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**Assessment of the 2015 Convergence Programme for
ROMANIA**

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Romania's April 2015 Convergence Programme (hereafter called Convergence Programme), which was submitted to the Commission on 30 April¹ and covers the period 2014-18. It was approved by the government.

The 2015 Convergence Programme contains a main scenario, which does not incorporate the new draft fiscal code, comprising significant tax cuts, *inter alia* in the standard VAT rate. Tables and annexes in the Convergence Programme are based on this main scenario, which serves as a basis for the Commission's assessment. The Convergence Programme also includes an alternative scenario, with an assessment of the measures embedded in the new draft fiscal code, as approved by the senate on 27 April. The fact that a key element of current fiscal policies is not included in the main scenario is not in line with the Code of Conduct². Also, other major policy initiatives, like adjusting public sector wages, which was publicly announced, and providing sufficient means for the envisaged public investments, as planned according to the draft transport master plan, are not included in the Convergence Programme. Therefore, the Convergence Programme does not include a comprehensive reflection of policy priorities on the expenditure and revenue side in the medium term. The Commission's 2015 spring forecast incorporates all relevant information at the cut-off date (21 April), in line with the no-policy-change assumption. This includes the fiscal code, as approved by the government on 25 March.

Romania is currently subject to the preventive arm of the the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium term objective. Romania also benefits from a precautionary balance-of-payments programme, due to expire in September 2015.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Convergence Programme. Section 2 presents the macroeconomic outlook underlying the Convergence Programme and provides an assessment based on the Commission 2015 spring forecast. The following section presents the recent and planned budgetary developments, according to the Convergence Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Convergence Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the main conclusions.

2. MACROECONOMIC OUTLOOK

Romania's economy grew by 2.8% in 2014 and the country continued to correct key macroeconomic imbalances, progressively closing the output gap and significantly reducing the current account deficit. Private consumption was the main driver of growth. Employment grew by 1% and the unemployment rate dropped to 6.8%.

¹ The English version of the Convergence Programme was submitted to the Commission on 08 May 2015.

² The code of conduct states that "The Programmes should describe the budgetary and other economic policy measures being taken, envisaged or assumed"

The Convergence Programme's baseline macroeconomic scenario, i.e. that without including the draft fiscal code, assumes a continuous improvement of the economic performance. The growth rate of real GDP is forecast to increase steadily to 3.2% in 2015 and 3.4% in 2016. Domestic demand is set to remain the main engine of growth. Private consumption is expected to grow continuously as a result of increasing real household disposable income as wages grow, the labour market outlook is improving and inflation remains low. The growth rate of gross fixed capital formation (GFCF) is forecast to increase steadily, supported also by substantial inflows of EU funds. On the supply side, all sectors of the economy are expected to grow, in particular the export-related industries and the construction sector³.

The real GDP growth forecast was revised upwards from 2.6% for 2015 and 3.0% for 2016 in the previous Convergence Programme due to better-than-expected growth in 2014, lower oil prices and the impact of the announced VAT cut for food as of 1 June 2015.

Potential output is projected to continue growing from 2.5% in 2015 to 2.9% in 2016. The (negative) output gap as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology (in the remainder, the term "recalculated" will be used), is gradually narrowing and is forecast to turn positive in 2018⁴.

In contrast to the macroeconomic scenario in the Convergence Programme, the Commission's 2015 spring forecast includes the draft fiscal code. Even without the impact of the fiscal code, the projections for the growth rate of real GDP in the Convergence Programme exceed those of the Commission. The expected growth rates for private consumption are plausible for 2015 and favourable for 2016. The GFCF growth rates in the Convergence Programme for 2015 and 2016 are markedly favourable compared to the projections of the Commission. On the external side, the assumptions for export and import growth rates are plausible for both 2015 and 2016. The growth estimates do not include any impact from structural reforms as the measures presented in this national reform programme are not quantified. The projections for the growth rates of compensation of employees are markedly favourable compared to the Commission's forecast due to differences in GDP growth rate projections and in the impact assessment of the cut in social security contributions from October 2014. There are downside risks to the inflation projections of the Convergence Programme for 2016 mainly due to the additional VAT cuts planned in the fiscal code as of 1 January 2016.

In sum, the economic growth assumptions in the Convergence Programme are markedly favourable for both 2015 and 2016.

³ The external outlook underpinning the Convergence Programme's macroeconomic scenario is based on the Commission's 2015 winter forecast and the IMF's Economic Outlook for April 2015. The numbers in the Commission's 2015 spring forecast were revised slightly upwards for 2015, but the main expectations still hold.

⁴ There is a difference between the Commission's estimate for the output gap in 2016 (-0.3%) and the (recalculated) output gap in the Convergence Programme (-0.8%), which arises mainly from the longer time horizon of the forecasts included in the Convergence Programme.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	2.8	2.8	2.8	3.2	3.3	3.4	3.7	4.0
Private consumption (% change)	4.5	4.5	3.5	3.5	3.8	3.6	3.9	4.1
Gross fixed capital formation (% change)	-3.5	-3.5	3.2	4.5	4.2	5.5	6.3	6.8
Exports of goods and services (% change)	8.1	8.1	6.0	6.1	5.9	5.8	6.2	6.3
Imports of goods and services (% change)	7.7	7.7	6.5	6.5	6.8	6.8	7.2	7.2
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	2.7	2.7	3.0	3.4	3.7	3.8	4.1	4.4
- Change in inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.1	0.1	-0.2	-0.2	-0.4	-0.4	-0.4	-0.4
Output gap ¹	-1.3	-1.6	-0.9	-1.1	-0.3	-0.8	-0.3	0.4
Employment (% change)	1.0	1.0	1.2	1.1	1.4	1.1	1.2	1.2
Unemployment rate (%)	6.8	6.8	6.6	6.7	6.4	6.6	6.5	6.4
Labour productivity (% change)	1.7	1.7	1.6	2.0	1.8	2.2	2.4	2.7
HICP inflation (%)	1.4	1.4	0.2	0.2	0.9	2.0	2.7	2.5
GDP deflator (% change)	1.8	1.8	1.3	1.8	1.7	2.3	2.3	2.2
Comp. of employees (per head, %)	2.0	2.0	2.5	3.7	2.8	3.7	4.0	4.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.9	2.1	1.6	1.2	1.4	1.0	0.8	0.8
Note:								
¹ In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
Source:								
Commission 2015 spring forecast (COM); Convergence Programme (CP).								

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

The 2014 budget deficit came out at 1.5% of GDP in headline terms and 1.0% of GDP in structural terms. Romania thus reached its MTO. The 2014 Convergence Programme targeted a higher headline budget deficit of 2.2% of GDP for 2014, which included an EU funds adjustor of 0.2% of GDP to cater for accelerated EU funds absorption. This adjustor was granted under the precautionary EU/IMF 2013-15 balance-of-payments programme in conjunction with the investment clause.⁵ As EU funds absorption remained below target and the adjustor was thus not used, the deficit target excluding the adjustor was 2.0% of GDP.

Revenue measured as a share of GDP increased in 2014, as a hike in fuel excise rates and the introduction of a special constructions tax outweighed the 5 pps. cut in social security contributions introduced in late 2014 and the tax exemption on reinvested profits. However, the main driver of the over-performance compared to the 2014 Convergence Programme target was an under-execution of capital expenditure, which came out 0.5 pp. of GDP below

⁵ Additional resources under the "adjustor" were only to be used for national co-financing EU Funds and not for other type of spending. In the event of a slower implementation of EU-funded projects and therefore of a smaller need for co-financing, the deficit target was to be adjusted downwards accordingly.

the estimate in the 2014 Convergence Programme. This includes sluggish EU funds related spending, such that the EU funds adjustor granted in 2014 was not used. Personnel expenditure was below expectations.

3.2. Target for 2015 and medium-term strategy

The target for 2015

The Convergence Programme targets a deficit of 1.45% of GDP in 2015, broadly stable compared to 2014 outturn. The revenue projection includes the full-year impact of the cut in social security contributions, the reduction in the special construction tax rate and the tax exemption for re-invested profits. The Convergence Programme also includes the impact of the cut in the VAT rate for food and related services as of June 2015, as adopted via Government Emergency Ordinance (GEO 6/2015). According to the Convergence Programme, the cut in VAT for food is assumed to be more than offset by improved tax collection, related to reforms at the tax administration agency (ANAF), and second round effects. The public wage bill is set to remain contained due to a partial wage freeze. In recalculated structural terms, the Convergence Programme projects a structural deficit of 1.1% of GDP (at face value: 1.25% of GDP), moving somewhat away from the MTO.

The Commission's 2015 spring forecast includes a moderately higher headline deficit of 1.6% of GDP, which is estimated to correspond to a structural deficit of 1.3% of GDP. Revenues, mostly from indirect taxation and social security contributions, are lower in the Commission's spring forecast. The forecast also assumes moderately lower capital expenditure than the Convergence Programme.

The 2014 Convergence Programme targeted a headline deficit of 1.4% of GDP for 2015, in line with the April 2015 Convergence Programme, which was estimated to correspond to a recalculated structural deficit of 1.0% of GDP. National legislation, in particular the Fiscal Responsibility Law (amended: Law 377/2013), defines the budget balance rule and the conditions under which the rule is deemed to be respected. The targeted deficit for 2015 appears compatible with the fulfilment of this national fiscal rule.

The medium-term strategy

The Convergence Programme's aim is to continue fiscal consolidation and reduce the headline deficit to 1.2% of GDP in 2016, which according to the authorities would bring the structural deficit to its MTO. The Convergence Programme envisages Romania to remain at the MTO thereafter. The MTO chosen by Romania is a deficit of 1% of GDP in structural terms. This is the same as in the previous Convergence Programme, and it reflects the objectives of the Pact.

Romania also applied for the structural reform clause and for the pension reform clause in the Convergence Programme. Related policies are not included in the main parts of the Convergence Programme and in the tables. The targets do not incorporate the requested clause and accompanying deviation. As detailed in 4.2, Romania is not found eligible for the two clauses.

The 2016 headline deficit is estimated at 1.2% of GDP. The recalculated structural deficit is projected at 0.9% of GDP, in line with the MTO. The Convergence Programme projects tax policy into the future as currently in force. It includes the full-year impact of the VAT cut for food and constant revenues from natural resources taxation as the current regime, which is bound to expire at end-2015, is assumed to be replaced by a new one to yield comparable revenue. Revenues from current taxes on income and wealth are expected to increase by 0.4

pp. of GDP, whereas related measures are not specified. Tax collection is projected to further improve and a number of measures are described, but their impact is not specified.

On the expenditure side, the Convergence Programme assumes a partial public wage freeze, which is not legislated at this point. Both revenue and expenditure ratios measured as a percentage of GDP are forecast to decrease significantly, which seemingly also relates to an assumed decrease in EU funds absorption following a peak in 2015. From 2017 onwards, the reduction in the headline deficit stems mostly from reduced "other expenditure", but measures are not specified.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	Change: 2014-2018
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	33.4	33.1	33.6	30.8	32.6	32.6	32.5	-0.9
<i>of which:</i>								
- Taxes on production and imports	12.8	12.7	12.9	11.1	13.0	13.2	13.3	0.5
- Current taxes on income, wealth, etc.	6.2	6.3	6.1	5.9	6.4	6.5	6.5	0.3
- Social contributions	8.6	8.1	8.3	7.9	8.1	8.2	8.3	-0.3
- Other (residual)	5.8	6.0	6.3	5.8	5.1	4.7	4.4	-1.4
Expenditure	34.9	34.7	35.1	34.3	33.8	33.6	33.3	-1.6
<i>of which:</i>								
- Primary expenditure	33.3	33.1	33.5	32.6	32.2	32.1	31.7	-1.6
<i>of which:</i>								
Compensation of employees	7.7	7.5	7.4	7.4	7.0	6.9	6.8	-0.9
Intermediate consumption	5.2	5.1	5.3	5.1	5.4	5.7	5.8	0.6
Social payments	11.9	11.9	12.1	11.8	12.0	11.9	11.8	-0.1
Subsidies	0.5	0.5	0.5	0.5	0.4	0.4	0.3	-0.2
Gross fixed capital formation	4.3	4.3	4.4	4.0	4.3	4.4	4.5	0.2
Other (residual)	3.8	3.8	3.9	3.8	3.1	2.8	2.5	-1.3
- Interest expenditure	1.6	1.6	1.6	1.6	1.6	1.5	1.6	0.0
General government balance (GGB)	-1.5	-1.6	-1.5	-3.5	-1.2	-1.0	-0.8	0.7
Primary balance	0.1	0.0	0.1	-1.9	0.4	0.5	0.8	0.7
One-off and other temporary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	-1.5	-1.6	-1.5	-3.5	-1.2	-1.0	-0.8	0.7
Output gap ¹	-1.3	-0.9	-1.1	-0.3	-0.8	-0.3	0.4	1.7
Cyclically-adjusted balance ¹	-1.0	-1.3	-1.1	-3.4	-0.9	-0.9	-0.9	0.1
Structural balance (SB)²	-1.0	-1.3	-1.1	-3.4	-0.9	-0.9	-0.9	0.1
Structural primary balance ²	0.6	0.3	0.5	-1.8	0.7	0.6	0.7	0.1

Notes:

¹Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

²Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Convergence Programme (CP); Commission 2015 spring forecasts (COM); Commission calculations.

In the alternative scenario, where measures embedded in the new draft fiscal code are included, these are assumed to be fully offset by a better macroeconomic outlook, second-

round effects and tax collection measures. GDP growth is expected to improve to 4% in 2016 and 4.8% of GDP in 2018. However, the tables in the alternative scenario only cover main macroeconomic aggregates and do not include an explicit deficit forecast (neither headline nor structural).

Measures underpinning the programme

The Convergence Programme contains a list of measures taken or planned in 2014-2018. However, most have not been specified in sufficient detail to allow for a quantification of their exact impact. This is especially the case for the measures covering the 2016-2018 period. The main measures as reported in the Convergence Programme are listed in the table below. The Convergence Programme includes details on payments related to past and on-going court decisions, see table below. However, in an accrual/ESA perspective, the certification of these claims is the trigger for the budgetary accounting. No details are provided on expected certifications of additional claims, even though they might be considerable.

Main budgetary measures

Revenue	Expenditure
2014	
<ul style="list-style-type: none"> • Cut in social security contributions by 5 pps. in force as of 1 October 2014 (impact not quantified) • Tax exemption for reinvested profits as of July 2014 (impact not quantified) 	
2015	
<ul style="list-style-type: none"> • Reduction in special constructions tax rate from 1.5% to 1.0% (impact not quantified) • Reduced VAT rate from 24 % to 9% for food and related services (RON 2.8 bn for 6 months; 0.4% of GDP) • ANAF measures to reduce tax evasion, improve voluntary compliance and increase revenue collection: (i) application of the risk-based analysis for fiscal inspections; (ii) increase controls of the Anti-Fraud Unit; (iii) optimise the VAT registration procedures; (iv) roll out the undeclared work pilot; (v) continue the High New Worth Individuals initiative; (vi) implement the WB's RAMP project; and (vii) devolution of the large and medium taxpayers to the regional structures. (impact not quantified) 	<ul style="list-style-type: none"> • Enhanced funding for EU co-funded projects (impact not quantified) • Increase in minimum wage to 975 as of 1 January and to 1,050 as of 1 July (impact not quantified) • Wage increases for professors and auxiliary personnel by 5% on 1 March and 1 September (impact not quantified) • Wage increased for health personnel by 100 RON as of 1 January (impact not quantified) • Pensions indexation (by 5%) (impact not quantified) • Increases in social allowances (impact not quantified)
2016 – 2018	
<ul style="list-style-type: none"> • Modify legislation on natural resource taxation such that the revenues are kept at the same level as before (impact not quantified) • Continue to implement ANAF measures to reduce tax evasion, improve voluntary compliance and 	<ul style="list-style-type: none"> • 2016: Increase in minimum wage to 1,125 in the first semester and to 1,200 in the second semester (impact not quantified) • 2016: Wage increases for professors and auxiliary personnel by 5% on 1 April and 1

Revenue	Expenditure
increase revenue collection (impact not quantified)	October (impact not quantified) <ul style="list-style-type: none"> • 2016-2018: Personnel expenditure includes payments related to wage claims resulting from court orders (impact not quantified) • 2016-2018: Payment of compensations based on property restitution related payments related to law 165/2013 and law 164/2014 (RON 760 mn per year; 0.1% of GDP) • Enhance funding for EU co-funded projects and re-orient capital expenditure from purely domestic sources (impact not quantified) • Implement multi-annual budget programming to ensure savings (impact not quantified)
<p><u>Note:</u> The budgetary impact in the table is the impact reported in the Convergence Programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.</p>	

Important measures embedded in the new draft fiscal code are not included in the main scenario of the Convergence Programme. However, the Commission's spring forecast includes the measures embedded in the new draft fiscal code as adopted by the government on 25 March. Since the cut-off date for the spring forecast (21 April), the senate has amended the fiscal code, such that fuel excise rates would not be cut and dividend taxation would be reduced to 5% instead of being abolished. According to the authorities' estimates, these amendments would reduce the direct budget impact of the fiscal code by around 0.5% of GDP. However, according to the impact assessment included in the Convergence Programme, the negative budget impact would be 0.3% of GDP higher than according to estimates sent by the Ministry of Finance to staff ahead of the Commission's 2015 spring forecast. In addition, the amendments approved by the senate would lower the fiscal stimulus and thus also second-round effects embedded in the 2015 spring forecast.

The measures included in the new draft fiscal code, as amended by the senate on 27 April, are spelled out and quantified in an "alternative scenario" section, but they are not included in the main scenario of the Convergence Programme (they are therefore not included in the table above). According to the Convergence Programme, the direct deficit-increasing impact of these measures is estimated at RON 12 bn (1.6% of GDP) for 2016, but they are not included in the deficit target for 2016 and onwards as reported by the main scenario. In the alternative scenario, the combined revenue impact of tax collection measures, the improved macroeconomic outlook and second round effects is expected to fully offset the impact of the measures embedded in the new draft Fiscal Code.

Main additional measures included in the alternative scenario

Revenue	Expenditure
2016	
<ul style="list-style-type: none"> • Reduce standard VAT rate from 24% to 20% (-7.8 bn RON, -1.1% of GDP) • Reduce the tax rate on dividends from 16% 	

Revenue	Expenditure
<p>to 5% (-1.3 bn RON, -0.2% of GDP)</p> <ul style="list-style-type: none"> • Various excise rate cuts (-0.4 bn RON, -0.1% of GDP) • Changes in exemptions in personal income taxation (-1.1 bn RON, -0.1% of GDP) • Abolish the tax on special constructions (-1.0 bn RON, -0.1% of GDP) • ANAF tax collection measures including VAT gap reduction, undeclared work pillot rollout, changes in the insolvency law, increase in voluntary compliance (14 bn RON, 1.9% of GDP) 	
2018	
<ul style="list-style-type: none"> • Reduce standard VAT rate from 20% to 18% (-5.8 bn RON, -0.7% of GDP) • Reduce the individual public social security contribution rate by 3 pps. from 10.5% to 7.5% and the employer's rate by 2.3 pps. from 15.8% for normal working conditions to 13.5% (-8.4 bn RON, -1% of GDP) • ANAF tax collection measures yielding additional revenues (4 bn RON, 0.5% of GDP) 	
<p><u>Note:</u> The budgetary impact in the table is the impact reported in the Convergence Programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.</p>	

3.3. Debt developments

Government debt is estimated at 39.8% of GDP for 2014 and according to the Convergence Programme is expected to marginally increase in 2015 to 40.1% of GDP. It is forecast in the Convergence Programme to gradually decrease afterwards to reach 37.1% of GDP by 2018, therefore remaining safely below the 60% threshold set through the Treaty. The decline in government debt is mainly driven by small primary deficits and stock-flow adjustments below past trends over the Convergence Programme's forecast horizon. This profile is similar to the one included in the country's previous Convergence Programme as estimates of the governmental debt level were under the threshold of 40% of GDP every year in the 2015-17 period (see Figure 1).

The Convergence Programme's forecast for the public debt level in 2016 is below the Commission's 2015 spring forecast (39.4% compared to 42.4%) mainly because the

Convergence Programme does not include the draft fiscal code measures and hence it assumes a lower budget deficit to be financed in 2016.

In 2015, the Romanian authorities expect to cover about 60% of the public debt from internal financing by continuing to develop the domestic market for RON-denominated government securities and thus diminishing the exchange rate risk. The external financing will be ensured mainly through issuances of Eurobonds on external markets under the EMTN (Euro Medium Term Note) Convergence Programme and through other loans from international creditors. Moreover, the Romanian authorities intend to maintain the Treasury's cash buffer at a comfortable level. For 2015, this buffer is set to continue to cover four months of the government's gross financing needs.

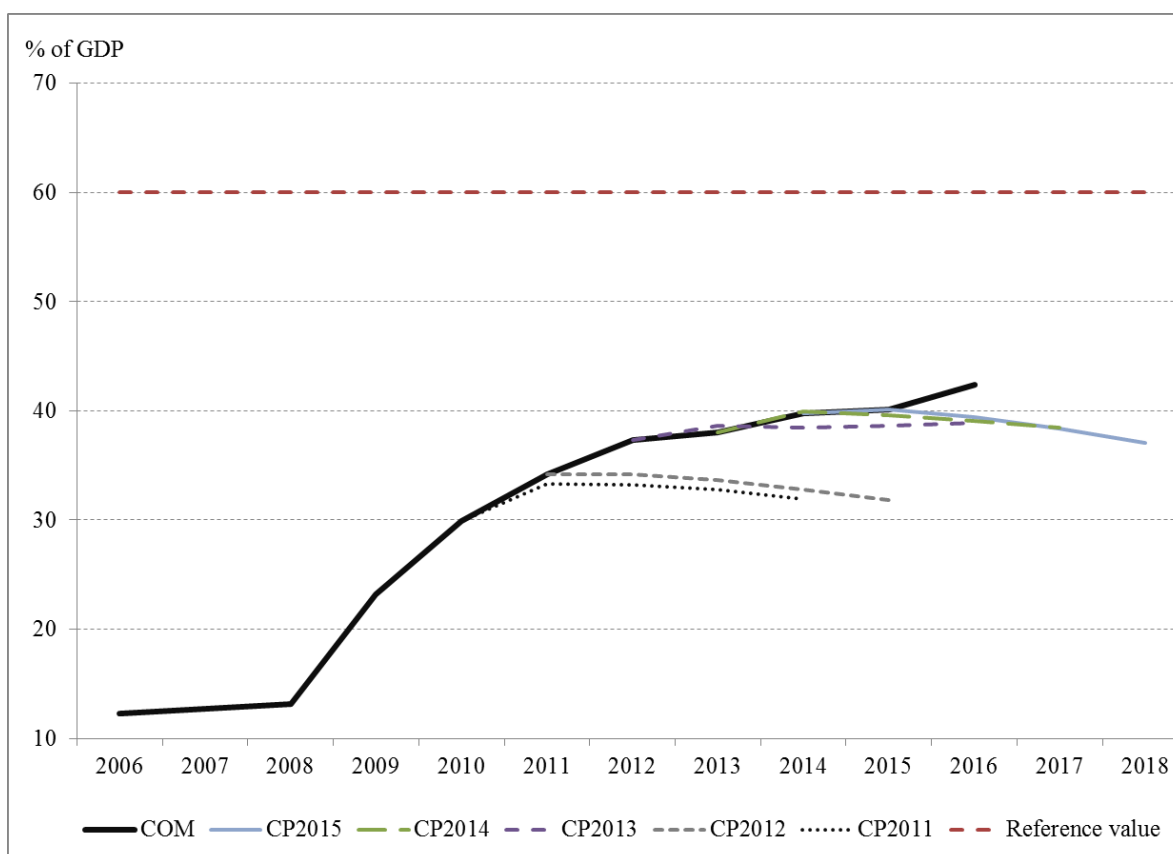
Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018
			COM	CP	COM	CP	CP	CP
Gross debt ratio¹	32.5	39.8	40.1	40.1	42.4	39.4	38.4	37.1
Change in the ratio	5.0	1.8	0.3	0.3	2.3	-0.7	-1.0	-1.3
<i>Contributions²:</i>								
1. Primary balance	3.6	-0.1	0.0	-0.1	1.9	-0.4	-0.5	-0.8
2. “Snow-ball” effect	0.3	0.0	0.1	-0.3	-0.3	-0.5	-0.7	-0.6
<i>Of which:</i>								
Interest expenditure	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.6
Growth effect	-0.1	-1.0	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4
Inflation effect	-1.2	-0.6	-0.5	-0.7	-0.7	-0.8	-0.8	-0.8
3. Stock-flow adjustment	1.1	2.0	0.2	0.7	0.8	0.3	0.2	0.1
<i>Of which:</i>								
Cash/accruals diff.				-0.1		-0.1	-0.1	-0.1
Acc. financial assets				-0.9		-0.1	0.1	0.0
<i>Privatisation</i>				0.0		0.0	0.0	0.0
Val. effect & residual				-0.2		-1.9	-2.0	-2.0

Notes:
¹ End of period.
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:
Commission 2015 spring forecast (COM); Convergence Programme (CP), Commission calculations.

Figure 1: Government debt projections in successive programmes (% of GDP)



Source: Commission's 2015 spring forecast; Convergence Programme

3.4. Risk assessment

For 2015, the Convergence Programme appears to underestimate the impact of the VAT cut for food and related services in force starting June 2015. The revenue over-performance recorded in Q1 2015, as spelled out in the Convergence Programme, appears overestimated. These are the main drivers which explain why the 2015 spring forecast includes a moderately higher budget deficit of 1.6% of GDP. However, EU funds related spending might remain below the assumptions used in both the Convergence Programme and the Commission's forecast, given recent developments including interruptions of several operational programmes.

For 2016, the Convergence Programme does not include the significant tax cuts proposed in the new draft fiscal code, which *inter alia* comprises a cut in the VAT rate from 24% to 20%. A key element of current fiscal policies is therefore not included, which is not in line with the Code of Conduct. The direct budgetary impact of the draft fiscal code, as approved by the senate on 27 April, stands at 1.6% of GDP according to the authorities' estimates included in the Convergence Programme alternative scenario, therefore not reflected in the Convergence Programme deficit target. On the other hand, the Commission's forecast includes the new draft fiscal code in the form adopted by the government on 25 March.

Furthermore, the Convergence Programme does not include or mention other recent deficit-increasing initiatives. The Ministry of Labour is reportedly envisaging to reform the uniform wage grid and to increase public sector salaries. Moreover, the current draft transport master plan assumes levels of budget expenditure which appear to exceed the ones planned in the Convergence Programme. Also, a draft law to re-introduce special pensions for defence,

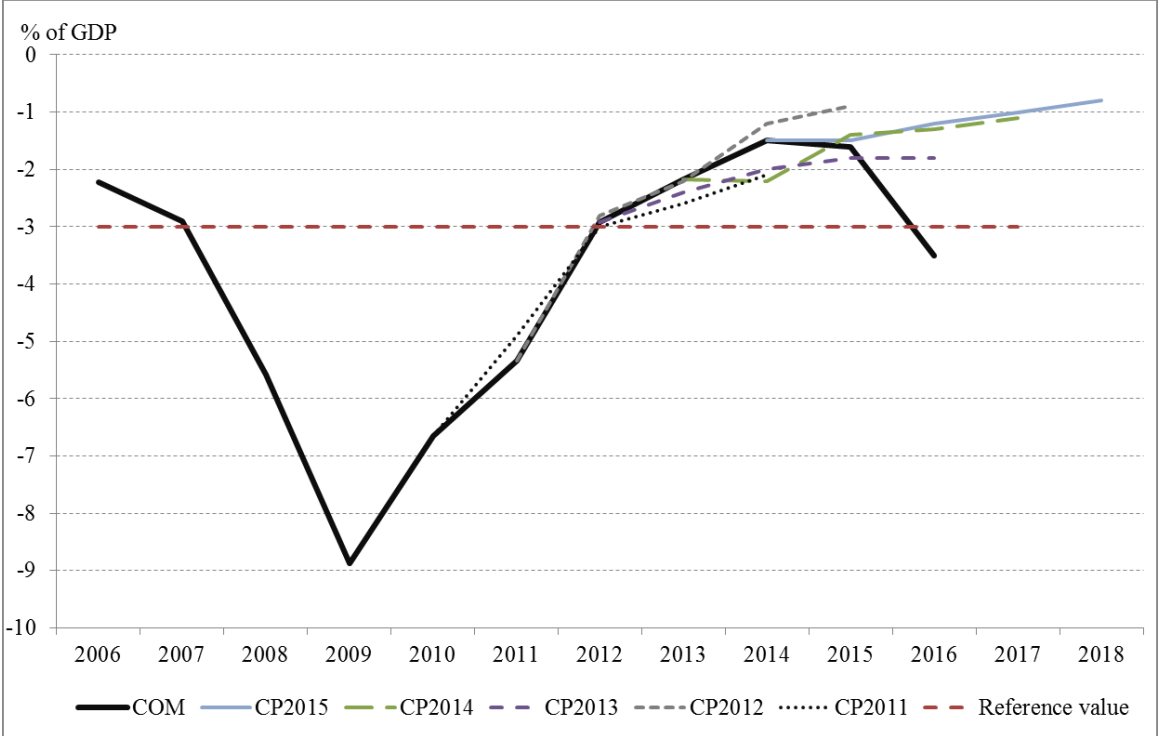
police and intelligence services personnel was adopted by the government on 22 April and subsequently submitted to parliament, but the budget impact is not yet clarified. The Commission's forecast does not include these initiatives either, since they became public after the cut-off date or are not yet sufficiently advanced in the legislative process to be covered. As opposed to the Convergence Programme, the Commission's forecast incorporates the expiration of parts of the current natural resource taxation regime, in particular of the windfall tax.

The Convergence Programme also relies on measures which are not sufficiently specified. Taxes on products and imports are forecast to slightly increase as a share of GDP in 2016, even though the full-year impact of the cut in VAT for food will negatively affect revenues. Current taxes on income and wealth are set to increase by 0.3 pp. of GDP even though no particular related measure is specified. An impact assessment of the planned and on-going tax collection measures is not included in the Convergence Programme. The partial wage freeze does not seem sufficient to explain a drop in personnel expenditure by 0.4 pp. of GDP. From 2017 onwards, further consolidation relies on reduction in "other expenditure", even though no measures are specified to explain this change. Moreover, the new draft fiscal code includes further tax cuts in 2017 and 2018 which are not incorporated in the Convergence Programme. Additional risks stem from the still on-going certification of court-related wage claims and property restitution claims.

The spring forecast includes a deficit of 3.5% of GDP in 2016, 3.4% of GDP in structural terms. Differences are thus significant. As underlined before, the main difference stems from the fact that the spring forecast includes the impact of the new draft fiscal code as adopted by the government on 25 March.

The above-mentioned risks to the deficit also entail risks for the development of the debt ratio in the medium term.

Figure 2: Government balance projections in successive programmes (% of GDP)



Source: Commission's 2015 spring forecast; Convergence Programme

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Box 1. Council recommendations addressed to Romania

On 8 July 2014, the Council addressed recommendations to Romania in the context of the European Semester. In particular, in the area of public finances the Council recommended to Romania to implement the budgetary strategy for 2014, significantly strengthen the budgetary effort to ensure reaching the medium-term objective in 2015 in line with commitments under the Balance of Payments programme and as reflected in the 2014 Convergence Programme, in particular by specifying the underlying measures, and remain at the medium-term objective thereafter. Improve tax collection by continuing to implement a comprehensive tax compliance strategy, stepping up efforts to reduce VAT fraud. Fight undeclared work. Reduce tax burden for low- and middle-income earners in a budget-neutral way.

4.1. Compliance with the deficit criterion

According to the spring forecast, Romania is expected to exceed the deficit reference value of 3% of GDP in 2016. For 2016, a deficit of 3.5% of GDP is forecast, which is estimated to correspond to a structural deficit of 3.4% of GDP. The Convergence Programme plans a deficit of 1.2% of GDP. The main reason is that the Commission's forecast follows the customary no-policy-change assumption and thereby incorporates the new draft fiscal code. The main scenario of the Convergence Programme does not include the new draft fiscal code, but takes particular political intentions, such as a new natural resource taxation regime, fully into account. The 2016 deficit as in the Commission's 2015 spring forecast exceeds the reference value, but remains sufficiently close to it.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

Assessment of structural reform clause and pension reform clause

Romania applied for the structural reform clause and the pension reform clause.

Romania has applied for a temporary deviation of 0.5% of GDP under the structural reform clause. The structural reforms included in the Convergence Programme pertain to research and development, health care sector and social inclusion. The Convergence Programme specifies that detailed documentation would be submitted by June. Hence, it is not possible to provide an assessment of the reforms and their impact on public finances.

Romania has also applied for a temporary deviation from the MTO under the pension reform clause. The country will finalise the diversion of up to 6% of GDP of social security contributions to the second pension pillar in 2016.

However, the country is not eligible for either the structural reform clause or for the pension reform clause given that the structural deficit for 2016, as forecast in the Commission's 2015 spring forecast, significantly exceeds the minimum benchmark (i.e. 3.4% versus 1.8% of GDP).

Compliance with the MTO and the required adjustment path towards the MTO

In 2014, Romania reached its MTO, a deficit of 1.0% of GDP in structural terms. The structural adjustment was 0.4% of GDP. Based on the applicable freezing rules, Romania has experienced 'bad times' (output gap between -3 and -1.5% of GDP) in 2014. In line with the 13 January flexibility Communication, Member States in bad times with a general government debt ratio below 60% of GDP and a real GDP growth rate below the potential

growth rate are not expected to deliver a structural adjustment. Romania thus over-performed its requirements under the Pact. Also over two years, the structural balance pillar and the expenditure benchmark pillar point to compliance. The ex-post assessment thus suggests that the adjustment path towards the MTO was appropriate and compliant with the requirement of the preventive arm of the Pact in 2014.

In 2015, both according to the Convergence Programme taken at face value and recalculated, Romania appears in line with the requirements. Under the 2013-15 balance-of-payments financial assistance programme, Romania was granted a deviation from the MTO, the so-called EU funds adjustor of $\frac{1}{4}\%$ of GDP, in order to accelerate EU funds absorption above past trends. This adjustor only fully applies if national EU funds co-financing (net of non-eligible spending and corrections) is in line with or above the allocation in the budget. The Convergence Programme includes a structural deficit of 1.25% of GDP (recalculated: 1.1% of GDP), which is in line with the granted deviation.

According to the spring forecast, the structural balance is projected to deteriorate by 0.3% of GDP, pointing to a risk of some deviation from the requirements. Based on the Commission's 2015 spring forecast, the growth rate of government expenditure, net of discretionary revenue measures, in 2015 will exceed the applicable expenditure benchmark rate of 2.4% by 0.5 pp. An overall assessment reveals revenue windfalls as the main explanation for the difference between the structural balance and the expenditure benchmark. Relatively strong tax revenues in recent quarters point towards improved tax collection and a more tax-rich growth composition. The structural balance therefore seems to better reflect the fiscal effort, since the improvement in revenues seems to be durable. Therefore, following an overall assessment, some deviation over one year beyond the deviation allowed for by the EU funds adjustor is to be expected. Although taken at face value progress is appropriate, the overall assessment based on the Commission's forecast suggests thus that there is a risk of some deviation from the adjustment path towards the MTO in 2015.

In 2016, according to the Convergence Programme as recalculated, Romania would reach its MTO. The Convergence Programme does not incorporate important deficit-increasing measures embedded in the new draft fiscal code and it relies on measures which are not sufficiently specified. According to the spring forecast and the rules of the preventive arm, an adjustment of 0.3% of GDP is required for Romania to reach its MTO in 2016. The structural deficit is projected at 3.4% of GDP. The deviation from the MTO is thus set to become significant in 2016 at 2.4% of GDP in the Commission's forecast, also on account of the new draft fiscal code as approved by the government on 25 March. According to the information provided in the Commission's 2015 spring forecast, the growth rate of government expenditure, net of discretionary revenue measures, in 2015 will exceed the applicable expenditure benchmark rate of 1.6% by 2.6pps. Both pillars also point to a deviation over two years. Although based on the Convergence Programme progress appears appropriate, there is a risk of significant deviation from the MTO based on the Commission forecast.

For 2017-18, the projected structural adjustment of 0% of GDP, i.e. remaining at the MTO, in the Convergence Programme appears broadly in line with the requirements of the preventive arm. However, measures are not sufficiently specified and the draft fiscal code includes additional tax cuts in 2017 and 2018 as well, which are not incorporated in the fiscal targets presented in the convergence program.

Table 4: Compliance with the requirements under the preventive arm

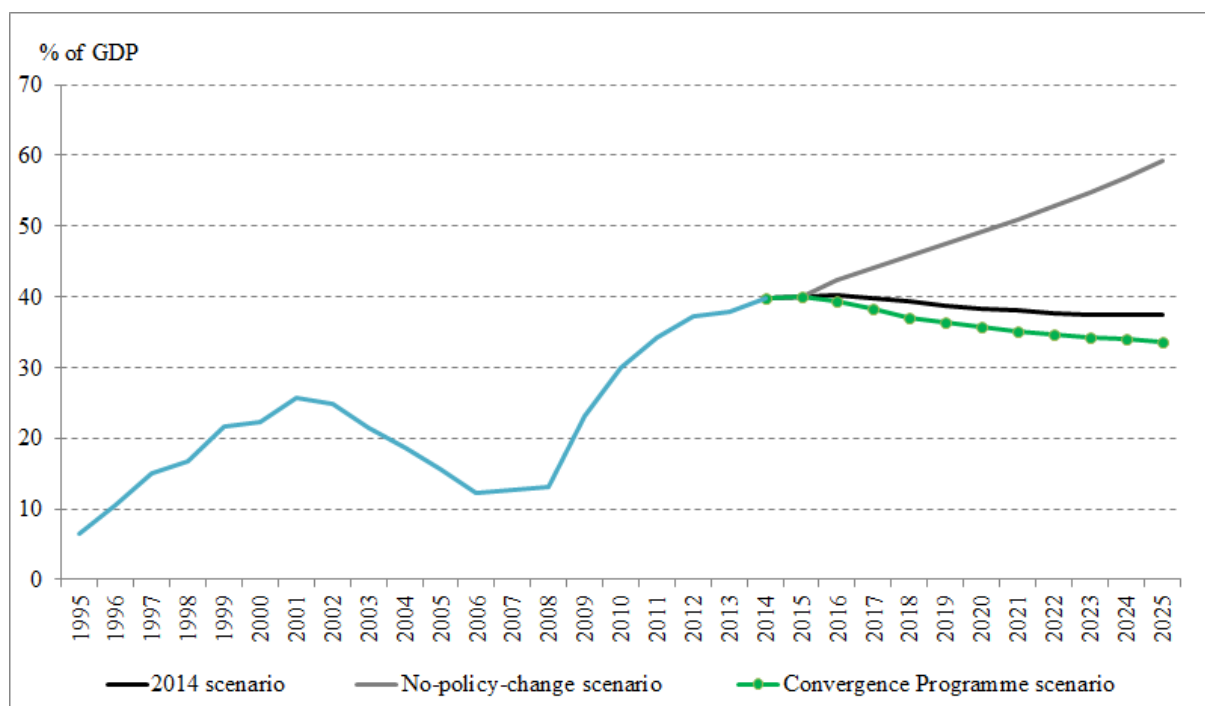
(% of GDP)	2014	2015		2016	
Initial position¹					
Medium-term objective (MTO)	-1.0	-1.0		-1.0	
Structural balance ² (COM)	-1.0	-1.3		-3.4	
Structural balance based on freezing (COM)	-1.0	-1.3		-	
Position vis-a-vis the MTO³	Not at MTO	At or above the MTO		Not at MTO	
(% of GDP)	2014	2015		2016	
	COM	CP	COM	CP	COM
Structural balance pillar					
Required adjustment ⁴	0.0	0.0		0.3	
Required adjustment corrected ⁵	0.0	0.0		0.3	
Change in structural balance ⁶	0.4	-0.2	-0.3	0.2	-2.1
<i>One-year deviation from the required adjustment⁷</i>	0.4	-0.2	-0.3	-0.1	-2.4
<i>Two-year average deviation from the required adjustment⁷</i>	0.5	0.1	0.1	-0.2	-1.4
Expenditure benchmark pillar					
Applicable reference rate ⁸	2.5	2.4		1.6	
<i>One-year deviation⁹</i>	1.2	1.6	-0.5	0.7	-2.6
<i>Two-year average deviation⁹</i>	2.0	1.4	0.3	1.1	-1.6
Conclusion					
Conclusion over one year	Compliance	Overall assessment	Overall assessment	Overall assessment	Significant deviation
Conclusion over two years	Compliance	Compliance	Compliance	Overall assessment	Significant deviation
Notes					
¹ The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points is allowed in order to be evaluated as having reached the MTO.					
² Structural balance = cyclically-adjusted government balance excluding one-off measures.					
³ Based on the relevant structural balance at year t-1.					
⁴ Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 28.).					
⁵ Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.					
⁶ Change in the structural balance compared to year t-1.					
⁷ The difference of the change in the structural balance and the required adjustment corrected.					
⁸ Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is not at its MTO.					
⁹ Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.					
<i>Source:</i>					
<i>Convergence Programme (CP); Commission 2015 spring forecasts (COM); Commission calculations.</i>					

5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report⁶ published on 12 May. It therefore updates the assessment made in the Country Reports⁷ published on 26 February.

Government debt stood at 39.8% of GDP in 2014. It is expected to rise only slightly and thus would remain below the 60% of GDP Treaty threshold. The full implementation of the Convergence Programme would put debt on a decreasing path by 2025, remaining below the 60% of GDP reference value in 2025 (see Figure 3).

Figure 3: Gross debt as % of GDP – Medium term debt projections



Source: Commission 2015 spring forecast; Convergence Programme; Commission calculations

Romania appears to face medium fiscal sustainability risks. The medium-term sustainability gap, is at 1.1% of GDP, primarily related to the structural primary balance in 2015, indicating medium risks. In the long-term, Romania appears to face medium fiscal sustainability risks, primarily related to the structural primary balance in 2015, the projected ageing costs contributing with 1.5 pp. of GDP over the very long run. The long-term sustainability gap shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path is at 3.9 % of GDP.

Risks would be higher in the event of the structural primary balance reverting to lower values than observed in the past, such as the average observed for the period 2005-14. It is therefore appropriate for Romania to continue to implement measures that reduce risks to fiscal sustainability in the short term.

⁶ See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

⁷ See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

In 2010, "special pensions" were abolished to achieve a uniform public pension system. In early 2015 several proposals for special pension regimes were brought forward by the government or in parliament. For instance, a draft law, approved by the government on 22 April, aims at re-introducing a special pension regime for defence, police and intelligence services personnel. To the extent that legal initiatives constitute a clarification of constitutionally protected rights, they might serve as avoiding future budget risks. However, to the extent that additional rights are established via newly introduced special pension regimes, they risk gradually undoing the achievement of a uniform pension system. This risks breaking the link between accumulated contributions and future pension entitlements, with an adverse impact on the sustainability of the pension system going forward.

Table 5: Sustainability indicators

	Romania			European Union		
	2014 scenario	No-policy-change scenario	Convergence Programme scenario	2014 scenario	No-policy-change scenario	Stability/Convergence Programme scenario
S2*	1.6	3.9	1.5	1.4	1.7	0.4
<i>of which:</i>						
Initial budgetary position (IBP)	0.0	2.4	0.0	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	1.6	1.5	1.5	1.0	1.1	1.1
<i>of which:</i>						
pensions	-0.1	0.1	0.1	0.0	0.1	0.1
healthcare	0.8	0.6	0.6	0.8	0.7	0.6
long-term care	0.6	0.6	0.5	0.7	0.7	0.6
others	0.3	0.3	0.3	-0.4	-0.3	-0.2
S1**	-1.5	1.1	-2.5	1.4	1.8	0.5
<i>of which:</i>						
Initial budgetary position (IBP)	-0.7	2.1	-0.9	-0.4	-0.3	-1.6
Debt requirement (DR)	-1.2	-1.2	-1.8	1.7	1.9	1.8
Long-term cost of ageing (CoA)	0.4	0.3	0.2	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.27	:	:	:	:	:
<i>Fiscal subindex</i>	0.00	:	:	:	:	:
<i>Financial-competitiveness subindex</i>	0.39	:	:	:	:	:
Debt as % of GDP (2014)	39.8			88.6		
Age-related expenditure as % of GDP (2014)	15.5			25.6		
Source: Commission, 2015 Convergence Programme						
Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.						
* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.						
** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.						
*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indices, thresholds are respectively at 0.35 and 0.45.						

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES⁸

6.1. Fiscal framework

As spelled out in the Country Report⁹, the fiscal framework in Romania is broadly sound, but lacks effective application. This was confirmed in the first months of 2015 when a number of tax measures with significant budgetary impact were approved outside the regular budget process. Stability and predictability are crucial for a country's economy and a well-functioning fiscal policy. The yearly budget process allows for the joint formulation of revenue and expenditure policies. Hasty and early changes in tax policy put in question the integrity of the budget process and prevent internalising the effects of tax cuts. However, on 14 April, outside of the regular budget process, the VAT cut for food and related services, which has an estimated direct impact of 0.8% of GDP, was enacted as of June 2015 (GEO 6/2015). Similarly, the new draft fiscal code, which includes significant tax cuts over the coming years, was adopted by government on 25 March and sent to the parliament ahead of the budget process.

The Convergence Programme is approved by the government. Given that it does not include government policies such as the new draft fiscal code it cannot credibly guide the yearly budget process. The macroeconomic forecast, on which the Convergence Programme is based, is prepared by the Prognosis Commission (Comisia Națională de Prognoză), an institution placed under the authority of the Prime Minister.

6.2. Quality of public finances

As emphasised in the Country Report, the tax composition in Romania has been considered relatively growth friendly thanks to the high share of indirect taxation. The tax composition was further improved in October 2014 by the 5 pps. cut in social security contributions to be paid by the employer. However, recent policy decisions like the VAT cut for food and the intention to reduce the standard VAT rate from 24% to 20% of GDP in 2016 and further to 18% in 2018 put this favourable tax composition at risk.

The Convergence Programme announces the intention to improve EU funds absorption and to shift capital expenditure away from purely domestic sources towards reimbursable and non-reimbursable sources, such as EU funds. Even against improvements in the absorption of EU funds absorption over the 2013-14, there is a high risk that Romania will not fully absorb the funds available in the 2007-13 programming period. Capital expenditure execution is also highly volatile during the year, which weighs on budget planning. In 2014, around half the annual capital and EU funds related expenditure were executed in the last quarter of the year (calculation based on budget execution in cash terms). Moreover, the country's public investment management suffers from a lack of stronger prioritisation and coordination (see Country Report for more details).

The Convergence Programme describes different measures that the tax administration (ANAF) has taken or is planning to improve tax collection and reduce tax evasion. These measures go into the right direction. However, the Convergence Programme also highlights the intention to devolve the large taxpayers unit to regional offices. This unit represents more than 50% of total tax revenue. International good practice suggests that large taxpayers units

⁸ This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Convergence Programme.

⁹ http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_romania_en.pdf

operate most efficiently as centralised bodies. In order to avoid an adverse impact on tax collection, a thorough assessment of current challenges is warranted before taking a decision.

7. CONCLUSIONS

In 2014, Romania achieved a structural balance of 1.0% of GDP, which is in line with the MTO. This implied an improvement of the structural balance of 0.4% of GDP, which is better than the required adjustment towards the MTO. The growth rate of government expenditure, net of discretionary revenue measures, was below the applicable expenditure benchmark rate by 1.2% of GDP, thereby also pointing towards compliance. Therefore, Romania complied with the recommendation the Council addressed to it in July 2014.

Romania plans a deterioration of the structural balance of ¼% of GDP in 2015, followed by an adjustment of ¼% of GDP in 2016, when it intends to return to the MTO. Romania further plans to stay at the MTO in 2017 and 2018. The deviation of ¼% of GDP in 2015 is in line with a deviation granted under the balance-of-payments financial assistance programme in the form of an EU funds adjustor to allow for the acceleration of EU funds absorption.

However, according to the Commission's 2015 spring forecast, there is a risk of some deviation for 2015. The deviation is small, as the forecast structural deficit of 1.3% of GDP only slightly exceeds the deviation granted under the balance of payments programme. In 2016, there is a risk of a significant deviation based on both the structural balance and expenditure benchmark pillars, as forecast by the Commission. The difference between the Convergence Programme and the spring forecast is to a large extent explained by the fact that the new draft fiscal code, which includes important tax cuts as of January 2016, is not included in the deficit targets underlying the Convergence Programme, despite being already adopted by the government and, with amendments, by the senate. Due to the decision not to include significant fiscal policy intentions, the Convergence Programme does not fully reconcile priorities on the revenue and the expenditure side.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	0.1	6.3	1.7	0.6	3.4	2.8	2.8	3.3
Output gap ¹	-3.9	3.2	2.0	-3.9	-2.1	-1.3	-0.9	-0.3
HICP (annual % change)	68.0	13.1	6.1	3.4	3.2	1.4	0.2	0.9
Domestic demand (annual % change) ²	1.6	9.1	2.3	-0.5	-0.9	2.6	3.0	3.7
Unemployment rate (% of labour force) ³	6.9	7.7	6.5	6.8	7.1	6.8	6.6	6.4
Gross fixed capital formation (% of GDP)	19.9	23.4	30.7	27.5	23.8	22.0	22.1	22.3
Gross national saving (% of GDP)	14.3	17.9	21.3	22.3	23.4	22.5	22.7	22.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-4.0	-1.6	-5.9	-2.9	-2.2	-1.5	-1.6	-3.5
Gross debt	20.3	18.5	22.6	37.3	38.0	39.8	40.1	42.4
Net financial assets	41.1	19.0	-5.1	-18.8	n.a	n.a	n.a	n.a
Total revenue	32.7	32.4	33.4	33.5	33.0	33.4	33.1	30.8
Total expenditure	36.7	34.0	39.3	36.4	35.2	34.9	34.7	34.3
<i>of which: Interest</i>	4.1	1.5	1.2	1.7	1.7	1.6	1.6	1.6
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-4.2	-1.8	1.0	n.a	n.a	n.a	n.a	n.a
Net financial assets; non-financial corporations	-86.1	-85.2	-111.3	-112.5	n.a	n.a	n.a	n.a
Net financial assets; financial corporations	-0.2	-1.2	4.2	8.4	n.a	n.a	n.a	n.a
Gross capital formation	12.9	18.6	18.3	n.a	n.a	n.a	n.a	n.a
Gross operating surplus	24.5	25.0	26.9	n.a	n.a	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	3.1	-2.2	-2.3	n.a	n.a	n.a	n.a	n.a
Net financial assets	35.3	38.4	48.6	45.9	n.a	n.a	n.a	n.a
Gross wages and salaries	29.5	31.8	32.3	n.a	n.a	n.a	n.a	n.a
Net property income	6.9	1.0	0.5	n.a	n.a	n.a	n.a	n.a
Current transfers received	17.7	16.0	15.7	n.a	n.a	n.a	n.a	n.a
Gross saving	0.5	-5.4	-3.0	n.a	n.a	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-5.2	-5.6	-7.5	-3.3	1.1	1.9	1.6	1.4
Net financial assets	12.7	31.1	66.2	80.2	n.a	n.a	n.a	n.a
Net exports of goods and services	-6.4	-8.8	-9.1	-5.0	-0.7	0.1	0.0	-0.2
Net primary income from the rest of the world	-1.0	-2.8	-2.0	-1.8	-2.5	-2.4	-2.3	-2.3
Net capital transactions	0.2	0.6	0.5	1.4	2.2	2.4	2.4	2.4
Tradable sector	62.2	57.4	51.8	50.9	50.3	50.5	n.a	n.a
Non tradable sector	28.0	31.7	37.2	36.9	38.0	37.8	n.a	n.a
<i>of which: Building and construction sector</i>	5.4	6.7	9.5	8.5	6.6	6.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	67.3	76.8	102.4	89.1	88.9	88.4	86.2	85.9
Terms of trade goods and services (index, 2000=100)	70.4	79.1	98.5	100.6	100.5	102.0	102.3	102.8
Market performance of exports (index, 2000=100)	61.2	87.6	96.8	109.3	124.4	129.5	131.3	131.6
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
AMECO data, Commission 2015 spring forecast								