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# Post-Programme Surveillance Report

## Romania, Spring 2016

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European Commission

Directorate-General for Economic and Financial Affairs

# Post-Programme Surveillance Report

## Romania, Spring 2016

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## EXECUTIVE SUMMARY

- 1. A European Commission team was in Bucharest from 23-26 May for the first post-programme surveillance mission.** Post-programme surveillance (PPS) started in October 2015. The main objective is to assess the Romania's capacity to repay the loans granted under the first balance of payments (BoP) financial assistance programme (2009-2011) and, if necessary, to recommend corrective actions. A second (2011-2013) and third (2013-2015) BoP programmes were treated as precautionary and no disbursements were made. All financial assistance programmes were jointly run with the IMF and supported by the World Bank. ECB staff joined the PPS mission as observers.
- 2. The macroeconomic situation is favourable and economic growth is forecast to remain above potential, with risks of overheating emerging.** Real GDP growth was very strong in 2015 and is expected to accelerate further in 2016 due to a substantial fiscal impulse. It is forecast by Commission staff to ease somewhat in 2017, as the new planned fiscal stimulus is of lower magnitude than in 2016. Potential risks of overheating could emerge in the medium term as a consequence of the pro-cyclical fiscal policy combined with accelerating wage growth and an output gap projected to close in 2016 and turn positive in 2017. The current account deficit re-opened in 2015 and is forecast to deteriorate in 2016 and 2017 due to strong domestic demand. Following VAT tax cuts in September 2013 (bakery products), June 2015 (other food products), and January 2016 (standard rate down by 4 pp.), inflation has been hitting historical lows, but is set to pick up in the second half of the year and re-enter the central bank's target corridor (2.5%±1 pp.) in 2017. Employment is forecast to remain broadly stable, while the unemployment rate is projected to decrease slightly by 2017. Risks to the GDP growth outlook are tilted to the downside.
- 3. The public deficit is set to deteriorate over 2016-2017 on the back of fiscal loosening measures.** The 2015 deficit remained below the MTO. Going forward, however, the deficit is set to deteriorate significantly due to substantial tax cuts and public wage increases enacted in the second half of 2015. The deficit is forecast by the Commission at 2.8% of GDP in 2016 and, under a no-policy-change scenario, at 3.4% of GDP in 2017, which would be in breach of the reference value for the corrective arm of the Stability and Growth Pact. During the mission, the authorities did not present any new significant compensating measures which would alter the Commission's spring 2016 forecast. Further public wage increases – adopted soon after the mission – aimed at reducing disparities in the public wage grid over 2017-2018 represent an upward risk for the government deficit. The possibility of lower-than projected absorption of EU funds poses a downward risk to the Commission's public deficit forecast for 2016 and 2017.
- 4. Fiscal framework provisions are not fully respected, while there have been some improvements on public expenditure management and the corporate governance of state-owned enterprises (SOEs).** Decisions with substantial budgetary impact, including tax cuts and public wages increases are routinely taken outside the budgetary process and without compensatory measures, breaching Romania's own Fiscal Responsibility Law. The departure from the MTO included in the 2016-2019 Convergence Report deviates from the rules of the Fiscal Responsibility Law and from Romania's obligations under the Stability and Growth Pact and the Fiscal Compact. The timely annual adoption of the fiscal strategy would improve medium-term planning. Public investments preparation is well behind schedule and there are not enough mature projects in the pipeline to be financed by EU funds. The restructuring of loss-making state-owned enterprises seems to have halted in 2015 and arrears are building up again. On the positive side, new instruments for more efficient public expenditure management, such as the commitment control system, are being developed and conditions for SOEs corporate governance have improved. Rules are being enhanced and the implementation of existing rules is slowly improving, including the appointment of professional managers.
- 5. The overall assessment of economic and fiscal conditions, including debt level and government financing performance suggest that risks related to government financing and the repayment of the debt to the EU are very low.** The outstanding amount due to the European Commission is EUR 3.5 billion, all stemming from disbursements under the first BoP programme (2009-2011). The

IMF loan, which had a shorter maturity, was fully repaid. Sovereign financing conditions in Romania remained relatively stable over 2015 and in early 2016. Bond yields have increased somewhat but remain low in historical terms. The cash buffer continues to provide a visible and predictable signal to markets. It currently stands at about 4.1 months of gross financing needs for 2016 if privatisations receipts are taken into account and at 3.2 months excluding privatisation receipts.

6. **The resilience of the financial sector strengthened in 2015, but the banking sector remains vulnerable to legislative developments with unwarranted negative impact.** The cleaning up of bank balance sheets continued in 2015 and banking sector profitability rebounded, after losses recorded in 2014. However, the implementation of the law on debt discharge may put strain on several credit institutions and undermine payment discipline in the banking sector. It may also weaken credit activity and impact economic growth. Several other legislative initiatives discussed in Parliament (e.g. on the conversion of foreign exchange denominated loans into local currency loans at unfavourable conditions for lenders), if adopted, could also trigger losses for banks and put strain on financial stability. A recent legal initiative that threatens the independence of the Central Bank is equally of concern and requires close scrutiny. After the completion of the balance sheet review and stress test in the insurance sector, several undertakings for which shortcomings were identified have taken remedial actions or were placed under financial recovery/resolution by the regulator. The preparatory work for the comprehensive asset quality review (AQR) and stress test in the banking sector has been finalised. The NBR committed to start actual work on the exercise at the beginning of 2017. This will allow to take into account the impact of the law on debt discharge on bank balance sheets.
7. **The second post-programme surveillance mission to Romania is foreseen in late autumn 2016, depending on the electoral calendar.** According to the green file, PPS will be conducted at least until 70% of the loan has been repaid, in spring 2018. The green file further stipulates that, as a rule, the mission frequency will initially be 6 months, possibly subsequently declining over time. The second PPS mission is, therefore, foreseen for late autumn 2016. The exact dates will take into account the electoral calendar, in particular parliamentary elections expected in November.



# 1. INTRODUCTION

**Post-programme surveillance in Romania started in October 2015.** The main objective of Post-programme surveillance (PPS) is to monitor Romania's capacity to repay the loans granted under the first balance of payments (BoP) financial assistance programme (2009-2011) <sup>(1)</sup>. The outstanding amount is EUR 3.5 billion. The second (2011-2013) and third (2013-2015) BoP programmes were treated as precautionary and no disbursements were made <sup>(2)</sup>. All financial assistance programmes were jointly run with the International Monetary Fund (IMF) and supported by the World Bank. The IMF loan, which had a shorter maturity, was fully repaid.

**The first post-programme surveillance mission took place from 23-26 May.** It involved staff from DGs ECFIN, FISMA and EMPL. The ECB participated as observers. Since the launch of PPS information has been regularly shared by the authorities under the conditions defined end-September 2015.

**Post-programme surveillance will be maintained until at least 70% of the loan has been repaid, i.e. at least until spring 2018.** During this period Romania is required to discuss new major policy intentions with the staff of the European Commission and with the EFC in case Commission staff considers these policy intentions may have the potential to jeopardise the repayment of the financial assistance. The Commission assesses the macroeconomic developments, fiscal policy, monetary policy and financial sector developments, including through review missions. The green file stipulates that, as a rule, the mission frequency will initially be six months, possibly subsequently declining over time.

**During post-programme surveillance none of the regular surveillance procedures is suspended.** Alongside post-programme surveillance, Romania will be subject to regular surveillance mechanisms embedded in the macroeconomic imbalances procedure and in the Stability and Growth Pact. Romania is fully integrated in the in the European Semester and receives country-specific recommendations as of 2013.

**The mission concluded that the risks related to the repayment of the outstanding loans to the EU are very low.** The overall assessment of the economic and fiscal conditions, including the debt level and government financing performance, suggest that risks related to government financing and the repayment of the debt to the EU are very low. The second PPS mission to Romania is foreseen for late autumn 2016, depending on the electoral calendar, in particular parliamentary elections expected in November.

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<sup>(1)</sup> Council regulation EC 332/2002 established the facility for the provision of medium-term financial assistance for Member States' balance of payments. It was updated by Council Regulation EC 431/2009. The provisions for post-programme surveillance were established by the EFC in 2011, with the update of the "EU procedures for providing financial assistance for non-euro area EU Member States", commonly referred to as the "Green File".

<sup>(2)</sup> For more details and reports on the three BoP programmes in Romania:  
[http://ec.europa.eu/economy\\_finance/assistance\\_eu\\_ms/romania/index\\_en.htm](http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm)

## 2. RECENT DEVELOPMENTS AND OUTLOOK

### Macroeconomic outlook

#### Growth in the first quarter of 2016 was strong.

The Romanian economy expanded by 1.6% in the first three months of 2016 compared with the previous quarter (4.3% year-on-year), slightly above expectations of 1.2% q-o-q (4.2% y-o-y) in the Commission 2016 spring forecast. Domestic demand remains the main driver of growth. Private consumption jumped by 9.9% y-o-y, adding 6.4 pp. to real growth and investment increased by solid 7% y-o-y (1.3 pp. contribution to growth). Surging domestic demand resulted in a strong negative growth contribution from net exports (-3.4 pp.), as import growth in the first quarter (8%) outpaced the slow growth of exports (1.2%).

#### The mission discussed recent macroeconomic developments with the authorities and agreed on the outlook for 2016, while projections for 2017 differ.

The 4 pp. cut of the standard VAT rate from January 2016 and accelerating wage growth are expected to raise household disposable income and push private consumption to a post-crisis peak. Accordingly, GDP growth is forecast to reach 4.2% in 2016. Economic growth is projected by the Commission to ease somewhat to 3.7% in 2017, as consumption growth is expected to moderate and the new fiscal expansionary measures envisaged for 2017 are of a lower magnitude than the ones adopted for 2016. The Romanian National Commission for Economic Forecasting expects growth in 2017 to remain at approximately the same level as in 2016, namely 4.3%. The difference is mainly due to divergent projections for the growth rates of investment and exports: for both components the Romanian authorities forecast higher growth rates than the Commission.

#### Investment recovered significantly in 2015, but future prospects are surrounded by uncertainty.

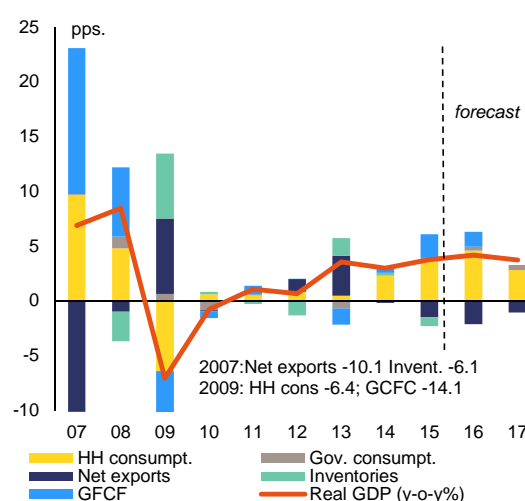
Investment grew by 8.8% in 2015, contributing 2.1 pp. to real GDP growth. Public investment was particularly strong in 2015, increasing by 27.4% in nominal terms in the last year for absorption of EU funds under the 2007-2013 programming period. The transition to the 2014-2020 programming period may slowdown public investment in 2016. Public investment is nonetheless expected to improve again in 2017. Regarding private investment, the adoption of the

law on debt discharge and increasing legislative uncertainty in an electoral year (see section 3) might have an impact on investor confidence and credit developments in 2016 and beyond.

#### The current account deficit widened slightly in 2015 and is set to deteriorate further going forward.

In 2015, a slowdown in export growth and a pick-up in goods imports on the back of increased domestic demand led to a deterioration of the trade balance and a growing current account deficit. Increasing domestic demand is projected to drive a further widening of the current account deficit in 2016 and 2017. The growth contribution of net exports is expected to remain negative in both years.

Graph 2.1: Real GDP growth and contributions



Source: European Commission

### Labour market and inflation

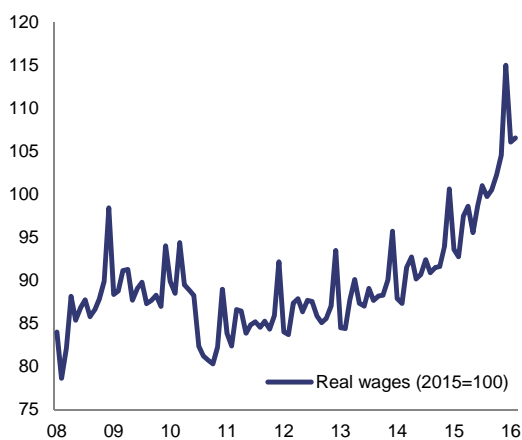
#### Overall labour market conditions have remained broadly stable.

Economic growth impacted employment somewhat, but improvements in labour force participation and job creation have been modest, reflecting rigidities in the labour market. In 2015, the big drop of the number of family workers in agriculture that represent a high share in the labour force was not offset by the employment growth concentrated mainly in high value-added sectors. The employment rate remained stable in 2014-2015. The unemployment rate decreased from 7.1% in 2013 to 6.8% in 2015 and is forecast to decrease

further to 6.7% by end-2017 on the back of strong economic growth.

**Labour costs have been rising.** Minimum wages have more than doubled since 2010, to RON 1250 (approximately EUR 280). The latest hike from May 2016 represents an increase of 19% on the previous update, in July 2015. Wages in the public sector also registered strong growth and are close to their pre-crisis levels, contributing to the overall increase in average wages in the economy. Against the background of low inflation, this has resulted in real-wage increases of more than 10% y-o-y every month since mid-2015. Labour productivity has been increasing and is forecast to stay on trend. As a result, unit labour costs have been contained, but are forecast to grow as wage increases are expected to exceed productivity gains.

Graph 2.2: Real average wage in Romania since 2008 (2015=100)

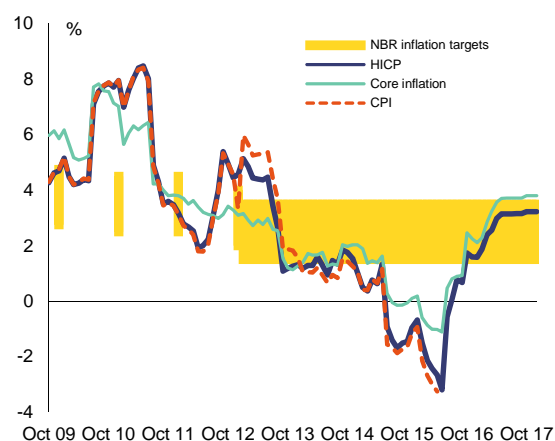


Source: INS

**Plans for further minimum-wage increases have been put on hold for now.** The government has no intention to increase the minimum wage in the coming months. No progress has been made with the establishment of a new minimum wage setting mechanism based on objective criteria. The working group established by the Ministry of Labour for this purpose concluded its work with no concrete proposals. The effort of the ministry now is concentrated on the establishment of a research consortium that will produce a study based on all available sources of data on the economic impact of minimum-wage increases.

**Inflation is expected to bottom out in mid-2016 and re-enter the target band of the central bank (2.5%±1 pp.) in 2017.** Inflation hit a new historical low in May 2016 (-3% y-o-y), mainly as a consequence of the 4 pp. reduction of the standard VAT rate in January. It is expected to stay negative until mid-2016, when the base effect of the food VAT cut from June 2015 will wear out and the output gap is projected to close. Strong wage growth and the increase of the minimum wage from May 2016 are likely to add to the upward pressures on prices, even if the impact of the January VAT cut will curb average annual inflation, forecast at -0.6% in 2016. Annual average inflation is expected to increase to 2.5% in 2017 despite the additional 1 pp. cut of the standard VAT rate envisaged for January 2017.

Graph 2.3: Inflation



Source: European Commission

## Risks

**Risks to the macroeconomic outlook are tilted to the downside, while inflation risks are broadly balanced.** Downside risks on the domestic front stem from the recently adopted law on debt discharge, which could have a substantial negative impact on investor confidence and credit outlook over the forecast horizon and beyond. With the recent local elections in June and approaching national elections in November, measures that add to the existing fiscal stimulus will threaten hard-won fiscal consolidation in the context of an uncertain external environment. Risks to the inflation outlook are broadly balanced over the forecast horizon.

## 3. FISCAL POLICY

### 3.1. PUBLIC FINANCES

**The 2015 deficit remained below the MTO thanks to robust tax revenues, driven by strong economic growth and improved tax compliance.**

The 2015 headline deficit improved to 0.7% of GDP, from 0.9% in 2014. The revenues from taxes and social contributions increased as a share of GDP despite the enacted tax cuts, such as the cut of the social security contribution and the cut in the VAT rate for food products as of June 2015. The 2015 budget execution data show that these revenue categories grew more than what would be suggested by the standard tax elasticities corrected for the estimated effect of the enacted tax cuts. This indicates that tax compliance has improved in 2015. However, it remains to be seen whether this improvement will continue in 2016.

**The headline deficit is set to significantly deviate from the MTO in 2016 and deteriorate to close to 3% of GDP.** In 2015, the parliament adopted significant tax cuts which enter into force in 2016, in particular, a cut of the standard VAT rate from 24% to 20% and a lower tax on dividends. On the expenditure side, public wages were considerably increased through several ad-hoc decisions in the course of 2015. As a consequence, the Commission in the spring forecast projects the headline and structural deficit to reach 2.8% of GDP. This is close to the government's target of a headline deficit of 2.9% of GDP. It represents a substantial departure from Romania's MTO of a structural deficit of 1% of GDP. In the mission, the authorities did not present any plans for new deficit-decreasing measures, nor did they express an intention to lower the 2.9% of GDP deficit target in the upcoming 2016 budget rectification in spite of budget under-execution in some important expenditure categories. The execution of the general consolidated budget for the first months of 2016 shows a surplus of RON 0.13 billion (0.02% of GDP) compared to RON 5.96 billion surplus (0.84% of GDP) in the same period of 2015. **Under a no-policy-change scenario, the deficit may breach the Treaty reference value of 3% of GDP in 2017.** The amendment of the fiscal code provides for further tax cuts in 2017, in particular an additional cut of the standard VAT rate from 20% to 19%, the abolishment of the extra excise duty on diesel,

unleaded petrol and leaded petrol, and the elimination of the special constructions tax. According to Romanian authorities' plan in the 2016 Convergence Programme, the 2017 deficit would remain at the same level as in the 2016, i.e. 2.9% of GDP thanks to restraint on the expenditure side. However, the Convergence Programme projection for 2017 is based on unspecified measures. The mission team took note that the Romanian Fiscal Council has a similar view of the 2017 projection. According to the Commission's spring 2016 forecast the fiscal easing measures are set to increase both the headline and the structural deficit to 3.4% of GDP in 2017, more than 2 pp. above the MTO. Under this scenario, Romania would be in breach of the corrective arm of the stability and growth pact. During the mission, the authorities have not presented any measures which could compensate for the 2017 tax cuts and alter the Commission's spring 2016 forecast.

**Developments in public sector wages have contributed to the raising deficit and represent a risk to the deficit in 2017 and beyond.** In 2015 a series of wage increases to different categories of public sector employees were decided. These increases were adopted in an ad hoc, non-systematic manner and had a significant negative impact on the general government balance in 2015-2016. During the mission the minister of labour informed the Commission about the government's plan to unify the wage grids in the health sector in order to eliminate unequal pay for same posts and to revert the compression of wages at the bottom of the pay scale. The same proposal included provisions for the correction of inequalities within the different central government units – excluding defence – by implementing the principle of "equal payment for equal job" within each unit (albeit not yet between units). The compression issue was not planned to be addressed outside the health sector. The draft proposal also provided for the reintroduction of performance bonuses in the health and education sectors against previous reforms that had eliminated benefits and bonuses in the public sector. The government adopted the legislation on 8 June 2016, as a government emergency ordinance (GEO) in order to comply with the elections' legislation which does not allow for public wages changes less than six months before the national elections. The final version of the

ordinance also included increases in the wages in the education sector. The new wages will start being applied in August 2016. The authorities estimated the net budgetary impact of the ordinance at 0.1% of GDP in 2016 and about 0.3% of GDP in 2017.

**The transition between the EU-funds programming periods can have a significant impact on public investment.** In the spring 2016 forecast the Commission projects the public investment to drop sharply in 2016 and partially recover in 2017. This is due to the completion of the projects under the 2007-2013 programming period and a slow take up under the 2014-2020 programming period. The authorities project a smoother transition, and thus a smaller drop of public investment in 2016-2017. The mission confirmed the Commission's view on the negative impact of the transition to the new EU-funds programming period on public investment in 2016-2017. The possibility of lower-than projected absorption of EU funds poses a downward risk to the Commission's 2016-2017 public deficit forecast.

### 3.2. FISCAL GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT

**The Romanian law requires the medium-term fiscal strategy to be adopted in time so as to guide the budget.** According to Romania's national fiscal framework, the 2017-2019 fiscal strategy has to be submitted to Parliament by mid-August. The strategy should also be consistent with the medium term objective of a structural deficit of 1% of GDP. However, in view of the upcoming national elections in November the room for longer term fiscal policy seems to have narrowed. According to the national legislation the new government after the November elections will be able to alter the strategy and the fiscal targets and propose 2017 budget as soon as it takes over.

**The July budget rectification may not realign the 2016 deficit target with recommendations.** The country-specific recommendations adopted by the Commission in May ask Romania to limit the deviation from the MTO in 2016. The mission was not informed of any new measures that would improve the 2016 deficit. The authorities anticipate

that the 2016 deficit target (2.9% of GDP) will be maintained at the first budget rectification.

**Prioritisation and preparation of public investment projects remains a critical issue for the medium-term budgetary planning and the absorption of EU funds.** Despite the increased needs in infrastructure, at this moment there are not enough new mature projects in the pipeline to be financed by EU funds. EU funds absorption under the 2014-2020 programmes is close to zero. The Public Investment Evaluation Unit (PIEU) of the Ministry of Finance is in charge of evaluating large investment projects (above RON 100 million) to be financed under the annual budget. The 2016 budget allocation for these projects is RON 6.15 billion (about 1% of GDP). Despite the importance of these projects for the government budget the unit has limited mandate in the management of the list. There is no provision allowing the unit to exclude projects that are not properly prepared or even blocked and to redistribute amounts between projects with different degrees of readiness and performance. This creates distortions in the budget implementation and the medium-term planning of public investment. The authorities are currently working on a legislative intervention to improve management of public investments.

**Some budget implementation problems also occur with the nationally-financed local investments.** State budget also finances the National Programme for Local Development (PNDL), which is supervised by the Ministry of Regional Development and Public Administration and includes more than 3,500 small projects managed by the local authorities. The total PNDL budget is about RON 16 billion. The PNDL budget was systematically under-executed in recent years, mainly due to the fact that the annual allocation was insufficient and distributed to local authorities without any criteria such as progress and real financing needs. To deal with this situation the Ministry of Finance agreed to allow the commitment of the entire financing for the coming three years and doubled the allocation for the PNDL in the 2016 draft budget. The payments are based on the real execution per project. To reduce risks of over-spending the authorities provided for the automatic interruption of financing of the PNDL in case of exhaustion of the annual allocation. Out of RON 3 billion allocations in

2016, about RON 800 million had been absorbed until May.

**Some reforms to improve public expenditure management and control are ongoing.** A commitment control system for expenditure on goods, services and investments is in place and currently covers about 4,000 public institutions. It is expected to include all public institutions (about 14,000) by end-August. In an effort to increase transparency and public control, the Ministry of Finance launched the real time publication in its website of expenditure by all public institutions already in the commitment control system. A new unit for spending reviews was created at the Ministry of Finance in summer 2015 and is operational since early 2016. Its first project is the spending review in the transport sector. The first report is expected in September 2016.

**Despite progress, the adoption of the new permanent tax on natural resources in 2017 is still pending.** The government has been prolonging annually the ordinances on temporary taxes on natural resources since 2013. The government is currently working on a new, permanent tax, which will replace the temporary windfall taxation. The fiscal impact of the new taxation – a loss of about RON 500 million – has been included in the 2016-2019 convergence programme, but the final form of the tax is still under consultation with the industry. The contribution of the industry was expected by end-April but the deadline was missed. Discussions with the industry are ongoing.

**The measures to improve tax collection and the re-organisation of the national tax agency (ANAF) are on-going but there are risks of disruption in tax collection.** The measures introduced by ANAF since the beginning of 2015 include a new VAT registration procedure, a pilot project to tackle undeclared work, the operationalization of the Anti-Fraud Department, a services catalogue for the taxpayers, and the promotion of e-filing. Implementation is ongoing but at a slow pace. No major new initiatives have been planned for 2016. The large taxpayers' office of ANAF was re-established, as of 1 January 2016 in the form of an autonomous general directorate with an independent budget, under the authority of ANAF. An update of the tax compliance strategy is expected before end-2016.

### 3.3. PROGRAMME FINANCING AND PUBLIC DEBT

**Romania has fully repaid the IMF as well as 30% of the EC loan.** The outstanding amount due to the European Commission is EUR 3.5 billion, all linked to disbursements made under the first BoP programme (2009-2011). No disbursements were made under the second (2011-2013) and third (2013-2015) BoP programmes, which were treated as precautionary. The loan from the IMF, which had a shorter maturity, was fully repaid. Details of the repayment schedule are provided in Annex 1.

**The overall debt level and government financing performance show that the risks related to the repayment of the debt to the EU are very low.** Bond yields have increased somewhat but remain low in historical terms. Sovereign financing conditions in Romania remained relatively stable over 2015 and in early 2016. Current yields (10y bonds) are at 3.5%, some 30 bps higher than at the beginning of February 2016 and a year ago. This can mainly be related to uncertainty about domestic legal initiatives on financial sector regulation as well as a worsening of the global risk assessment. Indicators of financing conditions such as CDS spreads do not point to any major disruption of the sovereign debt market. The maturity of the remaining public debt in March 2016 was 5.8 years, compared to 5.7 years in 2015.

**Romania is targeting a cash buffer equivalent to four months of gross financing needs.** The target cash buffer was defined under the balance of payments assistance programmes. It has an important role as a stable policy anchor and provides a visible and predictable signal to markets. The buffer currently stands at about 4.1 months of gross financing needs for 2016 if privatisations receipts are taken into account and at 3.2 months, excluding privatisation receipts.

**An electronic trading platform for government debt continues to be developed.** An Electronic Trading Platform (ETP) for secondary trading was launched on 15 May 2015. It will become mandatory for primary dealers after the issuance of new primary market regulations by the NBR and a ministerial order by the Ministry of Finance. These measures are expected to be adopted by July 2016.

### 3.4. STATE-OWNED ENTERPRISES

**The framework for SOEs corporate governance has been improving but implementation only recently re-gained momentum.** A law (no. 111/2016) on SOEs corporate governance was adopted by Parliament in May 2016 with the proactive support of the government. It reflects international good practices more closely than the government emergency ordinance it amends (GEO 109/2011). The Ministry of Finance services will seek to develop by early-Autumn 2016 the tools that will permit an efficient implementation, including a harmonised approach across ministries. With the inclusion of the financial sector, a last minute amendment in parliament, the provisions on remuneration may conflict with the ongoing recruitment process for CEC bank's management. Plans to appoint professional managers replacing long serving interim managers have been announced. However, only 11 of 45 planned tenders have been opened so far. The mission was informed of relevant improvements in the timely adoption of SOEs' annual budgets and the auditing of the annual accounts, but  $\frac{3}{4}$  of SOEs still await the approval of their 2016 budget.

**The restructuring of loss-making state-owned enterprises (SOEs) seems to have halted in 2015 and arrears are building up again.** In 2015, arrears by SOEs increased 4% overall, with arrears between SOEs up by 32%. SOEs' arrears to the private sector dropped 24% in the same period. Operational results also deteriorated substantially in the course of 2015. CE Hunedoara and CE Oltenia, two energy and mining complexes long under difficulties, and Romarm's Moreni subsidiary, an armoured vehicles producer, were the main contributors to the deterioration, even if the latter remained profitable. Plans to restructure loss-making SOEs have largely stalled since spring 2015. Privatisations were suspended in 2014 and *de facto* not reinitiated ever since. The compatibility with European state-aid rules of the Romanian state involvement in SOEs is being followed closely by DG COMP. Current cases include CE Hunedoara, CFR Marfa (rail cargo) and Oltchim (chemicals).

## 4. FINANCIAL SECTOR

**The banking sector has remained well capitalised and liquid, whereas profitability recovered in 2015.** Capital adequacy at system level increased in 2015 and reached 19.16% at the end of December, up from 17.59% at the end of December 2014. It strengthened further in the first quarter of 2016, to 19.52% (Table 4.1). Liquidity has been maintained at comfortable levels, whereas the loan-to-deposit ratio (LTD) declined steadily in 2015 and the first quarter of 2016 and reached 87% by end-March 2016. Following the negative result in 2014 due to the efforts to clean up balance sheets, banking sector profitability returned to positive territory in 2015, as return on equity stood at 11.77% by end-December 2015, up from -12.45% by end-December 2014.

**The non-performing loans (NPLs) resolution measures adopted in 2014 have contributed to a significant decline in the NPL ratio at system level.** The implementation of the NPLs resolution plan of the NBR resulted in a decrease in NPLs by roughly 7 pp. between December 2014 and March 2016 (13.5%)(<sup>3</sup>). The plan included: (i) segregation into an off-balance sheet account of all fully-provisioned loans and their subsequent write-off; (ii) full provisioning of all loans more than 360 days overdue and for which banks had not started legal proceedings, which had to be implemented by all banks by end-June 2014; and (iii) provisioning up to 90% of the entire exposure to insolvent companies, applicable by all banks by end-September 2014, but taking into account bank-by-bank experiences as regards the recovery of collateral in previous insolvency proceedings. Furthermore, in April 2016, the NBR required credit institutions to make an additional effort in order to fully provision non-performing loans (more than 180 days past due, unsecured, or with a very low probability to recover the collateral), in order to facilitate their write off.

**In 2015, the National Bank of Romania (NBR) decided to perform a comprehensive asset quality review (AQR) and stress test of the**

(<sup>3</sup>) The NPL definition used by the NBR is fully in line with EBA definition. According to EBA, non-performing exposures are those that satisfy any of the following criteria: i) material exposures which are more than 90 days past due; and ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.

**Romanian banking sector, overseen by a Steering Committee with international participation.** The AQR and stress test will be conducted with the support of independent and reputable third parties. The exercise will cover credit institutions with systemic relevance, ensuring significant coverage of banking sector assets. The selection of the external third parties — stress test consultant, project manager, external auditors and real estate appraisal companies — will be made through a transparent and competitive process based on strict qualification and selection criteria. The AQR will be based on the European Central Bank (ECB) methodology for the 2014 ECB Comprehensive Assessment of the largest banks in the euro area(<sup>4</sup>). The stress test will be broadly based on the methodology developed by the European Banking Authority for the 2016 EU-wide stress test. Despite having finalised all the necessary documentation the public procurement process for the selection of third parties was not launched by the NBR at the beginning of 2016, as initially envisaged. The main reasons for this are that the public procurement law was amended only recently, some considerations related to the cost of the exercise, and the difficulty of assessing the impact of the recently adopted law on debt discharge ("*datio in solutum*") on the balance sheet of banks. The NBR expressed its preference for postponing the start of the exercise in order to use a cut-off date for balance sheet data which would already take into account the impact of the law on debt discharge (end-December 2016). The NBR committed to start actual work on the exercise at the beginning of 2017.

**The NBR has continued to closely oversee the banks with Greek and Cypriote capital.** Notwithstanding the deleveraging process of the subsidiaries of Greek banks since late 2011, the latter had a combined market share of roughly 11% by end-March 2016. Banks with Greek capital have reassuring capital buffers and the developments in Greece in the first half and summer of 2015 did not result in significant deposit outflows, unlike the situation in 2012.

(<sup>4</sup>) The exercise is overseen by a Steering Committee, which includes representatives of the NBR as members and observers from the European Commission and the European Banking Authority. The International Monetary Fund is an advisor on certain topics.



Table 4.1: Financial sector indicators

(%)	2009	2010	2011	2012	2013	2014	2015	2016*
<b>Capital Adequacy</b>								
Capital Adequacy Ratio	14.7	15.0	14.9	14.9	15.5	17.6	19.2	19.5
Leverage Ratio	7.6	8.1	8.1	8.0	8.0	7.4	8.2	8.7
CET 1 ratio						14.6	16.7	17.2
<b>Asset quality</b>								
NPLs (90 days overdue; NBR definition) 1)	-	2.8	14.3	18.2	21.9	13.9	12.3	n.a.
NPLs (EBA definition)						20.7	13.5	13.5
NPL coverage ratio (EBA definition)						66.6	57.7	58.2
<b>Profitability</b>								
Return on assets (after tax)	1.0	-0.2	-0.2	-0.6	0.0	-1.3	1.2	1.3
Return on equity (after tax)	9.4	-1.7	-2.6	-5.9	0.1	-12.5	11.8	11.7
<b>Liquidity</b>								
Immediate liquidity	35.3	37.8	37.2	35.9	41.5	41.1	40.8	38.7

\* Latest available quarterly figures

Source: NBR

However, the asset quality of these banks still constitutes a matter of concern. Furthermore, in order to attract retail deposits, these banks are still remunerating them above market average, which has put strain on their profitability.

**Following re-examination by Parliament, the law on debt discharge was promulgated by the President on 28 April and entered into force on 13 May.** The law was first approved by Parliament in November 2015, but subsequently returned to Parliament by President Iohannis for the re-examination of its most controversial provisions. The main changes compared with the initial version are: (i) the law will apply only to loans with a value below EUR 250,000; (ii) the law covers only loans granted to consumers for buying, building, renovating a property for living, or loans (irrespective of the scope) which are guaranteed with at least one dwelling; (iii) mortgage loans granted in the framework of the state sponsored programme "First House" and benefitting from a state-guarantee were excluded from the scope of the law. The retroactive application of the law to ongoing loan contracts was maintained in the final version.

**The full impact of the law is difficult to assess, as it is very much dependent on the behaviour of borrowers.** Going forward, the law is likely to impact payment discipline in the banking sector. It appears that borrowers without financial difficulties and delays in the servicing of loans are also tempted to make use of *datio in solutum*. Furthermore, borrowers with loans denominated in foreign exchange, in particular in Swiss franc, seem also more prone to use this form of settling debt obligations stemming from loan contracts. In

prudential terms, the entering into force of the law on debt discharge has triggered the upward revision of risks weights applicable to the loan portfolio falling under the scope of this law, in line with the provisions of the EU Regulation 575/2013 on prudential requirements for credit institutions and investment firms (capital requirements regulation – CRR). The Commission is currently scrutinizing more closely this law with the view of taking the more appropriate action to address its concerns, including the possible launch of an infringement procedure.

**Other legislative initiatives with unwarranted negative impact on financial stability require close scrutiny.** Several legislative initiatives with impact on the banking sector are currently in Parliament. For instance, Parliament has discussed several proposals on the conversion of foreign exchange denominated loans into local currency loans at unfavourable conditions for lenders (i.e. a mandatory 20% discount granted to clients at the conversion date), which may trigger losses for banks. In parallel, the government is preparing the transposition act of the EU Directive 17/2014 (Mortgage Credit Directive), which also includes provisions on the conversion on foreign currency loans into local currency loans. Based on the latest information, the proposed provisions on the conversion of foreign currency loans appear to go against the provisions of Directive 17/2014, as they impose on banks the obligation to grant clients a discount (10%) at the moment of conversion. A draft legislative initiative for the amendment of the by-laws of the National Agency for Consumer Protection (ANPC) includes provisions which aim to increase the supervisory powers of ANPC regarding financial

intermediaries operating in Romania, including credit institutions. Some of the new powers are likely to interfere with the mandate of the NBR and its powers regarding the prudential supervision of credit institutions. Moreover, a draft legislative proposal currently in the upper chamber of Parliament includes provisions which aim to restrict the independence of the NBR and submit it to a tightened control by Parliament.

**Some court decisions on unfair terms in loan contracts may also have an impact on the banking sector.** Several banks are currently involved in court cases regarding collective actions initiated by the Consumer Protection Agency (ANPC). Some of these lawsuits are in the final stages of litigation and banks might be requested to make repayments to clients. Depending on their magnitude, these repayments may put significant pressure on their capital buffers. Authorities committed during the last balance-of-payments programme to ensure that court cases involving unfair terms (abusive clauses) in loan contracts are dealt with by a unique specialised court and to take all other necessary measures to ensure the consistent application of these provisions, such as training of judges. Due to logistical issues, including six unsuccessful public tenders to select appropriate premises, the court has not been yet set up. The mission was informed by the Ministry of Justice, that the process of setting up the specialised court will be completed by September 2016.

**The balance sheet review and stress test in the insurance sector revealed several shortcomings, which are currently being addressed by insurance companies.** Romania completed in July 2015 a comprehensive balance sheet review (BSR) and stress test of the insurance sector with third party involvement, the first of the kind in a EU Member State. The exercise was triggered by unfavourable developments in the sector, in particular as regards motor third party liability insurance (compulsory car insurance). Astra Asigurari, at the time the largest insurance company was placed under special administration by the ASF (Financial Supervisory Authority) in February 2014. Since its viability was not restored during the special administration period, Astra was put into insolvency in August 2015. The opening of insolvency procedures for Astra Asigurari was declared irrevocable by the Appeal Court

Bucharest on 28 April 2016. Following the court decision, the Insurance Guarantee Fund started the payment of compensation to Romanian and foreign policyholders (i.e. Hungarian, Slovak and German), which according to the ASF has proceeded smoothly so far. Carpatica Asigurari, which was already under a financial recovery plan implemented by the management at the beginning of the balance sheet review and stress test, has been subject to further supervisory measures. In January 2015, the ASF appointed a temporary administrator for Carpatica in line with the provisions of the insurance resolution law. The ASF is currently expecting the results of an evaluation by Deloitte and may take further decisions regarding Carpatica in the coming weeks. Based on the results of the balance sheet review and stress test, Euroins was placed under financial recovery in October 2015. The ASF assessed that Euroins needs a capital increase of RON 400 million until end-September 2016 in order to restore compliance with solvency requirements. Euroins completed the first part of the capital increase (RON 200 million) in mid-April 2016.

## 5. MONETARY AND EXCHANGE RATES POLICIES

**The monetary policy stance remains accommodative, with the key policy rate unchanged at 1.75% since May 2015.**

Maintaining the low policy rate was possible due to falling inflation and expected favourable inflation developments in the short term. The NBR forecasts inflation to re-enter its target band ( $2\frac{1}{2}\% \pm 1$  pp.) only at the beginning of 2017, in line with the Commission's spring forecast. The HICP annual inflation rate went deep into negative territory in Q1 2016 and reached -3.0% in May. The inflation developments in 2015 and 2016 have been markedly influenced by the successive reductions of the VAT rate for different categories of products, the decline in oil prices, the low inflation in the euro area, and the persistence of negative output gap and of low inflation expectations. However, underlying pressures are mounting, supported by the fiscal stimulus and strong wage growth. Inflation is set to pick up once the transitory impact of tax cuts fades out and the output gap closes. Inflation is projected to re-enter the target band in 2017 and to reach the upper limit of the target band in the beginning of 2018.

**Due to abundant liquidity in the market, interbank rates have been persistently below the NBR's key policy rate.** High liquidity level in the banking sector was related to a large extent to treasury operations and was supported by successive cuts in the minimum reserve requirements (MMR) on leu-denominated liabilities. Since January 2015, the NBR cut the MRR ratio on leu-denominated liabilities of credit institutions from 10% to 8%, while the MRR ratio on foreign currency-denominated liabilities were cut from 14% to 12%. The NBR stands ready to further cut the MRR on foreign-denominated liabilities, while remaining committed to keeping foreign reserves at sufficiently high level. The liquidity surplus in the banking system constrains the NBR to further reduce the MRR on leu-denominated liabilities, despite its comparably high level.

**Monetary transmission has improved recently supported by the NBR's substantial narrowing of the interest rate corridor and the growing share of leu-denominated loans.** The key rate cut in May 2015 was accompanied by a further narrowing of the corridor around the key rate ( $\pm 1.5$  pp.). Loans in domestic currency increased

to 53.5% of the total loan stock in April 2016 (up from a low of 35.6% in May 2012), paving the way for an improvement in monetary policy transmission and for the mitigation of risks to financial stability. There was also an increase in the share of mortgages in the total credit to households, previously dominated by consumer credit.

**The leu has been trading within a relatively narrow range, fluctuating along regional trends, but with lower volatility.** The leu's exchange rate against the euro showed relatively limited fluctuation over the last few years, predominantly trading in the range of 4.4-4.5 RON/EUR since 2013. The leu strengthened moderately at the beginning of 2015, supported by additional monetary easing in the euro area. It weakened again at the end of 2015 due to domestic political uncertainties, but recovered in early 2016. Occasional presence of the NBR in the interbank and foreign exchange markets also helped containing RON depreciation on the back of a global and local risk reassessment. The leu weakened again during April-May 2016 following the adoption of the debt discharge law.

Table %SectionNumber% 2: **Financial assistance programmes with Romania**

**2009-2011 programme**

European Commission (EC): Balance of Payments programme – EU medium term financial assistance	EUR 5 bn
International Monetary Fund (IMF): Stand-By Arrangement (SBA)	SDR 11.4 bn (~ EUR 12.9 bn; 1,110.77% of Romania's IMF quota)
World Bank (WB): Loans	EUR 1 bn
European Investment Bank (EIB) & European Bank for Reconstruction and Development (EBRD) - Loans	EUR 1 bn
<b>TOTAL financial support received from IFIs during 2009-2011</b>	<b>EUR 19.9 bn</b>

**2011-2013 programme**

European Commission (EC): Balance of Payments programme – precautionary EU medium term financial assistance	EUR 1.4 bn
International Monetary Fund (IMF): Stand-By Arrangement (SBA) treated as precautionary	SDR 3.09 bn (~ EUR 3.5 bn; 300% of Romania's IMF quota)
World Bank (WB): development loan programme (DPL of EUR 400 million) and results based financing for social assistance and health (of EUR 750 million)	EUR 1.15 bn
<b>TOTAL financial support available in 2011-2013</b>	<b>EUR 6 bn</b>

**2013-2015 programme**

European Commission (EC): Balance of Payments programme – precautionary EU medium term financial assistance	EUR 2 bn
International Monetary Fund (IMF): Stand-By Arrangement (SBA) treated as precautionary	SDR 1,751.34 million (~ EUR 2 bn; 170% of Romania's IMF quota)
World Bank (WB): EUR 1 billion were made available under a development policy loan with a deferred drawdown option (DPL/DDO)	EUR 1 bn
<b>TOTAL financial support available in 2013-2015</b>	<b>EUR 5 bn</b>

*Source:* European commission, IMF, World bank

## ANNEX 1

### Financial assistance programmes, 2009-2015

Table A1.2: Repayment schedule

Yearly data	EU (€mn)			IMF (SDRs mn)			Grand total (€mn)
	Charges	Principal	Total	Charges	Principal	Total	
2013	151.6	-	151.6	236.7	4,051.8	4,288.6	5,101.2
2014	151.6	-	151.6	67.0	3,881.1	3,948.1	5,708.4
2015	151.6	1,500.0	1,651.6	7.8	1,232.8	1,240.5	3,083.4
2016	104.8	-	104.8	0.2	96.1	96.3	215.9
2017	104.8	1,150.0	1,254.8			-	1,254.8
2018	77.4	1,350.0	1,427.4			-	1,427.4
2019	33.8	1,000.0	1,033.8			-	1,033.8

Source: European Commission, IMF

## ANNEX 2

### Key economic indicators

Table A2.1: Key economic indicators overview 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016*	2017*
<b>Gross Domestic Product</b>	<i>(annual percentage change, unless otherwise indicated)</i>								
Nominal GDP (in bn RON)	511	534	565	595	637	668	713	758	805
Real GDP	-7.1	-0.8	1.1	0.6	3.5	3.0	3.8	4.2	3.7
Private Consumption	-10.1	1.0	0.8	1.2	0.7	3.8	6.1	6.9	5.0
Public Consumption	3.7	-4.9	0.6	0.4	-4.6	0.3	1.6	6.3	2.5
Gross fixed capital formation	-36.6	-2.4	2.9	0.1	-5.4	2.5	8.8	5.5	6.1
Exports	-5.3	15.2	11.9	1.0	19.7	8.6	5.5	4.5	4.8
Imports	-20.7	12.6	10.2	-1.8	8.8	8.9	9.1	9.8	7.6
Contribution to GDP growth									
Domestic demand	-19.9	-0.9	1.4	0.9	-1.7	3.0	6.1	6.4	5.0
Inventories	5.9	0.2	-0.2	-1.4	1.6	0.2	-0.8	0.0	0.0
Net exports	6.9	-0.1	-0.1	1.1	3.6	-0.2	-1.5	-2.2	-1.3
<b>Prices</b>									
HICP inflation (average)	5.6	6.1	5.8	3.4	3.2	1.4	-0.4	-0.6	2.5
HICP inflation (year-end, quarterly)	4.5	7.8	3.4	4.7	1.3	1.4	-1.0	0.9	3.0
NBR target	3.5	3.5	3.0	3.0	2.5	2.5	2.5	2.5	2.5
<b>Labour market</b>									
Total employment	9181	9156	9082	8645	8569	8638	8562	8561	8554
Unemployment rate (harmonised:15-74)	6.5	7.0	7.2	6.8	7.1	6.8	6.8	6.8	6.7
<b>General Government Accounts</b>	<i>(in percent of GDP, cash)</i>								
Total revenues <sup>1)</sup>	30.8	31.6	32.2	32.5	31.4	32.1	32.8	30.9	29.8
Total expenditures <sup>1)</sup>	37.9	37.9	36.4	34.9	33.9	33.8	34.1	33.7	32.6
Current <sup>1)</sup>	34.1	34.3	32.5	31.7	31.2	31.5	31.8	31.0	30.0
Capital <sup>1)</sup>	4.3	3.6	4.0	3.2	2.8	2.6	2.6	2.6	2.6
Govn deficit, cash definition <sup>1)</sup>	-7.1	-6.3	-4.2	-2.5	-2.5	-1.7	-1.4	-2.8	-2.8
Government deficit, ESA2010 definition	-9.5	-6.9	-5.4	-3.7	-2.1	-0.9	-0.7	-2.8	-3.4
Gross debt, general gov, ESA2010 definition	23.2	29.9	34.2	37.4	38.0	39.8	38.4	38.7	40.1
<b>Balance of payments</b>	<i>(in percent of GDP)</i>								
Current account balance **	-4.1	-4.5	-4.4	-4.3	-0.6	0.2	-0.9	-2.1	-2.8
Trade balance**	-6.4	-6.1	-5.6	-5.0	-0.8	-0.3	-0.5	-1.6	-2.5
Capital and financial account balance	-3.9	-4.2	-3.0	-1.1	3.3	4.7	4.2	n.a.	n.a.
FDI balance	-2.8	-1.8	-1.3	-1.9	-2.0	-1.8	-1.7	n.a.	n.a.
Net international investment position	-62.1	-62.3	-64.2	-67.9	-61.7	-56.9	-50.2	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	28.3	32.4	33.2	31.2	32.5	32.2	32.2	n.a.	n.a.
Gross external debt	67.4	72.9	74.1	74.7	68.0	63.1	56.1	n.a.	n.a.
<b>Monetary and exchange rate developments</b>									
Broad money M3 (annual % change, end of the period)	9.0	6.9	6.6	2.7	8.8	8.4	9.3	9.9	n.a.
NBR policy rate (in %, end of period)	8.00	6.25	6.00	5.25	4.00	2.75	1.75	1.75	n.a.
Exchange rate (lei/euro, end of period)	4.24	4.26	4.32	4.44	4.47	4.48	4.52	4.47	n.a.
REER (Unit Labour Costs deflator, % change)	-13.0	1.0	-5.9	-5.2	0.6	2.1	-3.2	n.a.	n.a.
<b>Financial market &amp; banking sector developments</b>									
Private credit growth (y-o-y)	4.7	6.6	1.3	-3.3	-3.3	3.0	2.4	n.a.	n.a.
Capital Adequacy									
CAR	15.0	14.9	14.9	15.5	17.6	19.2	19.5	n.a.	n.a.
Leverage ratio	8.1	8.1	8.0	8.0	7.4	8.2	8.7	n.a.	n.a.
Ratio of level 1 own funds	0.0	0.0	0.0	0.0	14.6	16.7	17.2	n.a.	n.a.
Asset quality									
NPLs (90 dpd)	2.8	14.3	18.2	21.9	13.9	12.3	n.a.	n.a.	n.a.
NPLs (60 dpd)	0.0	0.0	28.6	30.6	...	...	...	n.a.	n.a.
Profitability									
ROA (after tax)	0.0	0.0	0.0	0.0	66.6	57.7	58.2	n.a.	n.a.
ROE (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Liquidity									
Immediate liquidity	-1.7	-2.6	-5.9	0.1	-12.5	11.8	11.69	n.a.	n.a.

\* Forecast or latest figures

\*\*Current account and trade balances are reported based on the latest Commission forecast using National Accounts Data.

1) 2016 data are budgeted indicators

Source: BNR; European Commission

Table A2.2: General government accounts, cash

(% GDP)	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Final	Final	Final	Final	Final	Final	Final	proj.	proj.
<b>TOTAL REVENUES</b>	<b>30.8</b>	<b>31.6</b>	<b>32.2</b>	<b>32.5</b>	<b>31.4</b>	<b>32.1</b>	<b>32.8</b>	<b>30.9</b>	<b>29.8</b>
Profit tax	2.3	1.9	1.8	1.8	1.7	1.8	1.9	2.0	2.0
Income and wage tax	3.6	3.4	3.4	3.5	3.6	3.5	3.7	3.5	3.6
VAT	6.7	7.4	8.5	8.5	8.1	7.6	8.0	7.0	6.6
Excises	3.1	3.2	3.4	3.4	3.3	3.6	3.6	3.6	3.2
Social insurance contributions	9.4	8.6	9.0	8.7	8.5	8.6	8.1	8.1	8.3
Non fiscal revenue	3.0	3.7	3.3	3.2	2.7	2.6	2.7	2.5	2.4
Other fiscal taxes	1.6	1.6	1.5	1.8	1.9	2.2	2.1	2.2	2.0
Revenue from capital	1.1	1.9	1.4	1.5	1.5	2.1	2.5	2.0	1.8
<b>TOTAL EXPENDITURES</b>	<b>37.9</b>	<b>37.9</b>	<b>36.4</b>	<b>34.9</b>	<b>33.9</b>	<b>33.8</b>	<b>34.1</b>	<b>33.7</b>	<b>32.6</b>
Current expenditures	34.1	34.3	32.5	31.7	31.2	31.5	31.8	31.0	30.0
Personnel expenditures	9.2	8.0	6.8	6.8	7.3	7.5	7.3	7.6	7.4
Goods and services	5.5	5.5	5.6	5.7	6.1	5.9	5.7	5.7	5.6
Interest	1.2	1.4	1.6	1.8	1.7	1.5	1.3	1.5	1.5
Subsidies	1.4	1.3	1.1	1.0	0.8	0.9	0.9	0.9	0.8
Transfers	16.4	17.8	17.0	16.0	15.3	15.5	16.5	15.2	14.6
Social Assistance	12.5	12.9	12.0	11.3	10.7	10.7	10.7	10.5	10.4
Other transfers	3.9	5.0	5.0	4.7	4.5	4.8	5.8	4.7	4.2
Other	0.4	0.3	0.4	0.3	0.1	0.1	0.1	0.2	0.1
Capital expenditures	4.3	3.6	4.0	3.2	2.8	2.6	2.6	2.6	2.6
Other expenditure (net lending)	-0.5	-0.1	-0.1	0.0	-0.2	-0.2	-0.2	0.0	0.0
<b>GOVERNMENT BALANCE</b>	<b>-7.1</b>	<b>-6.3</b>	<b>-4.2</b>	<b>-2.5</b>	<b>-2.5</b>	<b>-1.7</b>	<b>-1.4</b>	<b>-2.8</b>	<b>-2.8</b>

*Source:* Romanian authorities

Table A2.3: General government accounts, ESA-2010

(% of GDP)	2015		2016		2017		2018	2019
	COM	CP	COM	CP	COM	CP	CP	CP
REVENUE	34.8		31.8	32.5	31.5	31.7	31.9	31.8
<i>of which:</i>								
- Taxes on production and imports	13.2		11.9	12.0	11.2	11.2	11.2	11.1
- Current taxes on income, wealth, etc.	6.7		6.4	6.5	6.5	6.6	6.7	6.7
- Social contributions	8.1		8.2	8.1	8.1	8.1	8.1	8.2
- Other (residual)	6.7		5.3	5.9	5.8	5.8	5.9	5.8
EXPENDITURE	35.5		34.6	35.4	34.9	34.6	34.1	33.4
<i>of which:</i>								
- Primary expenditure	33.9		32.9	33.8	33.1	33.0	32.5	32.0
<i>of which:</i>								
Compensation of employees	7.6		8.3	8.1	8.4	7.9	7.8	7.7
Intermediate consumption	5.6		5.6	5.6	5.6	5.5	5.5	5.4
Social payments	11.5		11.4	11.4	11.2	11.2	11.0	10.7
Subsidies	0.5		0.5	0.5	0.5	0.5	0.5	0.5
Gross fixed capital formation	5.1		3.8	4.6	4.1	4.5	4.5	4.5
Other (residual)	3.6		3.4	3.6	3.3	3.4	3.4	3.3
- Interest expenditure	1.6		1.7	1.6	1.7	1.6	1.6	1.4
GENERAL GOVERNMENT BALANCE	-0.7		-2.8	-2.9	-3.4	-2.9	-2.3	-1.6
STRUCTURAL BALANCE	-0.6		-2.8	-2.7	-3.4	-2.9	-2.4	-1.9

*Source:* Romanian authorities (CP), European Commission latest forecast (COM), European Commission calculations of structural balance



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