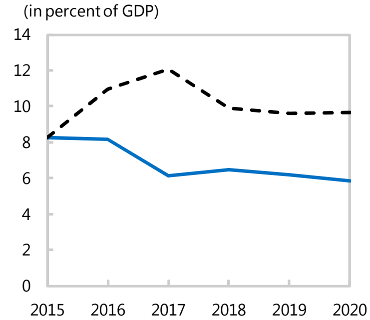
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

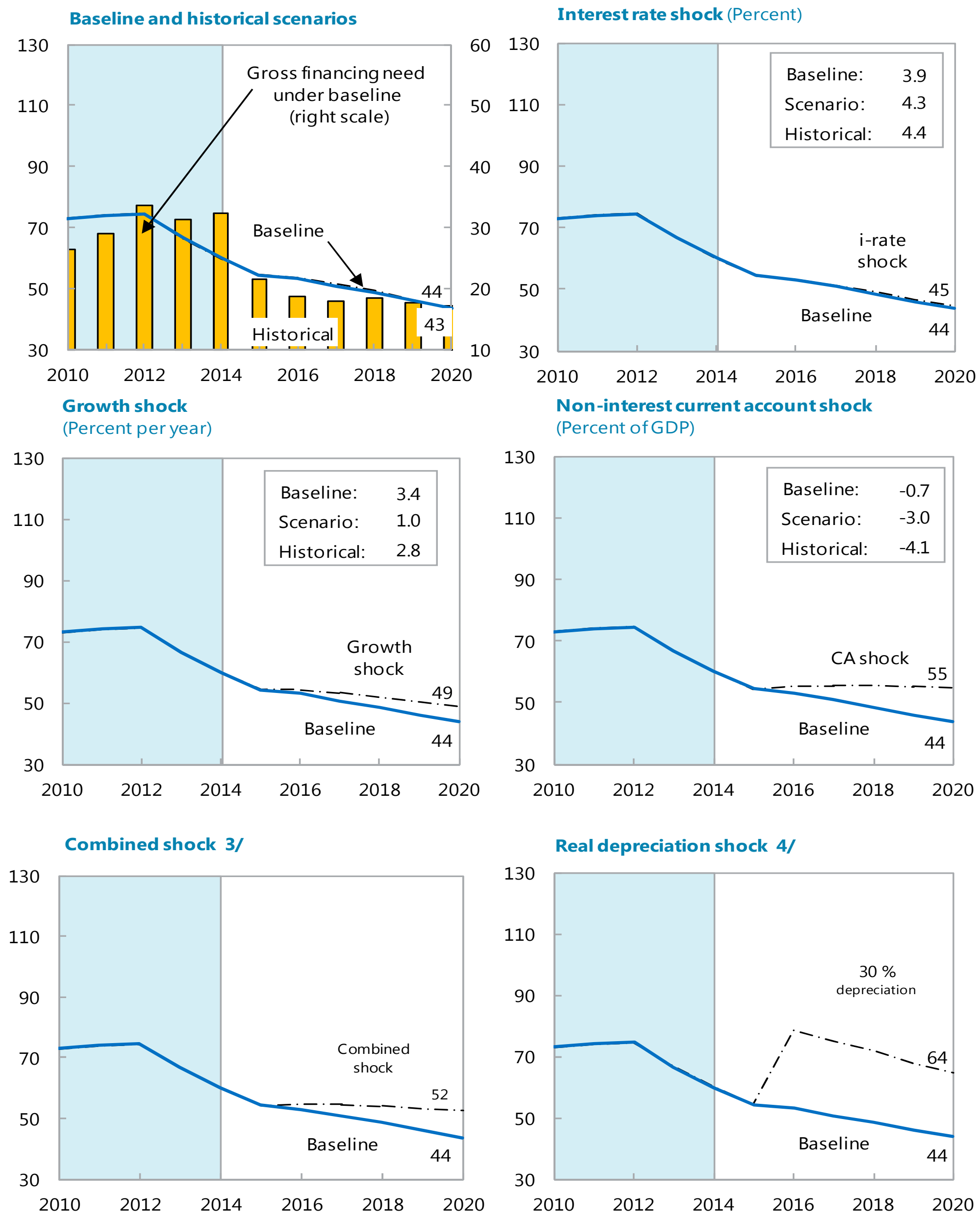
Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary balance	-0.5	-1.2	-1.0	0.2	0.3	0.3
Effective interest rate	4.1	4.0	4.2	4.0	4.1	4.3
Real Interest Rate Shock						
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	2.5	2.5	2.5	2.5	2.5
Primary balance	-0.5	-0.1	0.1	0.2	0.3	0.3
Effective interest rate	4.1	4.0	4.8	5.0	5.5	6.1
Combined Shock						
Real GDP growth	2.7	-1.8	-1.3	3.5	3.5	3.5
Inflation	2.8	1.4	1.3	2.5	2.5	2.5
Primary balance	-0.5	-2.0	-3.7	0.2	0.3	0.3
Effective interest rate	4.1	4.5	4.7	5.1	5.6	6.2

Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	2.7	-1.8	-1.3	3.5	3.5	3.5
Inflation	2.8	1.4	1.3	2.5	2.5	2.5
Primary balance	-0.5	-2.0	-3.7	0.2	0.3	0.3
Effective interest rate	4.1	4.0	4.2	4.2	4.3	4.5
Real Exchange Rate Shock						
Real GDP growth	2.7	2.9	3.4	3.5	3.5	3.5
Inflation	2.8	8.3	2.5	2.5	2.5	2.5
Primary balance	-0.5	-0.1	0.1	0.2	0.3	0.3
Effective interest rate	4.1	4.5	4.0	3.8	3.9	4.2

Source: IMF staff.

Romania: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013.

Romania: External Debt Sustainability Framework, 2010–20

(In percent of GDP, unless otherwise indicated)

	Actual				Est.			Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	72.9	74.0	74.4	66.6	59.9			**54.3**	**52.9**	**50.7**	**48.5**	**45.9**	**43.6**	**-2.8**
Change in external debt	5.5	1.1	0.4	-7.9	-6.7			-5.6	-1.3	-2.2	-2.2	-2.5	-2.3	
Identified external debt-creating flows (4+8+9)	-0.7	-0.3	2.3	-6.5	-3.9			-2.0	-1.6	-1.5	-1.0	-0.4	0.3	
Current account deficit, excluding interest payments	2.2	1.9	2.1	-1.7	-2.0			-1.0	-0.5	0.1	0.6	1.2	1.9	
Deficit in balance of goods and services	5.9	5.5	4.8	0.5	-0.2			0.7	1.3	1.7	2.1	2.5	3.0	
Exports	32.0	36.6	37.2	39.7	40.9			41.0	41.0	40.9	40.9	40.7	40.2	
Imports	37.9	42.1	42.0	40.2	40.7			41.7	42.3	42.6	42.9	43.2	43.2	
Net non-debt creating capital inflows (negative)	-1.9	-1.4	-1.9	-1.9	-1.5			-1.5	-1.7	-1.8	-1.8	-1.8	-1.8	
Automatic debt dynamics 1/	-1.0	-0.8	2.1	-2.8	-0.4			0.6	0.5	0.3	0.2	0.2	0.2	
Contribution from nominal interest rate	2.4	2.7	2.5	2.5	2.4			2.1	2.0	1.9	1.9	1.8	1.7	
Contribution from real GDP growth	0.5	-0.7	-0.5	-2.3	-1.8			-1.5	-1.5	-1.7	-1.7	-1.6	-1.5	
Contribution from price and exchange rate changes 2/	-3.9	-2.8	0.1	-3.0	-1.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.2	1.5	-1.9	-1.4	-2.8			-3.6	0.3	-0.8	-1.3	-2.1	-2.6	
External debt-to-exports ratio (in percent)	227.9	202.3	200.3	167.6	146.2			132.5	129.1	124.0	118.7	112.8	108.6	
Gross external financing need (in billions of Euros) 4/	33.5	38.5	44.9	45.3	48.6			34.3	31.2	31.7	34.5	35.5	36.2	
in percent of GDP	26.4	28.9	33.5	31.4	32.3			21.6	18.6	17.8	18.3	17.7	17.0	
Scenario with key variables at their historical averages 5/								**54.3**	**53.4**	**51.6**	**49.3**	**46.3**	**43.1**	**-6.0**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	-0.8	1.1	0.6	3.4	2.9	2.8	4.7	2.7	2.9	3.4	3.5	3.5	3.5	
GDP deflator in Euros (change in percent)	6.1	4.0	-0.2	4.2	1.5	7.0	10.1	2.7	2.6	2.6	2.6	2.6	2.6	
Nominal external interest rate (in percent)	3.7	3.9	3.3	3.7	3.8	4.4	0.9	3.7	3.9	3.9	3.9	3.9	3.9	
Growth of exports (Euro terms, in percent)	24.6	20.3	2.0	15.1	7.6	15.3	13.6	5.6	5.6	5.8	6.0	5.9	4.8	
Growth of imports (Euro terms, in percent)	19.4	16.8	0.2	3.2	5.7	13.0	19.4	8.1	7.1	6.9	7.0	6.9	6.2	
Current account balance, excluding interest payments	-2.2	-1.9	-2.1	1.7	2.0	-4.1	4.7	1.0	0.5	-0.1	-0.6	-1.2	-1.9	
Net non-debt creating capital inflows	1.9	1.4	1.9	1.9	1.5	3.9	2.7	1.5	1.7	1.8	1.8	1.8	1.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in Euro terms, g = real GDP growth rate, e = nominal appreciation (increase in Euro value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; Euro deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, Euro deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND

ROMANIA

March 10, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

As of January 31, 2015

Membership Status	Joined 12/15/72	Article VIII

General Resources Account	SDR million	% Quota
Quota	1,030.20	100.00
Fund holdings of currency	2,166.95	210.34
Reserve Tranche Position	0.00	0.00

SDR Department	SDR million	% Allocation
Net cumulative allocation	984.77	100.00
Holdings	13.44	1.36

Outstanding Purchases and Loans	SDR Million	% Quota
Stand-By Arrangements	1,136.75	110.34

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	09/27/13	09/26/15	1,751.34	0.00
Stand-By	03/31/11	06/30/13	3,090.6	0.00
Stand-By	05/04/09	03/30/11	11,443.00	10,569.00
Stand-By	07/07/04	07/06/06	250.00	0.00
Stand-By	10/31/01	10/15/03	300.00	300.00
Stand-By	08/05/99	02/28/01	400.00	139.75
Stand-By	04/22/97	05/21/98	301.50	120.60
Stand-By	05/11/94	04/22/97	320.50	94.27
Stand-By	05/29/92	03/28/93	314.04	261.70
Stand-By	04/11/91	04/10/92	380.50	318.10

Projected Payments to Fund (Expectations Basis)[1]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	1,040.63	96.13			
Charges/interest	8.25	0.69	0.49	0.49	0.49
Total	1,048.87	96.81	0.49	0.49	0.49

[1] This schedule presents all currently scheduled payments to the IMF, including repayment expectations where applicable and repayment obligations otherwise. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

Exchange Rate Arrangement

Romania has accepted the obligations of Article VIII and maintains an exchange rate system free of restrictions on the making of payments and transfers on current international transactions except for those maintained solely for the preservation of national or international security in accordance with UNSC resolutions and that have been notified to the Fund under the procedure set forth in Executive Board Decision No. 144-(52/51). The de jure exchange rate arrangement is managed floating.

Technical Assistance

Capacity building in Romania has been supported by substantial technical assistance from multilateral agencies and bilateral donors. The Fund has provided support in a number of areas with about 20 technical assistance missions and expert visits since 2012. Expert Fund assistance has

Date	Purpose	Department
	Tax Administration	
March–April 2012	Assistance in strengthening the capacity of the National Agency for Fiscal Administration (ANAF).	FAD
July–August 2012	Advice on organizational reforms, strategic direction, plan for restructuring of ANAF and implementation of a compliance strategy.	FAD
August–September 2012	Follow-up on the reorganization of ANAF.	FAD
November–December 2012	Follow-up with ANAF, particularly on the anti-fraud unit.	FAD
March–April 2013	Training to improve high net wealth individual compliance.	FAD
April, September, November 2013, January 2014	Follow-up with ANAF.	FAD
April 2014	Assistance to ANAF on pilot structural compliance project targeted at undocumented labor. Training on payroll audit.	FAD
April 2014	Stock-taking on assistance and identification of future TA focus: compliance risk management, reorganization of ANAF, pilot projects.	FAD
January–February 2015	Follow-up and training to improve high net wealth individual compliance.	
	Tax Policy	
September 2013	Assistance with strengthening the property tax and natural resource tax regime.	FAD
September 2014	Follow-up assistance with creating a new natural resource tax regime.	FAD
	Public Financial Management	
March 2012	Assistance in setting up commitment control and fiscal reporting sytems.	FAD
November 2012	Follow-up assistance in setting up commitment control and fiscal reporting sytems, in particular methodologies and functionalities.	FAD
April 2013	Follow-up assistance in setting up commitment control and fiscal reporting sytems, including methodology to verify arrears of local government.	FAD
December 2013	Follow-up assistance in setting up commitment control and fiscal reporting sytems, including requirements from decentralization plans.	FAD
February 2014	Fiscal Transparency Evaluation.	FAD
January 2015	Follow-up assistance in setting up commitment control and fiscal reporting systems, review of public investment practices and program budgeting.	FAD
	Financial Sector Issues and Monetary Policy	
November 2012	Follow-up on program-related financial sector issues, including progress with contingency planning.	MCM
October 2014	Assessment of the monetary policy framework.	MCM
	Accounting and NPL	
October 2013	Assistance on how to achieve timely NPL write-off within the IFRS framework.	MCM

focused in recent years mostly on structural fiscal reforms, in particular modernizing tax administration, strengthening public financial management, and reviewing tax policy options. Technical assistance to the National Bank of Romania focused on upgrading contingency planning, dealing with non-performing loans, and reviewing monetary and exchange rate policy tools.

Article IV Consultations

Romania is on a 24-month consultation cycle during the Stand-By Arrangement. The previous Article IV consultation was concluded by the Executive Board on September 28, 2012.

Safeguards Assessment

The update of the 2011 safeguards assessment, completed on January 10, 2014, found that the safeguards framework at the National Bank of Romania remains robust. The NBR continues to publish audited financial statements and maintains strong controls over foreign reserves management, government banking, and vault operations. The assessment recommended that the internal audits of foreign reserves data (a measure during both the 2009 and 2011 Stand-By Arrangements) be continued during the current program.

FSAP and ROSC

A joint IMF-World Bank mission conducted an update assessment of Romania's financial sector as part of the Financial Sector Assessment Program (FSAP) during November 3–14, 2008. The Financial Sector Assessment Report (FSSA) was discussed at the Board in April 2009.

A recent pilot of the IMF's new Fiscal Transparency Evaluation took place in February 2014 and the findings were published in March 2015. It assessed the government's fiscal reporting, forecasting, and risks management practices against the IMF's revised Fiscal Transparency Code.

Resident Representative

The Fund has had a resident representative in Bucharest since 1991. Mr. Guillermo Tolosa assumed the post of regional resident representative in July 2013.

RELATIONS WITH THE WORLD BANK

The current World Bank Group Country Partnership Strategy (CPS) for Romania, covering the period 2014–17, was presented to the Board on May 22, 2014. The strategy aims at reducing poverty and promoting shared prosperity. The CPS is built on three pillars; (i) *Creating a 21st Century Government*, with focus on a well-functioning public administration, effective in its service delivery and with an improved quality of public expenditure. (ii) *Growth and Private Sector Job Creation*, seeking sustainable poverty mitigation and shared prosperity through improvements in the business environment and SOE governance (especially in energy and transport), promoting innovation, and furthering the digital agenda and competitiveness, and (iii) *Social Inclusion*, a key to the EU's Europe 2020 Agenda, with a special focus on the Roma community.

i. International Bank for Reconstruction and Development (IBRD)

Romania's portfolio consists of seven active projects that amount to US$2.4 billion, complemented by four country-executed trust funds totaling US$10.7 million, a program of 21 Reimbursable Advisory Services worth US$48.3 million, and five (Bank-funded) analytical pieces:

- The lending portfolio includes seven investment projects, including the recently approved Health Sector Reform Project (US$339 million), the Results-Based Project for Social Assistance System Modernization (US$710 million), an Integrated Nutrient Pollution Control Project (US$68 million), a Judicial Reform Project (US$130 million), and a Revenue Administration Modernization Project (US$92 million). The Portfolio also includes a budget support operation in support of Fiscal Effectiveness and Growth (US$1035 million) to support Romania's goals of: (i) strengthening fiscal management (debt management and the quality of public spending) and SOE performance; and (ii) improving the functioning of property, energy, and capital markets.

- The country-executed trust funds focus on (i) afforestation; (ii) nutrients pollution control; (iii) policymaking for people with disabilities; and (iv) monitoring and evaluation of policy making.

- Among the 21 Reimbursable Advisory Services (RAS), a few provide support to the government in improving the public sector management for efficient and effective service delivery by: (i) shifting towards a results-driven culture, improved policy prioritization, implementation, and coordination, (ii) strengthening public investment management, (iii) introducing performance management systems for EU funds, and (iv) supporting the strategic activities to meet the EU funding conditions, for education, social inclusion, active aging (EU 2014–20 program budget).

- Analytical work (Bank-funded) includes a Programmatic Public Expenditure Review, including wage bill planning, and a Decentralization Report examining ways to improve the system of local service provision. Other Bank-funded analytical work includes advice on the Mining Sector Strategy, and a Financial Sector Note.

Three new projects are under preparation: a Secondary Education (FY2015); a Social Inclusion and Basic Services Project (FY2016, in the early preparation stage); and a Second Fiscal Effectiveness and Growth Development Policy Loan (FY2016).

ii. International Finance Corporation (IFC)

IFC's current committed portfolio is US$613 million, the fifth largest in the Europe and Central Asia region after Turkey, Russia, Ukraine and Serbia. IFC has played an active crisis response role in Romania, investing US$1.1 billion of its own funds and mobilizing an additional US$277 million in 36 projects since July 2009, with particular support provided to the financial, renewable energy, and health sectors. IFC has implemented 26 Advisory Services projects in Romania since 1990 in a variety of sectors.

STATISTICAL ISSUES

As of February 18, 2015
I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance. The quality of the national accounts, price, fiscal, and balance of payments data is adequate.
National accounts: Quarterly and annual national accounts statistics are produced by the National Institute for Statistics (INS) using the *European System of Accounts 2010 (ESA 2010)*. Estimates are methodologically sound and are reported to the Fund on a timely basis for publication in the *International Financial Statistics (IFS)*. Provisional and semi-final versions are disseminated in the Statistical Yearbook and other publications, as well as on the web (www.insse.ro).
Inflation: The Consumer Price Index is subject to standard annual re-weighting, and is considered reliable. In January 2004, the INS changed the coverage of the Producer Price Index to include the domestic and export sectors.
Labor market: Labor market statistics are broadly adequate. The definition used for employment is consistent with *ESA 2010*.
Public finances: Annual GFS data for the general government sector, including public corporations operating on a non-market basis, are reported on an accrual basis derived from cash data using various adjustment methods. Tax revenues are adjusted using the time-adjusted cash method; expense data are adjusted using due-for-payments data; and interest payments are calculated on an accrual basis. Accrual data are also available on a quarterly basis three months after the end of each quarter. EUR receives monthly cash budget execution data. Consolidated data on general government operations are reported for inclusion in the *GFS Yearbook*.
Monetary and financial data: The National Bank of Romania (NBR) reports monetary and financial statistics on a regular and timely basis for publication in the *IFS*. Since December 2004, the NBR reports monetary data to STA using the Standardized Report Forms (SRFs). The data are being published in the *IFS Supplement*, beginning September 2006. Romania's data and metadata for financial soundness indicators are posted on the IMF's website (http://www.imf.org/external/np/sta/fsi/eng/cce/index.htm).
Balance of payments: The NBR routinely reports quarterly and annual external sector statistics to the Fund in a timely fashion. Since September 2014 the authorities implemented the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), in line with other European countries. Romania also participates in the IMF's Coordinated Portfolio Investment Survey (CPIS) and Coordinated Direct Investment Survey (CDIS).

II. Data Standards and Quality	
Romania is a subscriber to the Fund's Special Data Dissemination Standard (SDDS) since August 4, 2005.	IMF Reports on the Observance of Standards and Codes (ROSC) have been published as Country Report No. 01/206, 02/254 and 03/389.

Romania: Table of Common Indicators Required for Surveillance

(As of February 18, 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	May 2014	Jun 2014	D and M	D and M	D and M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2014	Jun 2014	D and M	W and M	M
Reserve/Base Money	Apr 2014	Jun 2014	D and M	W and M	M
Broad Money	Apr 2014	Jun 2014	M	M	M
Central Bank Balance Sheet	Apr 2014	Jun 2014	M	M	M
Consolidated Balance Sheet of the Banking System	May 2014	Apr 2014	M	M	M
Interest Rates[2]	Mar 2014	May 2014	M	M	M
Consumer Price Index	May 2014	Jun 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Apr 2014	Jun 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Apr 2014	Mar 2014	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4 2013	Mar 2014	Q	Q	Q
External Current Account Balance	Q1 2014	Jun 2014	M	M	Q
Exports and Imports of Goods and Services	Mar 2014	May 2014	M	M	M
GDP/GNP	Q1 2014	May 2014	Q	Q	Q
Gross External Debt	Q4 2013	Mar 2014	Q	Q	Q
International Investment Position[7]	Q1 2014	Jun 2014	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic non-bank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by the Staff Representative on Romania
March 25, 2015

1. **This statement provides information that has become available since the issuance of the Staff Report on March 11, 2015**. This information does not alter the thrust of the staff appraisal.

2. **The cash budget recorded a surplus of 0.3 percent of GDP for the first two months of 2015 compared to a deficit of 0.5 percent of GDP during the same period of 2014**. Based on preliminary data, the surplus reflects strong spending restraint coupled with solid revenue growth. In the first two months, spending was lower by 0.6 percentage points of GDP relative to last year, with lower subsidies and spending on goods, services, and capital accounting for most of the drop. At the same time, total revenues were higher by 0.2 percentage points of GDP, driven mostly by higher VAT and non-tax revenue receipts and reflecting base effects as well as stronger domestic demand.

3. **The authorities are considering the reduction of tax rates, but their plans are still evolving, including how to offset the revenue loss**. Based on the latest data available, staff estimates that the net loss in budget revenues in 2016 from the proposed tax changes could reach 2.2 percent of GDP. This takes into account the projected impact on revenues from stronger economic activity (0.7–1.0 percent higher nominal GDP in 2016). The revenue shortfall would widen further from 2017 with proposed additional tax rate reductions. At this stage, staff does not have information about potential measures that the authorities may take to offset the proposed tax changes.

4. **In February, inflation remained low**. Headline annual inflation was at 0.4 percent, unchanged from the previous month. Core inflation declined to 1 percent.

Press Release No. 15/145
FOR IMMEDIATE RELEASE
March 27, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with Romania

On March 25, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Romania.

Romania's economic recovery has become more entrenched and broad-based, with private consumption picking up on the back of rising real disposable income. At the same time, inflation has decelerated substantially over the past two years and a negative output gap persists. The banking sector has considerably reduced non-performing loans, though they remain high, and private sector credit has fallen since 2013.

Growth is projected to remain robust in a low inflation environment. However, income convergence with the EU has been slow, youth unemployment remains elevated and weak public infrastructure has emerged as a bottleneck for faster growth. Increased volatility in the external environment and failure to implement a much needed infrastructure upgrade present downside risks to the outlook.

Romania has in large part addressed internal and external imbalances thanks to a significant reduction in the fiscal deficit as well as prudent monetary and financial sector policies. The structural reform momentum, however, has slowed amid elevated political uncertainty. Going forward, sound macroeconomic policies need to be combined with measures that boost the efficiency of public spending, re-invigorate delayed state-owned enterprise reforms, and further strengthen the financial sector.

Raising growth prospects over the longer term requires continuity of sustainable macroeconomic policies, underpinned by stronger fiscal and regulatory institutions, and a more stable and predictable business environment which is crucial for investor confidence. In addition, maintaining adequate reserve buffers and strengthening further public and private sector balance

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

sheets would better position Romania to withstand shocks and respond with mitigating policies in case risks materialize.

Executive Board Assessment[2]

Executive Directors welcomed the economic recovery, and commended the authorities on the reduction of internal and external imbalances through significant fiscal consolidation and prudent monetary and financial sector policies. They encouraged the authorities to build on this progress and continue to rebuild buffers, further strengthen the resilience of the financial sector, and reinvigorate structural reforms to improve Romania's growth potential.

Directors urged the authorities to maintain prudent fiscal policies in order to safeguard the fiscal consolidation gains and put public debt on a firm downward path. They cautioned that planned tax reductions should be accompanied by offsetting measures. They also recommended broadening the tax base and stepping up efforts to improve tax administration to help cover medium-term spending pressures. Directors underscored the importance of stronger public expenditure management and investment project planning to enhance spending efficiency and ensure the provision of high-quality infrastructure investments. They recommended better investment prioritization aligned with the budget cycle and improved EU funds absorption.

Directors agreed that there is room for further monetary easing given below-target inflation. They recommended strengthening the monetary policy framework with a view to gradually moving toward a full-fledged inflation targeting regime. Meanwhile, a number of Directors saw a transitory role for the exchange rate in the policy framework, given the still significant euroization in balance sheets and associated vulnerability. Directors noted that the objective of joining the euro area is an important anchor for economic policies, and advised that euro adoption should follow sufficient institutional and structural preparation and progress with real convergence.

Directors welcomed the significant efforts undertaken to reduce nonperforming loans and repair bank balance sheets, while calling for continued close supervision of the banking system to further improve asset quality. Strengthening nonbank supervision, setting up an effective resolution framework for insurance companies, and efforts to reinvigorate financial intermediation will also be important.

Directors underlined the need to revive structural reforms and address infrastructure gaps. Strong efforts are needed to restructure state-owned enterprises, improve their governance, and increase

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

private ownership with the aim to improve service delivery, further reduce arrears through stronger financial performance, and generate resources for investment. Efforts to deregulate energy markets are welcome and should be sustained. Directors also encouraged continued efforts to increase labor market participation, in particular by the young, low-skilled, and women, which would also help boost medium-term growth.

Romania: Selected Economic and Social Indicators, 2009–15

	2009	2010	2011	2012	2013 Prelim.	2014 Prelim.	2015 Proj.
Output and prices			(Annual percentage change)				
Real GDP	-7.1	-0.8	1.1	0.6	3.4	2.9	2.7
Contributions to GDP growth							
Domestic demand	-14.0	-0.7	1.1	-0.5	-0.9	2.8	3.1
Net exports	6.9	-0.1	-0.1	1.1	4.3	0.1	-0.2
Consumer price index (CPI, average)	5.6	6.1	5.8	3.3	4.0	1.1	1.0
Consumer price index (CPI, end of period)	4.8	8.0	3.1	5.0	1.6	0.8	2.2
Core price index (CPI, end of period)	2.3	4.1	2.4	3.3	-0.1	1.2	1.2
Producer price index (average)	2.5	4.4	7.1	5.4	2.1	-0.1	...
Unemployment rate (average)	6.5	7.0	7.2	6.8	7.1	6.8	6.7
Nominal wages	8.4	2.5	4.9	5.0	5.0	5.2	5.3
Saving and Investment			(In percent of GDP)				
Gross domestic investment	27.1	26.8	27.9	27.0	24.5	23.0	23.7
Gross national savings	22.6	22.3	23.2	22.5	23.7	22.5	22.6
General government finances 1/							
Revenue	30.6	31.6	32.1	32.4	31.4	31.9	32.0
Expenditure	37.8	37.9	36.3	34.8	33.8	33.8	33.9
Fiscal balance	-7.1	-6.3	-4.2	-2.5	-2.5	-1.9	-1.8
External financing	2.6	2.8	2.7	3.2	2.1	1.9	0.8
Domestic financing	4.6	3.5	1.5	-0.8	1.4	1.2	1.5
Primary balance	-5.9	-4.9	-2.6	-0.7	-0.8	-0.3	-0.4
Structural fiscal balance 2/	-8.0	-6.1	-3.4	-1.7	-1.7	-0.6	-1.1
Gross public debt (including guarantees) 3/	23.3	30.5	33.9	37.5	38.8	40.4	40.5
Money and credit			(Annual percentage change)				
Broad money (M3)	9.0	6.9	6.6	2.7	8.8	8.1	7.5
Credit to private sector	0.9	4.7	6.6	1.3	-3.3	-3.1	3.5
Interest rates, eop 4/			(In percent)				
NBR policy rate	8.0	6.25	6.0	5.25	4.0	2.75	2.25
NBR lending rate (Lombard)	12.0	10.25	10.0	9.25	7.0	5.25	4.25
Interbank offer rate (1 week)	10.7	3.6	6.0	5.9	1.8	0.7	0.6
Balance of payments			(In percent of GDP)				
Current account balance	-4.5	-4.6	-4.6	-4.5	-0.8	-0.5	-1.1
Merchandise trade balance	-7.2	-7.1	-6.7	-6.7	-3.8	-3.7	-4.5
Capital account balance	0.5	0.2	0.5	1.4	2.1	2.6	2.3
Financial account balance	2.1	-0.8	-1.0	-1.7	-3.0	0.1	0.9
Foreign direct investment balance	-2.8	-1.8	-1.3	-1.8	-2.0	-1.6	-1.6
International investment position	-62.1	-62.3	-64.2	-67.7	-61.7	-56.6	-52.4
Gross official reserves	25.6	28.3	27.9	26.4	24.6	23.6	22.7
Gross external debt	67.4	72.9	74.0	74.4	66.6	59.9	54.3
Exchange rates 4/							
Lei per euro (end of period)	4.2	4.3	4.3	4.4	4.5	4.5	4.4
Lei per euro (average)	4.2	4.2	4.2	4.5	4.4	4.4	4.4
Real effective exchange rate							
CPI based (percentage change)	-7.5	1.9	2.9	-6.0	4.7	1.0	...
GDP deflator based (percentage change)	-8.3	1.2	1.8	-4.6	4.1	...	...
Memorandum Items:							
Nominal GDP (in bn RON)	510.5	533.9	565.1	596.7	637.6	669.5	706.6
Potential output growth	2.5	2.0	1.9	2.1	2.3	2.5	2.7
Social and Other Indicators							
GDP per capita (current EUR, 2013): 7,100; **GDP per capita, PPP** (current international $, 2013): 18,635							
People at risk of poverty or social exclusion: 40.4% (2013)							

Sources: Romanian authorities; IMF staff estimates and projections; and World Development Indicators database, Eurostat.
1/ General government finances refer to cash data.
2/ Fiscal balance (cash basis) adjusted for the automatic effects of the business cycle and one-off effects.
3/ Increase in ratio in 2015 relative to 2014 reflects projected debt financing of an increase in Treasury deposits of 0.5 percent of GDP.
4/ For 2015: Latest available data.

Statement by Menno Snel, Executive Director for Romania
and Serban Matei, Senior Advisor to the Executive Director
March 25, 2015

General remarks

Over the last decade, Romania improved markedly its macroeconomic fundamentals, with the support of the International Monetary Fund, the European Union and the World Bank. After re-entering the positive GDP growth territory in 2011, the economy grew by 2.9 percent in 2014 and CPI inflation dropped from 6.3 percent at end-2008 to 0.41 percent in January 2015. Following a strong external adjustment, the current account deficit dropped from double-digit levels before the crisis to 0.5 percent of GDP in 2014. The fiscal consolidation process led to a reduction in the public deficit from a peak of 9 percent in 2009 to 1.9 percent of GDP in 2014. Romania's banking system is strong, NPL ratios decreased, adequate buffers were kept in place and no public funds have been necessary to support the banking sector during the global financial crisis. The international reserves coverage in Romania is adequate. The reserve level of EUR 34.3 billion at end-January 2015 was above the standard rules of three months coverage of prospective imports and is also in line with the new reserve adequacy metric for emerging markets. The recent rebound in economic activity helped labor market conditions to improve and the unemployment rate declined to 6.8 percent in 2014.

Despite all these achievements, the economy remains vulnerable to adverse developments in international markets, regional unrest, and continued bank deleveraging. So it is clear that the authorities will have to remain vigilant, act proactively, and take the necessary steps to contain these risks. Therefore, the Romanian authorities expressed their dedication to continue with firm policy implementation and consider maintaining strong fiscal, external, and financial sector buffers to safeguard against risks essential.

Macroeconomic performance

Although the environment was challenging, Romania's economic recovery continues. Romania significantly reduced its internal and external imbalances through an important fiscal consolidation and prudent monetary and financial sector policies. Staff rightly notes that growth is becoming more broad-based and sustained amid improved confidence. GDP is projected to remain strong in 2015 at 2.7 percent. The main engine of growth was exports, accompanied by a successful harvest and a robust industrial output.

The inflation rate evolved quickly during the last two years. In the second half of 2013, the central bank brought the inflation back in its target range. At the end of 2014, the annual CPI inflation rate went below the ±1 percentage point variation band of the 2.5 percent flat target, with a value of 0.83 percent. The slowdown in the overall CPI inflation rate was driven by developments in the CPI components affected mainly by supply-side factors.

Specifically, the prevailing impact came from the unanticipated shocks on volatile fuel and agricultural prices. The latter fell against the background of a new bumper crop across the region and amid domestic supply supplemented by higher imports from the European states that were hit by the import ban to Russia as of August 2014. Inflation is projected to remain low in 2015, reaching an annual average of about 1 percent.

The external position has been consolidated. The current account deficit narrowed to a historic minimum of 0.5 percent of GDP in 2014. Romania continued and improved its presence on international capital markets, thus generating significant buffers. In May 2014, Standard & Poor's upgraded Romania to the investor grade level and the country continued to successfully tap into international capital markets. Sovereign and CDS spreads considerably narrowed during recent years reaching significant low levels. The central bank sustained international reserves at €34 billion as of end-January, while making substantial repayments to the Fund.

Fiscal policy

Significant progress has been made with regard to fiscal policy. Since the start of the first program, Romania considerably improved its fiscal position and reduced fiscal imbalances, proving a sound fiscal policy. In 2014, the fiscal deficit went below 2 percent of GDP, from almost 9 percent in 2008. For 2015, the budget framework stays anchored in the Medium-term Budgetary Objective of 1 percent of GDP (plus an adjustor of ¼ percent of GDP). In an attempt to stimulate the economic growth and incentivize shifts from the informal to the formal sector, the Romanian authorities are contemplating potential measures to restore the fiscal environment to its pre-crisis level. For that reason, they are considering a new Fiscal Code designed to reduce tax rates from 2016 and beyond, although they are aware that improved revenue collection must be an important part of this growth enhancing package. The Romanian authorities are determined to safeguard the fiscal consolidation achievements and to maintain the commitment under the Stability and Growth Pact.

Monetary and financial policies

The monetary authorities continued to appropriately respond to economic developments. The National Bank of Romania (NBR) pursued the rate cutting cycle, lowering the policy rate to 2.25 percent in February 2015. These measures were accompanied by a narrowing of the interest rate corridor and lowering of the rate of minimum reserve requirement. The central bank will ensure adequate liquidity conditions in the banking system, while underpinning the good functioning of money markets. The Romanian monetary authorities consider that a consistent implementation of an adequate macroeconomic policy mix and stepping-up structural reforms, along the lines of the external financing arrangements, together with sustainable financial intermediation and an appropriate remuneration of bank deposits are pivotal to consolidating the Romanian economy and enhancing its resilience to external shocks.

The Romanian financial sector is stable. It maintains reassuring capital buffers, enhanced liquidity and provisioning, but is still confronted with pressures from lowered but continuing foreign bank deleveraging. As noted by staff, a comprehensive NBR action plan consisting of NPLs sales, write-offs and higher provisioning helped NPLs to decline in 2014 by about 8 percentage points to 13.9 percent, with an IFRS provisioning ratio increased to 68.9 percent. The capitalization of the banking sector increased above 17 percent. The real annual growth rate of domestic currency loans gained momentum, thanks to the pass-through of the successive policy rate cuts onto lending rates on new business to companies and households, as well as the easing of money market liquidity conditions. The NBR will continue to closely monitor and supervise the banking system and take any necessary measures to ensure that banks maintain sufficient capital and liquidity. Moreover, in close coordination with the IMF and the EC, the NBR will continue to regularly conduct top-down and bottom-up solvency stress tests as well as liquidity stress tests of the banking industry.

The authorities will focus on further strengthening the non-bank financial sector supervision and providing it with resolution powers for insurance companies. They are drafting a new personal insolvency law, taking into account cross-country experiences. They are committed to adopt this law only after a thorough impact assessment and broad stakeholder consultations.

Structural reforms

The implementation of the structural reform agenda is progressing, although it experienced some setbacks. Central government-owned SOE arrears have been reduced by 1.5 percent of GDP over the past two years and local government-owned SOE arrears are still at around 1 percent of GDP at end-2014, while the SOE sector became profitable following several years of aggregate losses. In the last years, the authorities have launched a landmark IPO of the state-owned natural gas producer (Romgaz), sold 10 percent of the shares in the nuclear energy company (Nuclearelectrica) and the energy regulator made significant steps towards the liberalization calendars. Moreover, Romania has taken important steps to participate more fully in the European energy market. The authorities removed physical and legal obstacles to gas exports and linked Romania’s electricity grid to those of four neighbors. They deregulated the gas and electricity markets for non-residential consumers, which is a major achievement as it accounts for the bulk of energy consumption. The transport sector is lagging behind, especially with regards SOE corporate governance. After a failed privatization, measures have been taken to restructure the rail freight operator CFR Marfa by downsizing its staff by more than one fourth. However, Marfa’s privatization process has stalled and a further restructuring is needed.

The Romanian authorities have reiterated their commitment to pursue the necessary measures to advance the structural reform agenda. They recognize the importance of structural reforms, especially in the energy and transportation sectors. Therefore, international partners have been informed about measures to further improve performance of

SOEs, to prepare restructuring plans where necessary and align decisions with the national strategies. The authorities are committed to further develop the SOE governance principles, and are currently working together with the World Bank to improve the legislative framework. Furthermore, they will specifically focus on job creation, by removing barriers to employment and taking measures to reduce skill mismatches, especially for the young. To better respond to the need for prioritization and better allocation of resources to national priorities in the transport sector, including a rail network rationalization, the Romanian authorities have prepared a Transport Master Plan, which has been sent to the European Commission for consultation.