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Post-Programme Surveillance Report

Romania, Autumn 2017

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EUROPEAN ECONOMY

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Institutional Paper 068

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The cut-off date for this report was 30 November 2017

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EXECUTIVE SUMMARY

A European Commission mission visited Romania on 8-10 November 2017 for the third post-programme surveillance mission. Post-programme surveillance started in October 2015. The main objective is to assess Romania's capacity to repay the EUR 5 bn loan granted under the first balance of payments (BoP) financial assistance programme (2009-2011) and, if necessary, to recommend corrective action. A second (2011-13) and third (2013-15) BoP programmes were treated as precautionary and no disbursements were made. ECB staff joined the mission as observers.

The overall debt level and government financing performance suggest that risks related to the repayment of the debt to the EU remain very low. This was also the conclusion of the two previous missions (23-26 May 2016 and 16-17 March 2017). Despite recent increases, bond yields remain low in historical terms while the foreign exchange cash buffer continues to provide a visible and predictable signal to markets. The outstanding amount is EUR 2.35 bn, (1.3% of GDP and 6.9% of external reserves).

Economic growth has been strong and is expected to remain robust. Real GDP growth is at a post-crisis high and is forecast to remain above potential despite some deceleration. Private consumption will remain the main driver of growth even if investment is slowly picking up. Inflation has turned positive in 2017 and is forecast to accelerate. The unemployment rate is at its lowest level in more than twenty years. Overall, macroeconomic imbalances seem subdued despite the pro-cyclical fiscal policy, strong wage growth and some deterioration of the current account balance.

The fiscal policy is strongly pro-cyclical, contrary to the obligations stemming from Romania's national fiscal framework. A Significant Deviation Procedure was initiated in June 2017 due to Romania's deviation from its medium-term budgetary objective (MTO) in 2016 – after having over-achieved the MTO in 2014 and 2015. Given the lack of policy action, the structural deficit is projected to further deteriorate in 2017 and 2018. The headline deficit may breach the Treaty reference value of 3% of GDP in 2018. The implementation of the national fiscal framework remains insufficient.

The banking sector remains well-capitalised and asset quality has further improved, but risks from potential changes to the legal framework could re-emerge. The overall health of the banking sector including asset quality has continued to improve. However, the banking sector remains vulnerable to uncertainty stemming from recurrent legislative initiatives, which warrant close monitoring. Measures to strengthen the financial situation of weaker insurance companies have started to bear fruits, but some pockets of vulnerability remain. The recent changes to the second pillar of the pensions system may represent a headwind for the pension system and for the development of Romania's capital markets.

The National Bank of Romania (NBR) has started to reverse its accommodative monetary policy stance. The pro-cyclical fiscal policy is burdening monetary policy and constrains its implementation. The NBR announced in November 2017 its intentions for a firmer management of liquidity in the banking system. A hike in the monetary policy rate is likely in 2018, the first one since May 2015, while a narrowing of the symmetrical corridor of the interest rates on permanent credit and deposit facilities is expected to mitigate volatility in the interbank money market and strengthen the transmission of the policy rate. The leu remains broadly stable despite having weakened slightly over the course of 2017.

This is expected to have been the last post-programme surveillance mission to Romania related to the current outstanding loan. According to the "green file", which defines the EU procedures for providing financial assistance for non-euro area Member States, post-programme surveillance will be conducted at least until 70% of the loan has been repaid. This is expected in April 2018 when a tranche of EUR 1.2 bn is due, reducing the outstanding amount to 23% of the principal and 0.6% of GDP. A smaller tranche of EUR 150 mn is due in October 2018 and a final payment of EUR 1bn in May 2019. The corresponding IMF loan has already been fully repaid.

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 EUR 5 bn loan granted under the first balance of payments (BoP) financial assistance programme (2009-2011) ([1]).The second (2011-2013) and third (2013-2015) BoP programmes were treated as precautionary and no disbursements were made ([2]). 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 already fully repaid (see Annex 1).

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

The first two post-programme surveillance missions concluded that the risks related to the repayment of the outstanding loans to the EU are very low. The first two PPS missions took place 23-26 May 2016 and 16-17 March 2017. Both involved staff from DGs ECFIN, FISMA and EMPL and observers from the ECB. The overall assessment of the economic and fiscal conditions, including the debt level and government financing performance, suggested that risks related to government financing and the repayment of the debt to the EU were very low.

The third post-programme surveillance mission took place 8-10 November 2017. As the previous missions, it involved staff from DGs ECFIN, FISMA, EMPL and the European Commission Representation in Romania. ECB staff participated as observers. Since the launch of PPS, information has been regularly shared by the authorities under the conditions defined in September 2015.

The level of foreign exchange reserves and the government's financing performance suggests that risks related to the repayment of the debt to the EU are very low. Despite recent fiscal and political developments, sovereign financing conditions have remained relatively stable. Bond yields have increased somewhat, especially for longer maturities, but remain low in historical terms. The foreign-exchange cash buffer continues to provide a visible and predictable signal to markets. It remains above the target of four months of gross financing needs.

This is expected to have been the last post-programme surveillance mission related to the current outstanding loan. According to the green file, PPS will be conducted at least until 70% of the loan has been repaid. This is expected in April 2018 when a tranche of EUR 1.2 bn is due, reducing the outstanding loan to 23% of the original loan and about 0.6% of GDP. A smaller tranche of EUR 150 mn is due in October 2018 and a final payment of EUR 1bn in May 2019.

The cut-off date for data in this report was 30 November 2017. The data in this report was updated with information obtained during the mission and in formal and informal exchanges, as well as information publicly available by end-November 2017.

([1]) 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".

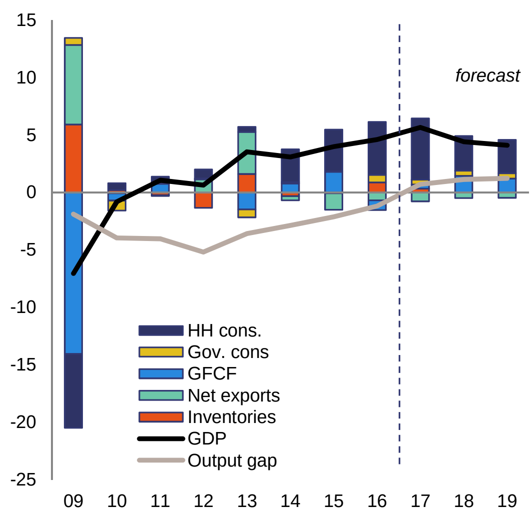
([2]) For more details and reports on the three BoP programmes in Romania see: http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm

2. RECENT DEVELOPMENTS AND OUTLOOK

Macroeconomic outlook ([3])

Growth has accelerated in 2017, with real GDP expanding by 6.9% y-o-y in the first nine months of the year. Growth has been mostly driven by private consumption, which has been spurred by indirect tax cuts, significant hikes in both public and private wages, and low rates of inflation. Changes in inventories also made a substantial positive contribution to growth in the first half of 2017, while investment remained subdued mainly due to a slow uptake of projects financed by EU funds under the 2014-20 programming period.

Graph 2.1: **Real GDP growth and contributions**



Source: European Commission

The robust rates of economic growth are forecast to decelerate but will remain above potential growth. Private consumption is expected to slow down in 2018, as inflation increasingly weighs on real disposable income, but is expected to continue acting as the main growth driver. Investment is forecast to strengthen on the back of a pick-up in the implementation of projects financed by EU funds. Accordingly, real GDP growth is projected to be 5.7% in 2017, 4.4% in 2018, and 4.1% in 2019.

([3]) The cut-off date for this report is 30.11.2017. As such, data for 2017-2019 is based on the European Commission autumn 2017 forecast.

The current account deficit has deteriorated as import growth continued to outpace that of exports. The booming private consumption was also reflected in an acceleration of imports. As a consequence, net exports have worked as a drag on GDP growth despite relatively strong export growth. The current account deficit is expected to significantly increase in 2017, to 3.1% of GDP, mainly on account of a widening trade deficit. Looking ahead, the current account deficit is forecast to reach 3.2% in 2018 and 3.4% in 2019.

Labour market and inflation

Labour market conditions are strengthening. The economic expansion is leading to a tightening of the labour market, with total employment growing robustly and the unemployment rate dropping to its lowest levels in more than twenty years. Unemployment dropped from 6.8% in 2015 to 5.9% in 2016 and is forecast to reach 5.3% in 2017. Going forward, employment is set to continue growing at a moderate pace while unemployment is projected to decline to 5.1% in 2018 and 5.0% in 2019.

Labour compensation continues to increase. Low unemployment, combined with a shrinking labour force and persistent skills shortages, led to economy-wide wage increases. After strong growth in 2016, wages further accelerated in 2017, also driven by a 16% minimum wage hike (to RON 1,450, c. EUR 315) in February and public sector wage increases during the year. This trend is projected to continue in 2018 given approved increases in public wages under a new Unified Wages Law and a further hike of the gross minimum wage to RON 1,900 (c. EUR 413), which the government justifies as a compensation for the planned social security contributions shift (see Section 2).

Inflation has started to pick up. After two consecutive years of falling consumer prices, inflation turned positive in 2017, despite being dampened by VAT rate cuts and lower excise duties on fuel. For the year as a whole, HICP inflation is expected to stand at around 1%. Headline inflation is projected to further pick up as demand pressures mount and the effect of the tax cuts fades away (see Section 4). HICP inflation is forecast to re-enter the National Bank of

Romania's target band (2.5%±1 pp.), reaching 2.9% in 2018 and 3% in 2019.

Risks to the outlook

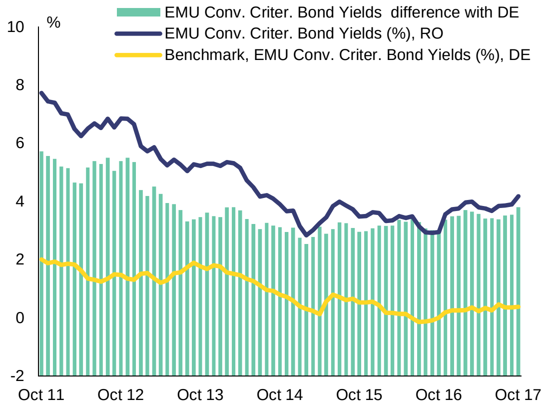
The economic outlook faces negative risks. The expected tightening of the central bank's monetary policy in response to emerging inflation pressures and a widening output gap (see Section 5) could negatively impact the outlook for private investment. Investment could also be adversely affected if the government were to further cut public investment in order to reach its budgetary deficit targets. The real effective exchange rate, deflated by unit labour costs (ULC), has appreciated somewhat since the second half of 2016 (See Section 5). Further increases in unit labour costs, due to wage growth outpacing productivity growth, could have a negative impact on Romania's exports. More generally, uncertainty regarding the government's policies could hamper growth.

Government financing

Bond yields remain low in historical terms but have recently increased somewhat. Sovereign financing conditions in Romania have remained relatively stable and indicators of financing conditions do not point to any major disruption of the sovereign debt market (see Section 5). However, there are signs that the market may be tightening: as of October 2017, 10-year bond yields had increased by around 120 basis points and spreads by around 90 basis points compared to the same period of the previous year.

The market outlook for Romania's sovereign debt is still positive. Standard & Poor's has maintained Romania's BBB- rating with stable outlook since May 2014. Moody's credit rating for Romania has been at Baa3 since April 2014; in April 2017 the outlook has been changed from positive to stable. Fitch has kept a BBB- rating since July 2011; the outlook is stable.

Graph 2.2: **RO 10Y bond spread vs German Bund**



Source: European Commission

Foreign exchange reserves have been broadly stable. An increase in foreign exchange reserves in the first half of 2017 was followed by a decline in the second half of the year. Romania's official foreign reserves held at the central bank amounted to EUR 36.7 bn at the end of November 2017, around 4% lower compared to the same period of 2016 (see Section 5). Foreign exchange reserves cover slightly over 5 months of imports and almost 100% of the short-term external debt at remaining maturities (as outstanding at the end of September)..The current level of foreign-exchange reserves appears to be sufficient and comfortable to service future repayments.

Banking sector

The banking sector continues to be profitable, well capitalised and liquid. Capital adequacy at system level has been stable since end-2015 and stood at 19 % at the end of September 2017. Liquidity remained at comfortable levels, with the loan-to-deposit ratio around 80 % at end-September 2017. The share of non-performing loans (NPL) has declined significantly (see Section 4). Despite compressed interest margins, banking profitability has remained in positive territory since 2015.

3. FISCAL POLICY

3.1. PUBLIC FINANCES (4)

The general government deficit is expected to remain around 3% of GDP in 2017. Tax cuts (in particular a cut of the standard VAT rate by 1 pp.) have a negative impact on tax revenues. On the expenditure side, public wages and social benefits were considerably increased. At the same time, public investment was cut significantly in the September's budget rectification. The headline deficit is forecast by the Commission and the Romanian authorities to remain at 3.0% of GDP in 2017. Since the output gap has turned positive, this means a further deterioration of the structural deficit.

Under a no-policy-change scenario, the deficit may breach the Treaty reference value of 3% of GDP in 2018. According to the Commission autumn 2017 forecast, the general government deficit is set to increase to 3.9% of GDP in 2018. In summer 2017, the authorities enacted a unified wage law (UWL), which is set to increase all public wages by 25% in January 2018 and contains additional increases for doctors and teachers in spring. Moreover, the personal income tax (PIT) rate will be cut from 16% to 10%. These measures are to be partially compensated by a shift of social security contributions from the current 22.75% for employers and 16.5% for employees to 2.25% ('labour insurance contribution') and 35%, respectively. The draft 2018 budget has not been published by the cut-off date of this report.

Romania has been under a significant deviation procedure since June 2017. As a consequence of Romania's significantly deviating in 2016 from its medium-term budgetary objective (of a structural deficit of 1% of GDP), the Council opened a significant deviation procedure (SDP) in June 2017. The Council recommended Romania to ensure an annual structural adjustment of 0.5% of GDP in 2017. Having concluded that Romania took no effective action to address the June recommendation and in light of the further expected deterioration of the structural balance in 2017 and 2018, on 5 December 2017 the Council addressed to Romania a revised recommendation, requesting a structural adjustment of at least 0.8% of GDP in 2018. The Council further asked Romania to report by 15 April on action taken to address the revised SDP recommendation.

The government is partially reversing the 2008 pension reform that introduced the multi-pillar pension system. After the closing date of the Commission autumn 2017 forecast, the government enacted an emergency ordinance to cut the rate of social contributions transferred to the second pension pillar, which under European System of Accounts (ESA) rules is classified outside of general government, from 5.1% in 2017 to 3.75% of gross wages as from 2018. After several postponements of the original 2008 reform implementation schedule, this rate was expected to increase to 6.0% in 2018. The cut to 3.75% is apparently calibrated so that the same nominal amount would be transferred in 2018 as in 2017. Additionally, the authorities are considering making the second pension pillar optional, but the details of this opt-out are not known. These changes will decrease the fiscal deficit in the short term. However, that fiscal gain would dissipate in the long term as the social contributions diverted from the second pillar would be accompanied by an obligation to pay old-age pensions in the future. In addition, such a reversal could have negative implications for the viability of the pensions system and for the development of capital markets. The mission cautioned against enacting such profound changes to the pension system in a hasty way, without a proper impact assessment and only for short-term, deficit-reducing reasons.

3.2. FISCAL GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT

The fiscal framework is not being fully respected. As in 2016, the 2017 budget law, was non-compliant with Romania's fiscal framework, as the deficit ceiling breached the medium-term budgetary objective of a structural deficit of 1 % of GDP (in the case of the 2016 budget) or an adjustment path towards it (in the case of the 2017 budget)(5). Additionally, the two 2017 budget

(4) The cut-off date for this report was 18 April 2017. As such, data for 2017 and 2018 is based on the European Commission winter 2017 forecast.

(5) The deficit rule requires compliance with or convergence to the medium-term budgetary objective of a deficit of -1 % of GDP (or -0.5 %, if the debt is above 60 % of GDP).

amendments (from September and November) broke the rules prohibiting increases of the headline and primary deficit ceilings during the fiscal year as well as the rules prohibiting during the fiscal year increases in personnel expenditures and in total government expenditures other than those linked to EU funds. The update of the medium-term fiscal strategy has not yet been adopted despite the statutory deadline of mid-August. No official schedule has been announced for the adoption of the 2018 budget and the medium-term fiscal strategy. The likely date of their adoption by the Ministry of Finance is mid-December.

Public investment management remains critical for medium-term budgetary planning and the absorption of EU funds. Project preparation and prioritisation continue to be weak. The Public Investment Evaluation Unit (PIEU) of the Ministry of Finance is in charge of evaluating large investment projects (above RON 100 mn, c. EUR 22 mn) and preparing a list of priority projects to be financed by the budget, EU funds or both. The list is updated annually. The unit has so far operated mainly as a recipient of proposals and has a limited mandate in influencing strategic planning. As a positive development, following legislative amendments in 2016, projects on the list are assigned a score and the line ministries are obliged to reflect the prioritisation result in their proposed budgets. However, the unit has no power to eliminate projects from the list but only to inform the Government of inconsistencies between the budgeting and prioritisation processes. The list presently includes 123 projects, of which 3 have been added in 2017, while 4 have been finalised and removed. For about 50 projects on the list, investment started more than ten years ago.

The implementation of the 2014-2020 European Structural and Investment (ESI) Funds programmes started with a considerable delay. The slow pick up is due to the late adoption of the new legal bases, delays in the implementation of previous programmes and lack of viable new projects. The managing and certifying authorities have only recently been authorised, which means that Romania will now be able to submit payment application for eligible expenditure actually incurred on the ground (interim payments). The accumulated delays could increase the risk of lost development opportunities against the backdrop of the de-commitment rule applicable to ESI funds. The absorption of ESI funds, i.e. the reimbursements of expenditure, amounted to approximately 7% of the 2014-2020 ESIF envelope for Romania against an overall 9% for the EU at end-November.

Many of the local investment projects are financed by the state budget within the National Programme for Local Development (PNDL). The programme was created in 2013 by grouping several previously independent local investment programmes and is supervised by the Ministry of Regional Development and Public Administration. The PNDL generally finances small and medium size infrastructure projects many of which do not fulfil the eligibility criteria for EU funds financing. It is a multiannual programme, though, unlike EU-funded programmes, it is not framed by multi-annual financial programming. For years it had stalled due to lack of proper budgetary planning and connection between budget allocations and project implementation. Moreover, there have been concerns that the allocation of funds is impacted more by political considerations than by sound investment rationale. The second stage of the programme, PNDL II, has been launched at the beginning of 2017. Compared to its predecessor, it has a more defined set of criteria for the allocation of funds. PNDLII has a budgetary allocation of RON 30 bn (c. EUR 6.5 bn) over four years, almost double its predecessor's. Around 17.6% of this allocation has been contracted in early November 2017.

The government has been working on public expenditure reviews. A unit dedicated to public spending reviews within the Ministry of Finance has been operational since early 2016. The unit has published a preliminary report from the review of the transport sector expenditure in 2016 and a final report is expected in early 2018. The unit also launched spending reviews in health and education. Preparatory work has been done with a view to completing the preliminary and final reports in 2018.

3.3. STATE-OWNED ENTERPRISES

The operational and financial performance of state-owned enterprises is not improving. SOEs have higher debt ratios and lower profitability than their private sector counterparts and operational results continued to deteriorate in 2016 and 2017. This lacklustre performance is not leading to the restructuring of loss-making companies despite the key role played by SOEs in critical infrastructure sectors such as energy and rail transport, as well as in defence, the extractive industries, forestry and mining. Arrears by SOEs, which with the support of the EU/IMF financial assistance programmes dropped from RON 6.7 bn in 2012 to RON 3.5 bn in 2016, are again increasing, having reached RON 3.8 bn at end-September 2017.

Plans to create a Sovereign Investment and Development Fund have unclear objectives and may further impact the 2018 budget. The creation of a Sovereign Investment and Development Fund ("the Fund") was decided by the government in February 2017. A draft law was adopted by the Ministry of Finance in August and was put under public consultation. The Fund would be set up as a joint-stock company having the Romanian State as sole shareholder. It would receive the State's participation in 27 profitable companies and be allowed to invest in other companies either directly or via other funds. The authorities intend the Fund to be outside the budgetary perimeter and sought the Eurostat's opinion on the statistical treatment in national accounts based on the draft law put under public consultation. If classified outside the budgetary perimeter, the Fund would have a negative impact on the state budget due to the loss for the state budget of the dividends of the SOEs transferred to the Fund. The authorities argue that this is a temporary loss, until the Fund starts distributing dividends, but without a business plan it is not possible to assess this claim.

The Fund's objectives, corporate governance and investment strategy are only vaguely defined. The law defines that the Fund will invest solely in profitable and sustainable projects. This may not be easily reconciled with the vision of the Fund as a way of making up for the shortage of public investment since many of the most urgent public investment projects are not necessarily profitable in purely financial terms. The mission shared its concerns over the fact that the Fund would be exempt from the provisions of the law on SOEs corporate governance, which was developed as part of the conditionality of the EU-IMF financial assistance programmes. A further concern is a possible overlap with the activities of the planned Development Bank.

3.4. PUBLIC DEBT

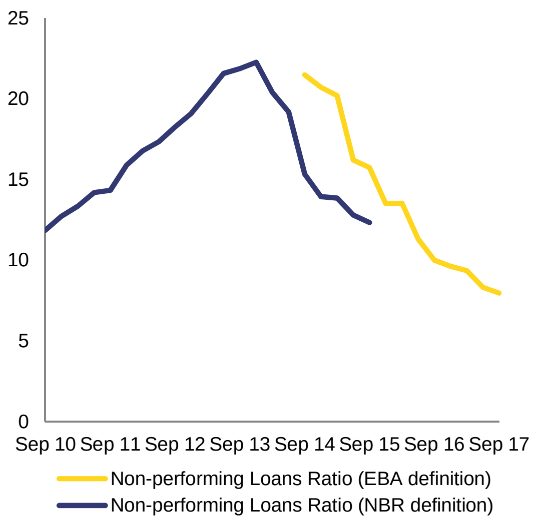
The government debt is increasing but is forecast to remain well below 60%. Despite strong GDP growth, the general government debt is projected by the Commission to increase from 37.6% of GDP in 2016 to 37.9% in 2017, 39.1% in 2018 and 40.5% in 2019. The maturity of the remaining public debt was 5.9 years as of end-September 2017, compared to 5.8 years at the end of 2016. Bond yields remain low in historical terms but have recently increased (see Section 2).

Romania's fiscal foreign-exchange cash buffer is above the target of 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 stood at about 4.7 months of gross financing needs for 2017 if privatisations receipts are taken into account and at about 2.6 months excluding privatisation receipts at the end of November.

4. FINANCIAL SECTOR

The overall health of the banking sector has continued to improve. Total capitalisation at system level remained roughly flat in the first 9 months of 2017, hovering around 19%, well above the EU average. On the back of the measures adopted since 2014 by the supervisor to facilitate the cleaning-up of banks' balance sheets, non-performing loans (NPLs) declined sharply by roughly 14 p.p. to slightly below 8% in September 2017, down from the peak registered in February 2014. Profitability has remained strong, supported also by the lower cost of risk. However, profitability has been heterogeneous across banks, as smaller credit institutions have faced more difficulties to generate profit. The cost-to-income ratio at system level has been lower than the EU average, but there is further scope for achieving efficiency gains, especially for smaller banks.

Graph 4.1: **Non-performing loans as percent of total loans**



Source: National Bank of Romania (NBR)

Asset quality has improved significantly, but the capital position of non-financial corporations is a matter of concern. Asset quality has improved both for exposures to households and corporates.(6) However, the still high level of impairment of non-financial corporations exposures may require further measures to strengthen their financial situation and a better enforcement of legal requirements on the capitalisation of companies. The robust economic growth has not led so far to improvements in the capitalisation of non-financial corporations. A large number of companies do not comply with the legal requirements on minimum capitalisation. According to data published by the NBR, 44% of the total number of companies had own funds below 50% of the subscribed equity, which is below the threshold foreseen in the company law. The majority of these under-capitalised companies have negative equity.

Banking sector consolidation has continued in 2017. The number of credit institutions operating on the Romanian market has slightly declined in recent years. The process of consolidation is expected to continue in the future also due to the need to improve operational efficiency and profitability. The degree of asset concentration at system level and the concentration of the assets of the largest five credit institutions are lower than the EU average. Following the take-over of the former Volksbank Romania by Banca Transilvania in 2015 - the biggest transaction of this type on the Romanian market in recent years – another important acquisition was recently announced. In November, Banca Transilvania announced that it reached an agreement with Eurobank Group to buy Bancpost, its Romanian subsidiaries.

The NBR has reiterated the commitment to conduct an asset quality review and stress test of the banking sector in 2018. Preparatory work has started already in 2015 with a view to conducting the exercise in 2016. During the 2nd PPS mission, in March 2017, the authorities announced it for 2018 to capture the impact of the debt discharge law on the balance sheet of banks and to allow for the completion of the IMF 2017 Financial Sector Assessment Programme (FSAP). The asset quality review and stress test exercise is expected to cover all banks identified as having systemic relevance and to be performed with the support of independent and reputable third parties. The exercise will be overseen by a Steering Committee, which includes representatives of the NBR as members and observers from the European Commission and the European Banking Authority.

(6) At the end of June 2017, NPLs for corporate exposures stood at 15.9%, down from 18.9% at the end of December 2016.

Risks stemming from legislative initiatives continue to require close oversight. The banking sector continues to be vulnerable to risks stemming from the unpredictable legislative framework, in particular from initiatives in Parliament. Through the Fiscal Code amendments approved in August 2017, the government limited the tax deductibility of expenditures related to NPLs sold by banks to 30% (as compared to the previous system of full tax deductibility of these expenditures). This new tax treatment is likely to discourage banks from further cleaning-up their balance sheets if NPLs were to increase again. Furthermore, a legislative proposal by Parliament which aims to cap the recovery values from NPLs to no more than double the price paid for those NPLs by investors in impaired assets is likely to discourage future secondary market transactions of impaired assets, if it were to be adopted. Moreover, any rights granted to borrowers in default to buy back receivables at preferential terms (i.e. no more than double the price paid by the NPL investor) and obtain debt discharge would induce a major moral hazard in the system and would significantly weaken the debt repayment discipline.

Compliance with new regulatory requirements may pose some challenges for the banking sector going forward. The introduction of IFRS 9([7]) as of 2018 will entail *inter alia* an increase in loan-loss provisions. However, according to NBR estimates, the new rules are expected to have overall a low impact on the Romanian banking sector, albeit with some heterogeneity among credit institutions. As of 2018, banks will also have to comply with the fully phased-in liquidity coverage ratio (LCR). This may create some strain, considering the lack of diversification of liquid assets held currently by banks, as the bulk of these assets are government securities. From a medium-term perspective, the compliance with the future minimum requirements for own funds and eligible liabilities (MREL) may also pose some challenges for credit institutions. The funding structure of credit institutions has been geared towards deposit funding, as the issuance of debt instruments by banks have been limited. The need to comply with the MREL requirements may entail higher costs for banks when issuing such instruments, also on the back of the less developed capital market in Romania as compared to peer countries.

([7]) International Financial Reporting Standard.

In line with the EU requirements, the NBR has continued to strengthen its preparedness regarding bank resolution. The authorities have fully implemented the European Bank Recovery and Resolution Directive (BRRD) and are in full compliance with the delegated regulations and technical standards. In its capacity of national resolution authority, the NBR approved also all Single Resolution Board (SRB) Joint Decision proposals for the 2016 planning cycle. Furthermore, the NBR has made further efforts to strengthen its internal preparedness to perform its resolution function including the development of operational, cross-departmental procedures for the implementation of the resolution tools foreseen in the legal framework.

Notwithstanding progress so far, several segments of the insurance sector require further improvement. In spite of the increase in insurance activity in the first half of 2017, Romania continues to have one of the lowest levels of insurance penetration in the EU (roughly 1.2% of GDP). The insurance market has been highly dependent on non-life insurance, in particular compulsory car insurance (motor third party liability insurance - MTPL) as the efforts of several companies to diversify their insurance business still need to bear fruits. Following the 2015 balance sheet review and stress test of the insurance sector, measures were taken by the Financial Supervisory Authority (ASF) to restore the financial situation of insurers in distress. Nevertheless, several pockets of vulnerability remain to be addressed, including the thin capital buffers of some weaker insurers as well as their high reliance on compulsory car insurance. The caps on insurance premiums for compulsory car insurance were lifted in May 2017 and replaced by reference prices. The removal of these maximum caps has not triggered so far an increase in insurance premiums which have remained below the reference prices. Further efficiency gains would continue to stabilise the insurance market and increase the capacity of insurance companies to generate profits and strengthen their capital. Cost-cutting measures, in particular related to the distribution of insurance products, appear warranted.

Table 4.1: **Prudential Indicators**

(%)	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Capital Adequacy									
Capital Adequacy Ratio	14.7	15.0	14.9	14.9	15.5	17.6	19.2	19.7	19.0
Leverage Ratio	7.6	8.1	8.1	8.0	8.0	7.4	8.2	8.9	8.9
CET 1 ratio						14.6	16.7	16.2	
Asset quality									
NPLs (90 days overdue; NBR definition)	7.9	11.9	14.3	18.2	21.9	13.9	12.3	n.a.	n.a.
NPLs (EBA definition)						20.7	13.5	9.6	8.0
NPL coverage ratio (EBA definition)						55.6	57.7	56.2	
Profitability									
Return on assets (after tax)	0.3	-0.2	-0.2	-0.6	0.0	-1.3	1.2	1.1	1.4
Return on equity (after tax)	2.9	-1.7	-2.6	-5.9	0.1	-12.5	11.8	10.4	12.9
Liquidity									
Immediate liquidity	35.3	37.8	37.2	35.9	41.5	41.1	40.8	40.3	

Source: National Bank of Romania, European Commission

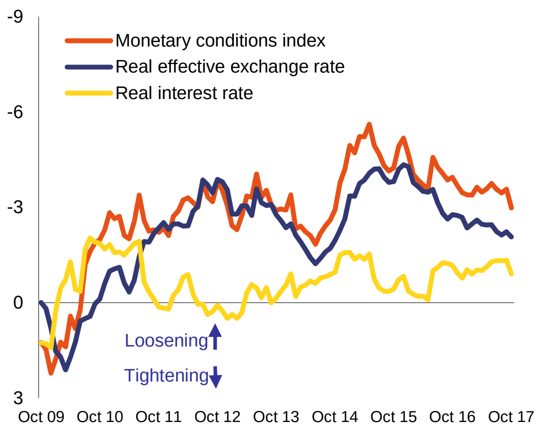
The recent changes to the second pension pillar may represent a headwind for the pension system and capital markets. The government decided in November 2017 to reduce, as of January 2018, the contributions to this mandatory pension pillar from 5.1% to 3.75% of gross salary (see section 3.1). According to government estimates, this reduction in contributions will not have an adverse impact on the Pillar II pension funds, as the base of the contribution (i.e. the gross salary) will also increase ([8]). However, these estimates only take into account the short-term impact, as the parametric changes to the system were not preceded by an impact assessment covering the impact on public finances, the long-term sustainability of the Pillar II and the impact on capital markets. The changes impacting the Pillar II pension funds were triggered by short-term fiscal concerns since the financial situation and functioning of these funds has not been a matter of concern. According to OECD data, the Romanian private pension funds have been among the top performers in Central and Eastern Europe, together with the Polish and Croatian funds, and the fees and commissions charged are among the lowest in the EU. The parametric changes to the mandatory pension system raise questions regarding the long-term sustainability of this pillar and the impact on capital markets. Pension funds are important institutional investors which play a key role for the development of capital markets, as they are intermediating between household savings and investment on capital markets. By having a robust mandatory pension system that invests in capital markets, the growth path of the country is also potentially increased due to a more efficient capital allocation, as well as higher savings and more investment.

([8]) As of the end-June 2017, the Pillar II pension funds had total assets of EUR 7.9 bn and roughly 6.9 mn participants (persons). Roughly 65% of the assets were invested in government bonds (as of June 2017), 19.6% in equity, 6.4% in deposits and the rest in investment funds and in corporate and municipal bonds.

5. MONETARY AND EXCHANGE RATES POLICIES

After two years of falling consumer prices, inflation has started to pick up. Inflation developments have been markedly influenced by the successive reductions of the VAT rates for different categories of products and supported by persistently low global oil prices. After reaching a low of -3% in May 2016, HICP inflation started to progressively increase but remained subdued due to a further VAT cut by 1 pp and a reduction in excise duties on fuel, both taking effect in January 2017. For 2017 as a whole, inflation is projected to be around 1%. It is expected to accelerate in 2018 as demand pressures mount (see Section 2) and the effect of tax cuts fades away. Thus, inflation is projected to re-enter the NBR's target band of 2.5% ±1% in the last quarter of 2017 and to reach the upper half of the target band towards the end of 2018.

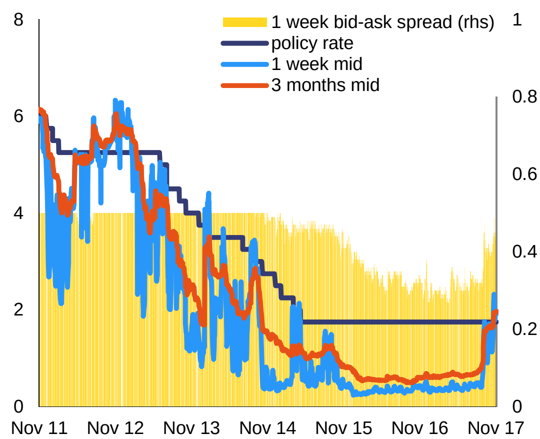
Graph 5.1: **Monetary conditions index (Jan-07=0, inverted scale)**



Source: European Commission

The NBR has started to reverse its accommodative monetary policy stance. The NBR's monetary policy rate has been kept at 1.75% since May 2015 (Graph 5.2). In November 2017, the symmetrical corridor of the interest rates on permanent credit and deposit facilities was narrowed to ±1 pp. around the monetary policy rate. In total, the corridor has been narrowed by 150 bps since November 2014, with a view to mitigate interbank money market rate volatility and further strength the transmission of the policy rate signal. Market participants expect an increase of the monetary policy rate in 2018, as the NBR forecasts inflation to re-enter its target band (2.5%±1pp) by the end of 2017, in line with a widening positive output gap and the fading out of the effect of disinflationary supply-side measures (see above). The next monetary policy meeting is scheduled for 8 January 2018.

Graph 5.2: **Policy and interbank rates (in %)**



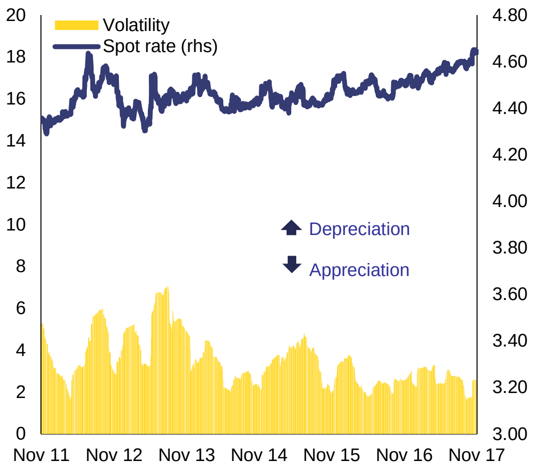
Source: European Commission

The NBR has announced its intention to ensure a firm liquidity management in the banking system. The announcement made during its November monetary policy meeting is likely to mean that the NBR will seek to keep the interest rates on the interbank market close to the monetary policy rate, rather than significantly below it, as was the case in recent years (Graph 5.2). The 3-month ROBOR indicator, which serves as the reference rate for bank loans to households and companies, increased by more than 130 bps between the beginning of August and the end of November from around 0.9% to around 2.2%, also reflecting an adjustment of inflation expectations.

Corporate credit growth has picked-up, while the share of FX-denominated loans has continued to fall. After several years of decline, credit to non-financial corporations started to increase in the second half of 2017. The growth of credit to households remained stable as a slowdown in the growth of mortgages was compensated by a pick-up in credit for consumption and other purposes. The stock of foreign currency loans continued to decline for both household and corporations, with the share of the domestic currency increasing to 61.6 % of the total loan stock in October 2017 (up from a low of

35.6 % in May 2012). The decline of the share of foreign-currency denominated loans is likely to improve monetary policy transmission and mitigate risks to financial stability.

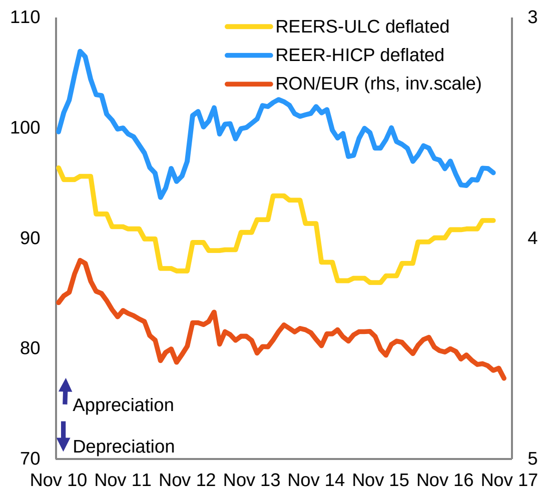
Graph 5.3: **Daily exchange rate volatility (vis-a-vis euro, over the previous 3m)**



Source: Bloomberg

The leu has been trading within a relatively narrow range since 2013, following regional trends but with lower volatility. The leu's exchange rate against the euro has showed relatively limited fluctuation over the last few years predominantly trading in the range of 4.4-4.6 RON/EUR since 2013. The leu has been weakening slightly over the course of 2017 in the context of a rise in global risk aversion and concerns regarding the country's unpredictable fiscal policy and increasing current account deficit. The real effective exchange rate (REER) has been relatively stable after it weakened substantially during the crisis. Since the second half of 2016, however, the REER, deflated by unit labour costs (ULC), has appreciated somewhat (Graph 5.4), reflecting an increase in ULC due to wages outpacing productivity growth (see Section 2).

Graph 5.4: **Bilateral and effective exchange rates**



Source: European Commission

Foreign exchange reserves have remained broadly stable. An increase in foreign exchange reserves in the first half of 2017 was followed by a decline in the second half of the year. Romania's official foreign reserves held at the central bank amounted to EUR 36.7 bn at the end of November 2017, around 4% lower than in the same period in 2016. This level of foreign exchange reserves covers slightly over 5 months of imports and almost 100% of the short-term external debt at remaining maturities (as outstanding at the end of September). Foreign exchange reserves have been boosted by issuances of Eurobonds. In April 2017 Romania issued a EUR 1 bn 10-year Eurobond at 2.41% yield. A further EUR 0.75 bn were raised in April by reopening a 2035 Eurobond at a 3.55% yield. In October 2017 EUR 1 bn was borrowed by re-opening the April 10-year issue, at 2.114% yield.

In contrast to the declining Eurobond yields, interest rates on domestic currency long-term government bonds have been somewhat increasing. As of October 2017, 10-year bonds yields were around 4.2%, having risen by some 120 bps since a year before as expectations of a policy rate hike are priced-in and concerns regarding the government's fiscal policy mount.

ANNEX 1

Financial assistance programmes, 2009-2015

Table A1.1: **Financial assistance programmes to 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
TOTAL financial support received from IFIs during 2009-2011	**EUR 19.9 bn**
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
TOTAL financial support available in 2011-2013	**EUR 6 bn**
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
TOTAL financial support available in 2013-2015	**EUR 5 bn**

Source: European Commission, IMF, and WB

Table A1.2: **Repayment schedule**

	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
Q2 2018	72.8	1,200.0	1,272.8			-	1,272.8
Q3 2018	4.7	150.0	154.7			-	154.7
Q2 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 2013-2019)**

	2013	2014	2015	2016	2017*	2018*	2019*
Gross Domestic Product *(annual percentage change, unless otherwise indicated)*							
Nominal GDP (in bn RON)	637	668	713	761	821	884	951
Real GDP	3.5	3.1	4.0	4.6	5.7	4.4	4.1
Private Consumption	0.7	4.7	5.9	7.4	8.6	4.8	4.6
Public Consumption	-4.6	0.8	0.2	4.7	3.0	3.0	3.0
Gross fixed capital formation	-5.4	3.2	7.4	-3.5	1.6	6.5	5.5
Exports	19.7	8.0	4.6	8.3	8.3	7.3	6.7
Imports	8.8	8.7	8.0	9.8	9.9	8.1	7.3
Contribution to GDP growth							
Domestic demand	-1.7	3.8	5.5	4.4	6.1	4.9	4.6
Inventories	1.6	-0.3	-0.1	0.9	0.3	0.0	0.0
Net exports	3.6	-0.3	-1.4	-0.7	-0.8	-0.5	-0.5
Prices							
HICP inflation (average)	3.2	1.4	-0.4	-1.1	1.0	2.9	3.0
HICP inflation (year-end, quarterly)		1.4	-1.0	-0.1	1.9	3.0	3.1
NBR target (midpoint) (±1 percentage point)	2.5	2.5	2.5	2.5	2.5		
Labour market							
Total employment ('000 persons)	8 569	8 635	8 526	8 449	8 509	8 540	8 553
Unemployment rate (harmonised:15-74)	7.1	6.8	6.8	5.9	5.3	5.1	5.0
General Government Accounts *(in percent of GDP, cash)*							
Govn deficit, cash definition	-2.5	-1.7	-1.4	-2.4			
General Government deficit, ESA 2010 definition	-2.1	-1.4	-0.8	-3.0	-3.0	-3.9	-4.1
General Government gross debt, ESA 2010 definition	37.8	39.4	37.9	37.6	37.9	39.1	40.5
Balance of payments *(in percent of GDP)*							
Current account balance **	-0.6	-0.1	-0.6	-2.3	-3.1	-3.2	-3.4
Trade balance**	-0.8	-0.4	-0.6	-0.9	-2.3	-2.9	-3.0
Capital and financial account balance	3.3	4.7	3.9	3.4	n.a.	n.a.	n.a.
FDI balance	-2.0	-1.8	-1.8	-2.7	n.a.	n.a.	n.a.
Net international investment position	-61.7	-56.8	-53.7	-49.4	-47.9	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	32.5	32.2	32.2	33.0	32.7	n.a.	n.a.
Gross external debt	68.0	63.0	57.4	54.8	51.8	n.a.	n.a.
Monetary and exchange rate developments							
Broad money M3 (annual % change, end of the period)	8.8	8.4	9.3	9.7	13.6	n.a.	n.a.
NBR policy rate (in %, end of period)	4.00	2.75	1.75	1.75	1.75	n.a.	n.a.
Exchange rate (lei/euro, end of period)	4.38	4.50	4.44	4.54	4.60	n.a.	n.a.
REER (Unit Labour Costs deflator, % change)	4.00	-0.90	-5.60	5.70	2.30	n.a.	n.a.

* European Commission, 2017 Autumn Forecast or latest values
** Current account and trade balances are reported based on European Commission, 2017 Autumn Forecast using National accounts data.
Source: European Commission, National authorities

Table A2.2: **General government accounts, 2013-2019 (% of GDP)**

	ESA code	2013	2014	2015	2016	2017*	2018*	2019*
1. Taxes on production and imports	D2	12.7	12.7	13.2	11.3	10.5	10.8	10.8
2. Current taxes on income and wealth	D5	5.9	6.2	6.6	6.5	6.2	5.0	5.2
2a. - of which, paid by households and NPISH		3.6	3.9	3.6	3.6	3.6	2.2	2.3
2b. - of which, paid by corporations		2.3	2.3	3.0	2.9	2.7	2.8	2.9
3. Social contributions	D61	8.6	8.5	8.1	8.1	8.8	10.1	10.1
4. Sales and other current revenue		4.6	4.0	4.3	3.6	3.8	3.9	3.9
5. Total current revenue (1+2+3+4)		**31.7**	**31.4**	**32.3**	**29.5**	**29.3**	**29.8**	**30.0**
6. Compensation of employees	D1	8.1	7.7	7.7	8.2	9.2	10.1	10.2
7. Intermediate consumption	P2	5.7	5.7	5.6	5.3	5.0	5.0	5.0
8. Social transfers in kind supplied via market producers		1.0	1.0	0.9	0.9	0.8	0.8	0.8
9. Social transfers other than in kind	D62	10.7	10.5	10.6	10.7	11.1	11.1	11.3
10. Interest	D41	1.8	1.6	1.6	1.5	1.5	1.6	1.6
11. Subsidies	D3	0.5	0.5	0.5	0.4	0.4	0.4	0.4
12. Other current expenditure		1.9	2.3	2.5	1.8	1.9	2.1	2.2
13. Total current expenditure (6+7+8+9+10+11+12)		**29.7**	**29.3**	**29.4**	**28.9**	**29.9**	**31.0**	**31.5**
14. Gross saving (5-13)	B8g	13.0	14.0	20.8	5.1	-4.4	-10.5	-13.8
15. Capital Transfers, received	D9	1.5	2.1	2.7	1.5	1.4	1.9	2.0
16. Gross fixed capital formation	P51	4.5	4.3	5.1	3.6	3.0	3.5	3.8
17. Other capital expenditure		1.2	1.3	1.2	1.6	0.9	1.0	0.9
18. Total government revenue (5+15)	**TR**	**33.3**	**33.5**	**34.9**	**31.0**	**30.8**	**31.7**	**32.0**
19. Total government expenditure (13+16+17)	**TE**	**35.4**	**34.9**	**35.7**	**34.0**	**33.8**	**35.5**	**36.2**
20. Net lending (+) / net borrowing (-) (18-19)	**B9**	**-2.1**	**-1.4**	**-0.8**	**-3.0**	**-3.0**	**-3.9**	**-4.1**

* European Commission, 2017 Autumn Forecast
Source: European Commission

Table A2.3: **Key monetary indicators**

	2013	2014	2015	2016	2017*
Broad money (M3), mln RON, eop	**241550**	**261831**	**286256**	**314162**	**336963**
Intermediate money (M2)	241254	261573	286126	314053	336835
Money market instruments	296	258	129	109	128
Narrow money (M1)	100314	118582	149550	180014	202052
Currency in circulation	34786	39890	46482	54750	61013
Overnight deposits	65528	78691	103069	125264	141040
Time deposits**	140940	142991	136576	134040	134783
Money and credit (Annual percentage change, eop)					
Broad money (M3)	8.8	8.4	9.3	9.7	13.6
- NFA contribution	13.6	11.9	5.5	10.8	3.4
- NDA contribution	-4.8	-3.5	3.8	-1.1	10.2
Intermediate money (M2)	8.8	8.4	9.4	9.8	13.6
Narrow money (M1)	12.7	18.2	26.1	20.4	21.3
Currency in circulation	10.5	14.7	16.5	17.8	16.8
Overnight deposits	13.9	20.1	31.0	21.5	23.3
Time deposits*	6.1	1.5	-4.5	-1.9	3.8
p.m. Credit to private sector	-3.3	-3.3	3.0	1.2	6.7
Interest rates (In percent, eop)					
Robor, 3 m	2.44	1.70	1.02	0.90	1.87
Robor, o/n	1.74	0.57	0.53	0.56	1.82
NBR policy rate	4.00	2.75	1.75	1.75	1.75
NBR credit facility rate	7.00	5.25	3.25	3.25	2.75
NBR deposit facility rate	1.00	0.25	0.25	0.25	0.75
Exchange rates					
Lei per euro (end of period)	4.38	4.50	4.44	4.54	4.60
Lei per euro (average)	4.42	4.44	4.45	4.49	4.59
Real effective exchange rate (percentage change)					
HICP based	3.50	1.50	-3.70	-1.90	0.10
ULC deflator based	4.00	-0.90	-5.60	5.70	2.30

* Latest data available
** Maturity of up to two years.
Source: BNR, European Commission

Table A2.4: **General government balance cyclical adjustment**

	2013	2014	2015	2016	2017*	2018*	2019*
Government balance (ESA-2010)	-2.1	-1.4	-0.8	-3.0	-3.0	-3.9	-4.1
Primary balance	-0.4	0.3	0.9	-1.5	-1.6	-2.3	-2.5
Cyclically adjusted balance	-0.9	-0.4	-0.1	-2.6	-3.3	-4.3	-4.6
Cyclically adjusted primary balance	0.8	1.3	1.6	-1.1	-1.8	-2.7	-2.9
Structural government balance	-0.9	-0.4	-0.3	-2.2	-3.3	-4.3	-4.6
GDP growth	3.5	3.1	4.0	4.6	5.7	4.4	4.1
Potential growth	1.8	2.3	3.2	3.6	3.7	4.0	4.0
Output gap	-3.6	-2.9	-2.1	-1.2	0.7	1.1	1.2

* European Commission, 2017 Autumn Forecast
Source: European Commission

Table A2.5: **Key labour market indicators**

	2013	2014	2015	2016	17 Q1	17 Q2	*2017-2016**
1 - Population (total, 1000 pers.)	**20020**	**19947**	**19871**	**19760**	**n.a.**	**n.a.**	***-0.6* %**
2 - Population (working age:15-64, 1000 pers.)	**13622**	**13556**	**13414**	**13259**	**13153**	**13157**	***-1.1* %**
3 - Labour force (15-64, 1000 pers.)	**8832**	**8883**	**8858**	**8696**	**8536**	**9065**	***3.5* %**
4 - Activity rate (% of population 15-64)	**64.9**	**65.7**	**66.1**	**65.6**	**64.9**	**68.9**	***3.1*** pps
Young (15-24)	30.1	29.6	31.3	28.0	26.9	32.3	***4.7*** pps
Prime age (25-54)	81.5	82.1	82.5	81.9	81.5	84.9	***2.8*** pps
Older (55-64)	43.4	44.6	42.7	44.2	42.9	47.6	***2.6*** pps
Nationals (15-64)	64.9	65.7	66.1	65.6	64.9	68.9	***3.1*** pps
Non-nationals (15-64)	n.a.	n.a.	n.a.	n.a.	62.0	75.1	
Male	73.4	74.3	75.3	74.8	73.6	77.7	***2.6*** pps
Female	56.3	56.9	56.7	56.2	56.0	59.9	***3.7*** pps
5 - Employment rate (% of population 15-64)	**60.1**	**61.0**	**61.4**	**61.6**	**61.2**	**65.5**	***3.7*** pps
Young (15-24)	22.9	22.5	24.5	22.3	21.4	27.3	***5.1*** pps
Prime age (25-54)	76.3	77.1	77.4	77.6	77.5	81.3	***3.6*** pps
Older (55-64)	41.8	43.1	41.1	42.8	41.6	46.1	***2.6*** pps
Low-skilled (15-64)	42.2	44.4	42.6	41.0	38.5	45.8	***3.4*** pps
Medium-skilled (15-64)	63.7	65.0	64.9	65.2	65.4	68.9	***3.4*** pps
High-skilled (15-64)	82.6	82.5	85.3	86.2	87.1	88.3	***2.6*** pps
Nationals (15-64)	60.1	61.0	61.4	61.6	61.2	65.5	***3.7*** pps
Non-nationals (15-64)	n.a.	n.a.	n.a.	n.a.	62.0	65.6	
Male	67.6	68.7	69.5	69.7	68.9	73.2	***3.2*** pps
Female	52.6	53.3	53.2	53.3	53.5	57.7	***4.3*** pps
6 - Employed persons (15-64, 1000 pers.)	**8179**	**8254**	**8235**	**8166**	**8056**	**8616**	***4.7*** %
7 - Self employed (% of total employment)	**18.8**	**18.4**	**17.6**	**16.5**	**15.2**	**17.5**	***0.2*** pps
8 - Temporary employment (% of total employment)	**1.0**	**1.1**	**1.0**	**1.0**	**0.9**	**0.9**	***-0.2*** pps
9 - Part-time (% of total employment)	**9.0**	**8.7**	**8.8**	**7.4**	**6.4**	**7.8**	***0.2*** pps
10 - Unemployment rate (harmonised:15-74)	**7.1**	**6.8**	**6.8**	**5.9**	**5.5**	**4.8**	***-1.1*** pps
Young (15-24)	23.7	24.0	21.7	20.6	20.4	15.4	***-4.0*** pps
Other (25-74)	5.7	5.5	5.6	4.8	4.4	3.9	***-1.0*** pps
Low-skilled (15-74)	6.7	6.7	8.1	7.6	7.8	6.5	***-0.7*** pps
Medium-skilled (15-74)	7.8	7.2	7.2	6.2	5.6	5.1	***-1.1*** pps
High-skilled (15-74)	5.4	5.8	4.1	3.1	2.7	2.1	***-1.2*** pps
Nationals (15-74)	7.1	6.8	6.8	5.9	5.5	4.8	***-1.1*** pps
Non-nationals (15-74)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Male (harmonised:15-74)	7.7	7.3	7.5	6.6	6.3	5.7	***-0.9*** pps
Female (harmonised:15-74)	6.3	6.1	5.8	5.0	4.4	3.6	***-1.3*** pps
11 - Long-term unemployment (% total unemployment)	**45.2**	**41.1**	**43.9**	**50.0**	**43.8**	**n.a.**	***-15.9*** %
12 - Worked hours (average actual weekly hours)	**40.0**	**40.0**	**39.8**	**39.9**	**39.8**	**39.5**	***-1.0*** %
13 - Indicator board on wage developments (% change)							
Compensation per employee	4.6	7.6	6.2	14.3	15.0	15.5	***-1.3*** pps
Real compensation per employee (GDP deflator)	1.1	5.8	3.5	11.9	8.4	10.9	***-1.6*** pps
Hourly labour costs (Eurostat labour cost index)	5.8	4.2	6.2	13.1	18.2	20.0	***8.1*** pps
Wage and salaries	5.5	5.5	9.0	13.1	18.2	20.0	***8.0*** pps
Labour productivity (real GDP/person employed)	4.4	2.3	5.3	5.5	4.7	1.0	***-6.6*** pps
Nominal unit labour costs	-0.5	4.7	-3.5	5.6	10.4	14.3	***5.3*** pps
14 - Sectoral breakdown of unit labour costs							
Business economy	4.2	5.0	5.6	10.6	15.1	15.0	***5.1*** pps
15 - Sectoral breakdown of compensation per employee							
Agriculture and fishery	11.1	7.9	20.7	8.7	13.1	18.9	***-7.0*** pps
Industry	-0.2	1.0	8.3	5.9	15.3	11.8	***2.1*** pps
Construction	2.2	-7.2	10.1	21.5	10.9	17.7	***-27.0*** pps
Trade, transport and information services	1.8	4.9	0.1	6.0	11.5	10.8	***12.1*** pps
Finance and business services	7.3	2.6	11.1	2.0	3.2	-4.0	***-11.3*** pps
Non-market related services	5.0	16.9	-9.5	15.8	26.0	30.3	***5.9*** pps

Note: *Developments 2017-2016 are the yearly changes of the latest available quarter (except total population where it is the annual change 2016-2015).
Source: European Commission

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