Statement by the WB, EC, and the IMF on the Review of Romania's Economic Program

Staff teams from the World Bank, European Commission, and the International Monetary Fund visited Bucharest from April 24 until May 9 to review Romania's economic program. During the visit, the teams met with various government officials, and maintained the dialogue with members of the new government after the political transition. The staff teams concluded that the program remains broadly on track. All end-March 2012 quantitative performance criteria in the Stand-By Arrangement with the IMF were observed except the one on central government arrears, which was missed by a small margin. We are encouraged by the new government's strong assurance to observe Romania's commitments to its international partners.

For 2012, given the weak situation in the euro area, we project growth to be around 1½ percent, driven by domestic demand and better absorption of EU funds. Inflation has come down to low levels, but is expected to pick up slightly later this year while remaining within the targeted band. The current account deficit is projected to be around 4½-5 percent of GDP. Notwithstanding the ongoing international financial market tensions, the banking sector remains resilient.

Given the macroeconomic outlook and in order to solve a legal issue related with social contributions paid by pensioners as well as to accommodate a partial restoration of the 2010 public sector wage cuts, the 2012 cash budget deficit will increase slightly to 2.2 percent of GDP, while the deficit in ESA accrual terms will remain safely below 3 percent of GDP. The authorities are committed to exerting tight control over budget execution and new budgetary commitments, and will take immediate corrective action in case of any slippages.

Progress has been mixed in implementing structural reforms needed to boost economic growth, create jobs and improve Romanians' living standards. The government must intensify its reform efforts, particularly in energy and transport. In this respect, the authorities have committed to a roadmap for deregulation of gas prices, which should boost investment and improve energy efficiency. The adjustment in prices for households will be gradual, and the program will include measures to protect vulnerable consumers. Efforts to place private management and bring private investment into state-owned companies will be stepped up. Finally, preparation will continue to reform and modernize the healthcare system to adjust to the needs of the Romanian population and focus more on prevention, while making the system financially sound.

The fifth review of the Stand-By Arrangement by the IMF's Executive Board is tentatively scheduled for late June. The World Bank's Executive Board is expected to discuss the DPL-DDO loan in mid-June. The next review mission is expected to take place in late July and early August 2012.

http://ec.europa.eu/economy_finance/eu/countries/romania_en.htm http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/romania/romania_en.htm

For more information about the World Bank Group, please visit: <u>www.worldbank.org</u> For information about the World Bank and Romania, please visit <u>www.worldbank.org/ro</u>

For more information on the Stand-By Arrangement with the IMF, please see the following links: Romania and the IMF: <u>http://www.imf.org/external/country/ROU/index.htm</u> Key documents are also available in Romanian: <u>http://www.fmi.ro/</u>

For more details on Romania and on the EC's Balance of Payments assistance, please see the following links: