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Post-Programme Surveillance Report

Romania, Spring 2017

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European Commission
Directorate-General for Economic and Financial Affairs

Post-Programme Surveillance Report

Romania, Spring 2017

EUROPEAN ECONOMY Institutional Paper 054

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EXECUTIVE SUMMARY

An European Commission mission was in Bucharest 16-17 March for the second post-programme surveillance mission. Post-programme surveillance (PPS) started in October 2015. The main objective is to assess the country'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 (2011-13) and third (2013-15) 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. The first surveillance mission took place 23-26 May 2016 and concluded that the risks related to the repayment of the outstanding loans to the EU were very low. As under the BoP programme missions, ECB staff joined as observers.

The overall debt level and government 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 FX cash buffer continues to provide a visible and predictable signal to markets. It remains above the target of four months of gross financing needs. The outstanding amount due to the European Commission is €3.5 billion, about 2% of GDP. However, if current trends persist, risks could gradually increase.

Economic growth has been brisk over the last three years and is expected to remain robust in 2017-2018 on the back of pro-cyclical policies. Since 2014, growth has been mostly driven by domestic demand and accelerated to 4.8% in 2016 as fiscal policy turned pro-cyclical. Economic growth is projected to remain strong at 4.4% in 2017 before it moderates and returns to potential at 3.7% in 2018, as the fiscal stimulus wears out. The output gap is estimated to have closed in 2016 and is forecast to turn positive in 2017 as progress on structural reforms remains sluggish. Private consumption reached a post-2008 peak in 2016 on the back of higher household disposable income boosted by strong wage growth, indirect tax cuts and negative inflation. Investment's contribution to growth was negative in 2016 as EU funds absorption remains low at the start of the new programming period. Robust consumption growth worsened the trade balance deficit and net exports contributed negatively to real growth. Following successive VAT rate cuts and low imported inflation, inflation reached a historical low of -3.0% in May 2016, but has been picking up fast and is forecast to reach 1.6% in 2017 and 2.9% in 2018. Employment is forecast to remain broadly stable, while the unemployment rate dropped to 5.9% in 2016 and is approaching pre-crisis lows.

The general government deficit substantially increased in 2016 and, under a no-policy-change scenario, may breach the Treaty reference value of 3% of GDP in 2017. In 2016 the general government deficit increased to around 3% of GDP, from 0.8% of GDP in 2015, on the back of significant tax cuts and a series of public wages increases. As a consequence, Romania has deviated from its medium term objective (MTO) of a structural deficit of 1% of GDP. In 2017, the headline deficit is projected to deteriorate further due to additional tax cuts and increases to public wages and pensions. According to the Commission winter 2017 forecast, it may breach the Treaty reference value of 3% of GDP. The 2017 budget law foresees a general government deficit of 2.98% of GDP. However, the underlying macroeconomic assumptions seem overly optimistic, current expenditure seems to be underestimated, and tax revenue seems overestimated. The authorities expressed the general intention of respecting the 3% of GDP Treaty threshold, mostly through the increase in tax collection, but without presenting concrete measures. The mission stressed that the next update of the Convergence Programme, due mid-April 2017, will provide the opportunity to define compensatory and contingency measures. Plans for further public wage increases, in particular a Unified Wage Law (UWL) aimed at reducing disparities in the public wage grid represents a very significant upward risk for the government deficit. The authorities' preliminary estimate of the impact of the UWL is an increase of the public wages bill of 56% by 2021 (app. 3.3% of GDP). The final estimate, including the calendar for the phasing-in of the wage increases resulting from the new UWL, are not yet available at the time of this report.

Romania has a sound fiscal framework but implementation remains insufficient. The significant departure from the MTO in 2016 broke the rules of the Fiscal Responsibility Law and Romania's obligations under the Stability and Growth Pact and the Fiscal Compact. Timely annual adoption of the multiannual fiscal strategy and better public investment preparation and prioritisation would improve medium-term planning. Operational results by state-owned enterprises have overall improved, but arrears remain high and restructuring of loss making companies is not taking place. Some reforms to improve public investment management are ongoing, but results can only be expected in the medium term. The creation of a new Sovereign Fund for Development and Investment deserves further scrutiny.

Financial sector resilience strengthened in 2016, whereas the risks stemming from legislative initiatives have been largely mitigated. The cleaning-up of banks' balance sheets continued in 2016 with non-performing loans declining to just below 10%, whereas banking sector profitability continued to improve. With the recent enactment of the law on the National Committee for Macro-Prudential Supervision, Romania complied with the ESRB Recommendation on the setting up of a macro-prudential authority. The overall soundness of the banking sector has remained reassuring, but the high exposure of credit institutions to sovereign debt remains a pocket of vulnerability. Risks from the law on debt discharge and the draft law on the conversion of Swiss franc loans have been largely mitigated by the decisions of the Constitutional Court. After several delays triggered *inter alia* by the law on debt discharge, authorities committed to perform in 2018 a comprehensive asset quality review (AQR) and stress test of the banking sector with third party support. Following the completion of the 2015 balance sheet review and stress test in the insurance sector, the identified shortcomings, in particular regarding undertakings with high dependency on compulsory car insurance, have been gradually addressed. However, the decision of the government to introduce maximum caps on insurance premiums for compulsory car insurance is likely to aggravate current market distortions.

The third post-programme surveillance mission is foreseen in autumn 2017. 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 six months, possibly subsequently declining over time. Precise dates for the third mission will take into account developments in the country and, whenever possible, other planned European Commission surveillance missions.

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) ([1]). The outstanding amount is EUR 3.5 billion (see Annex 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).

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 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. Furthermore, 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.

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 post-programme surveillance mission concluded that the risks related to the repayment of the outstanding loans to the EU are very low. The first PPS mission took place 23-26 May 2016. It 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 second post-programme surveillance mission took place 16-17 March. As in the first mission, it involved staff from DGs ECFIN, FISMA and EMPL. The ECB participate as observers. Since the launch of PPS information has been regularly shared by the authorities under the conditions defined end-September 2015.

The overall debt level and government 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 FX cash buffer continues to provide a visible and predictable signal to markets. It remains above the target of four months of gross financing needs. However, if current trends persist, risks could gradually increase.

The cut-off date for data in this report was 18 April 2017. The data in this report was updated with information provided by the authorities in the spring EDP notification, which was not yet available at the time of the mission.

([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".

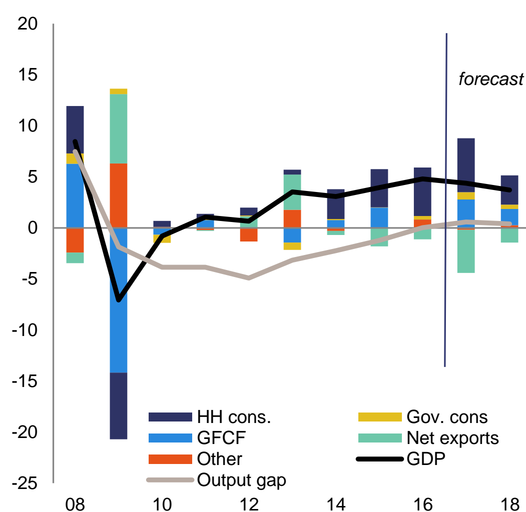
([2]) For more details and reports on the three BoP programmes in Romania see: http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm

2. RECENT DEVELOPMENTS AND OUTLOOK

Macroeconomic outlook (3)

Growth accelerated and reached a new post-crisis peak. GDP is estimated to have grown 4.8% in 2016 driven mostly by a sharp increase in private consumption supported by a pro-cyclical fiscal policy and wage hikes. As a result, private consumption is estimated to have risen to a nine-year high, contributing 4.6 percentage points (pps.) to growth in 2016. In contrast, investment's (4) contribution to growth was negative in 2016 (-0.8 pps.), as public investment declined due to the slow uptake of new projects financed by EU funds under the new 2014-2020 programming period. The growth contribution of net exports remained negative in 2016 (-0.7 pps.) as export growth was outpaced by import growth due to robust domestic demand.

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



Source: European Commission

Growth is forecast to decelerate but to remain slightly above potential. A renewed fiscal impulse in 2017 (see Section 3), alongside relatively favourable financing conditions, is expected to continue to support domestic demand. Accordingly, real GDP was forecast by the Commission in the winter to expand by 4.4% in 2017. Growth is expected to moderate and reach 3.7% in 2018 as the 2017 fiscal stimulus wears out, and to return to potential as progress on structural reforms remains modest. Growth is expected to remain largely consumption driven even if investment is forecast to slightly pick-up due to the gradual implementation of projects financed from EU funds.

The current account deficit is widening as import growth strengthens. The current account deficit is estimated to have significantly deteriorated in 2016 (2.4% of GDP) on the back of strong consumption which boosted the goods trade deficit. Going forward, the current account deficit is forecast to continue to widen, supported by strong domestic demand. It is forecast to reach 2.9% of GDP in 2017 and 3.1% of GDP in 2018. Export growth is expected to remain moderate in line with modest growth in the main trading partners and a potential erosion of cost competitiveness. Net FDI inflows increased, driven primarily by higher equity, including reinvested earnings.

Labour market and inflation

Labour market conditions are improving. The labour market continued to improve in 2016 on the back of strong GDP growth. Unemployment dropped from 6.8 % in 2015 to 5.9 % in 2016 and is approaching pre-crisis lows. Total employment decreased by an estimated 1.1% in 2016 and is set to grow at a modest pace in 2017-2018. Jobs were lost in agriculture and industry, but gained in services, reflecting the changing structure of the economy.

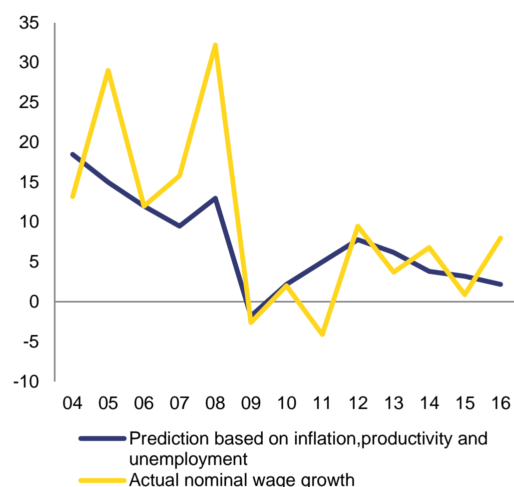
Labour compensation growth accelerated recently. Low unemployment, combined with a shrinking labour force and persistent skills shortages, led to a tighter labour market and economy-wide wage increases. In 2016, the growth of compensation per employee accelerated ahead of the rate suggested by fundamentals (Graph 2.2). The minimum wage was raised ad-hoc to RON 1 450 (EUR 322) from February 2017, 16% above the May 2016 increase. In addition, public sector wages were increased by 15% in the healthcare sector from December 2016 and 15% in the education sectors from January 2017 and by 20% in local administration from February 2017.

(3) 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.

(4) Measured as gross fixed capital formation.

More wage increases are planned for 2017-18. Following its electoral programme, the government is planning a new Unified Wage Law to address distortions in the public remuneration system. The new law would require an upward shift of the wage grid, adding to the spending pressures (see Section 3). In addition, the government programme provides for further increases of the minimum wage until 2020 to at least 1750 RON (~390 EUR). No wage setting mechanism is proposed. Continued hikes in the minimum wage, without taking into consideration labour productivity developments, risk undermining competitiveness.

Graph 2.2: **Nominal compensation per employee**



Source: European Commission

Inflation is set to gradually increase and re-enter the central bank's target band (2.5%±1 pp.) in 2017. The impact of successive VAT reductions and low imported inflation on headline inflation has so far outweighed the upward pressures on prices from the surge in domestic demand and higher wages. Robust domestic demand, boosted by the recent minimum and public wage increases should result in a positive output gap and inflation picking up in 2017 (see Section 5). Annual average inflation is therefore forecast to turn positive in 2017 (1.6%) and increase further to 2.9% in 2018.

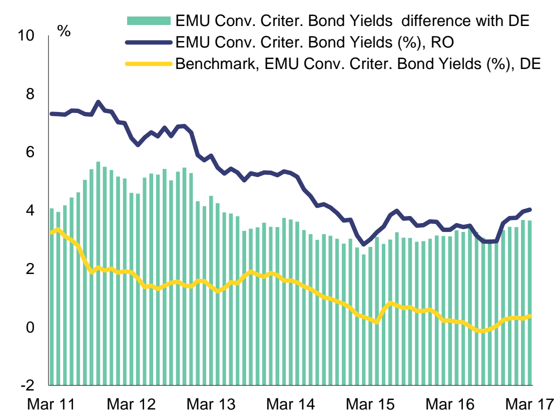
Risks to the outlook

Risks to the macroeconomic outlook are tilted to the downside. Large uncertainties remain, related to the perception that the loose fiscal stance might have adverse effects on taxation, to a weakening of institutions which could affect market confidence, and to the lack of predictability of the legal and business environment. Risks to the inflation outlook are tilted to the upside by the combination of strong domestic demand with a positive output gap, growing wages and increasing international oil prices.

Government financing

Bond yields have increased somewhat but remain low in historical terms. Sovereign financing conditions in Romania have remained relatively stable. Current yields (10y bonds) are at 4.01% ([5]), some 65 bps higher than a year ago. Indicators of financing conditions such as CDS spreads do not point to any major disruption of the sovereign debt market. The 10-year spread with the Bund reached 367 bps, up by 55 bps compared to a year ago.

Graph 2.3: **RO 10Y bond spread vs German Bund**



Source: European Commission

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 has been Baa3 since April 2014, with the outlook changed from positive to stable in April 2017.

([5]) As of mid-March 2017.

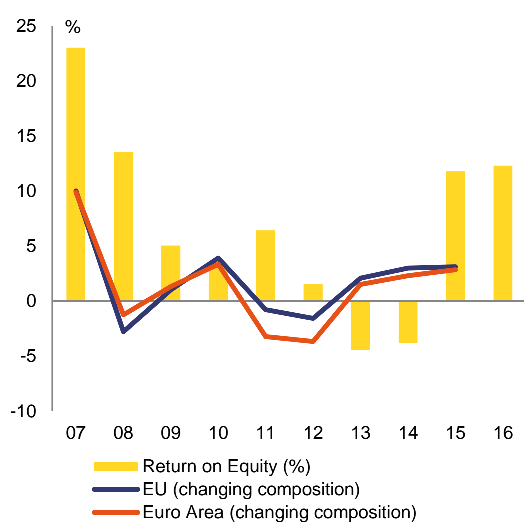
Fitch has kept a BBB- rating since July 2011 with a stable outlook.

Foreign exchange reserves increased despite repayments to private and official creditors. Romania's official gross foreign reserves (including gold) held at the central bank amounted to EUR 38.4 bn in February 2017, a 11% y-o-y increase. The level of foreign-exchange reserves covered above 100% of short-term external debt at remaining maturities and around 6 months of imports. The current level of foreign-exchange reserves appears to be sufficient and comfortable to service future repayments.

Banking sector

The banking sector remains profitable, well capitalised and liquid. Capital adequacy at system level has remained roughly flat since end-2015 and stood at 18.3% at the end of 2016. Liquidity remained at comfortable levels, while the loan-to-deposit ratio fell to 79% in December 2016. Following the balance sheet clean-up in 2014 (see Section 4), banking sector profitability rebounded to positive territory in 2015 and further improved in 2016 despite compressed interest margins (Graph 2.4).

Graph 2.4: **Return on equity**



Source: European Commission

3. FISCAL POLICY

3.1. PUBLIC FINANCES ([6])

Public deficit has significantly increased in 2016. The general government deficit amounted to 0.8% of GDP in 2015, below Romania's medium-term objective (MTO) of a structural deficit of 1% of GDP. However, changes to the fiscal code adopted in spring 2015 comprised significant tax cuts entering into force in 2016, including a cut of the standard VAT rate from 24% to 20%. This and other expenditure and revenue measures enacted in the course of the year led to a cash deficit outturn, nationally defined, of 2.4% of GDP in 2016, a general government deficit of 3% of GDP, and a structural deficit of 2.6%. The latter represents a substantial departure from Romania's MTO.

The general government deficit is set to increase further and may breach the Treaty reference value of 3% of GDP. Further tax cuts in 2017, adopted in spring 2015, are projected to have a negative effect on revenues. Moreover, the 2017 budget contains a number of additional tax cuts, increases in public wages and a significant increase in old-age pensions entering into force in July 2017. Accordingly, under a no-policy-change scenario, the general government headline deficit is projected by the Commission in the winter 2017 forecast to increase to 3.6% of GDP in 2017 and 3.9% in 2018. Under this scenario, Romania would be in breach of the corrective arm of the SGP. The 2017 budget law foresees a deficit of 2.96% of GDP in cash terms and 2.98% in ESA terms. However, the macroeconomic assumptions of the 2017 budget seem optimistic, current expenditure seems to be underestimated, and revenue from taxes and social contributions seems overstated. This assessment is shared by Romania's Fiscal Council. The parliament is currently working on a draft law which would cut the VAT rate to 0% on real estate transactions and on agricultural services (fiscal impact estimate of 0.1% of GDP). The government programme foresees further significant tax cuts (in particular, a cut of PIT rate and doubling of PIT-free threshold), but the authorities are not working on their implementation. During the mission the authorities expressed a general intention of respecting the 3% Treaty threshold, mostly through improved tax collection but without presenting concrete measures.

Developments in public sector wages represent a significant downward risk for public finances. The government is working on a new Unified Wage Law (UWL) for the public sector and plans to enact it by July 2017. The authorities justify the UWL by a need to contain a wave of individual court cases against the government following a December 2016 ruling by the Constitutional Tribunal which deemed unconstitutional different wages for same work in the public sector. The authorities' preliminary estimate of the impact of the UWL is an increase of public wages bill by 56% by 2021, i.e. an increase of 32 bn RON (app. 3.3% of GDP). The final estimate, including the calendar of phasing-in the UWL, is not yet available. Moreover, a new benefit for public sector employees – holiday vouchers – which has been repeatedly postponed since 2010, is due to enter into force in July. The government estimates the fiscal impact of this measure at 0.2% of GDP. Both the UWL and holiday vouchers were not included in the 2017 budget law nor in the Commission winter 2017 forecast.

3.2. FISCAL GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT

The fiscal framework is not being fully respected. Both the 2016 and 2017 budget laws did not respect the deficit rule embedded in the national fiscal framework, which requires the public deficit to be at the medium-term budgetary objective of a structural deficit of 1% of GDP or on the adjustment path towards it. Similar to previous years, the medium-term fiscal strategy was not adopted in time, by mid-August. Instead, the government sent it to the Parliament simultaneously with the 2017 draft budget law in December.

Reforms to improve public expenditure management are ongoing. The Ministry of Public Finance created a new General Directorate of Public Expenditure Management in 2016. The new DG includes the public investment evaluation unit (PIEU), the spending review unit and the newly established unit on public private partnerships

([6]) 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.

(PPP). The spending review unit has so far filled 50% of the available posts (six out of twelve posts). It concluded the review of the transport sector expenditure, which was the first project of the unit, and the report including recommendations to improve spending on investment, subsidies and maintenance is expected to be published in the coming months. Less progress has been registered in health and environment, the other two sectors where reviews were meant to start in parallel with the transport sector. The unit intends to complete the review of the health and education sectors, the latter replacing the environment sector. A memorandum of understanding (MoU) between the Ministry of Public Finance and the other line ministries was adopted by the government short after the mission took place. It will serve as a first agreement for the necessary legislative changes in order to make spending review an integral part of the budgetary process. Moreover, The MoU envisages the creation of an inter-ministerial committee who will identify the sectors and areas for future reviews. In terms of expertise, the unit has already received technical assistance from the IMF, and technical assistance has been agreed with the European Commission and Expertise France.

Some steps to improve public investment management have been taken, but more needs to be done. Based on information provided by the line ministries, the public investment evaluation unit (PIEU) of the Ministry of Public Finance has evaluated the level of priority and monitors the progress of 119 big projects (above RON 100 mn, about EUR 22 mn) financed either by EU or purely national sources. Out of these, 31 have been finalised but payments still need to be made, 66 are being implemented, and 22 are still in the pre-feasibility stage. The allocated budget for 2017 is about RON 8 bn (almost 1% of GDP). No new projects have been submitted to the unit. Given the high weight of the transport projects on this list the PIEU and the Ministry of Transport have agreed to cooperate on a pilot project for the rationalisation of the public investment in this sector. Moreover, the PIEU has requested technical assistance from the European Commission (SRSS) for the assessment of feasibility studies and monitoring public investment projects in a more comprehensive and results oriented manner.

EU funds absorption under the 2014-2020 programmes is still close to zero. This is mainly due to delays in the implementation of the ex-ante conditionality but also due to delays with the authorisation of managing authorities and the implementation of the necessary information systems. The authorities expect absorption to recover only in the second half of the year, as the main technical problems are expected to be solved by July, and to start sending payment requests to the Commission thereafter. The driving force of the EU funds absorption this year will be the so-called phased projects (i.e. those already started in the previous programme period) while no major new investments have entered into the pipeline with mature projects for financing yet.

Implementation of the National Programme for Local Development (PNDL) progressed significantly. The programme is financed by state budget. For years it had stalled due to lack of proper budgetary planning and connection between budget allocations and project implementation. In an effort to eliminate the uncertainty and to promote the implementation of the project, the Ministry of Public Finance allowed a higher amount of budget commitments and allocations for PNDL in 2016. As a result, out of RON 13 bn total PNDL budget, about RON 4.5 bn were spent in 2016. The update of the projects' implementation progress was expected to be sent to the Ministry of Public Finance in March 2017.

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 €3.5 bn, 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 risks related to the repayment of the debt to the EU continue to be very low. The general government debt is projected to remain significantly below 60% of GDP in the repayment schedule horizon (2019), both by the Commission and by the Romanian authorities. The maturity of the remaining public debt was 5.8 years as of end

2016, compared to 5.7 years at the end of 2015. Bond yields have increased somewhat but remain low in historical terms (see Section 2). However, if current trends persist, risks could gradually increase.

Romania's fiscal FX cash buffer is above the target of four months of gross financing needs. The FX cash buffer currently stands at about 4.8 months of gross financing needs for 2017 if privatisations receipts are taken into account (and at about 3.8 months, excluding privatisation receipts). The FX cash buffer target of 4 months gross financing needs 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.

3.4. STATE-OWNED ENTERPRISES

Operational results of state-owned enterprises have improved but arrears remain high. The operational results by state-owned enterprises (SOEs) improved substantially in 2016, largely driven by the energy sector. However, total arrears by SOEs remained largely unchanged since 2014, reaching RON 3.5 bn (c. EUR 770 mn) in December 2016 ([7]). Targets for arrears reduction set at the beginning of each year by the Ministry of Finance have not been met with concrete measures by the line ministries or the companies.

A new Sovereign Fund would centralise SOE's ownership, but its objectives and functioning are not clear. In February 2017, the government approved plans to create a Sovereign Fund for Development and Investment (SFDI). Its objectives, however, remain unclear. According to the approved memorandum, the fund would gather the state's participation in SOEs with the aim to finance investments in road, railway, energy and health infrastructure. The mission could not clarify which SOEs could be involved nor what would be the Fund's value added over existing instruments that target the same investments, including currently underused EU funds. The memorandum further establishes that the Fund would be financed by accrual of dividends from the companies in the portfolio, bond issues and the sale of minority shares. The mission expressed its concerns over the potential budgetary impact of the diversion of dividends from profitable SOEs away from the state budget. It also recalled the importance of good governance and transparency as well as the need to respect EU state-aid rules. An inter-ministerial committee will seek to define the objectives, governance structure and business plan of the new Fund. According to the February memorandum, the government will seek the Eurostat's opinion before finalising any plans for the new Fund.

([7]) This figure does not include arrears by companies under judicial control.

4. FINANCIAL SECTOR

The banking sector remains well capitalised and with appropriate liquid buffers, whereas profitability continued to recover in 2016. Banking sector capitalisation has remained strong, at 18.3% at the end of 2016, albeit marginally lower than at the end of 2015 (see Table 4.1). Liquidity also remained at comfortable levels, while the loan-to-deposit ratio at system level fell to roughly 79% at end of 2016. Following the significant balance sheet clean-up which started in 2014 and put pressure on profitability, banking sector profitability rebounded to positive territory in 2015 and further improved in 2016 despite compressed interest margins. Whereas the main prudential indicators suggest that the soundness of the banking sector is reassuring, the high exposure of banks to sovereign debt (roughly 18% of total banking sector net assets excluding branches of foreign credit institutions, the highest among the EU Member States) constitutes a matter of concern especially in case of an interest rate shock.

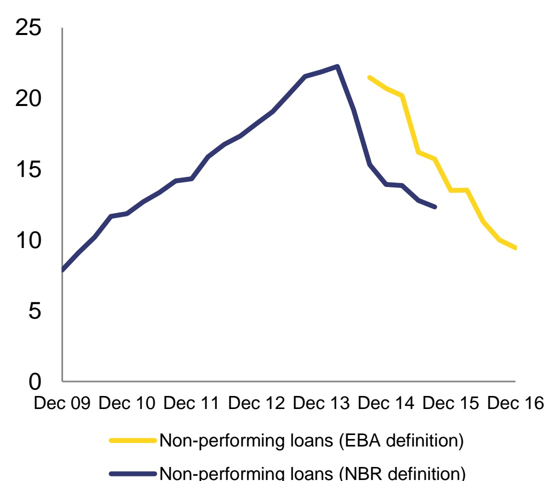
Table 4.1: **Prudential Indicators**

(%)	2009	2010	2011	2012	2013	2014	2015	2016*
Capital Adequacy								
Capital Adequacy Ratio	14.7	15.0	14.9	14.9	15.5	17.6	19.2	18.3
Leverage Ratio	7.6	8.1	8.1	8.0	8.0	7.4	8.2	8.3
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.
NPLs (EBA definition)						20.7	13.5	9.5
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
Return on equity (after tax)	2.9	-1.7	-2.6	-5.9	0.1	-12.5	11.8	10.7
Liquidity								
Immediate liquidity	35.3	37.8	37.2	35.9	41.5	41.1	40.8	40.3

Source: BNR, European Commission

Asset quality has improved significantly on the back of non-performing loans resolution measures adopted since 2014. Non-performing loans (NPLs) declined sharply by roughly 12 percentage points to just below 10% in December 2016, down from the peak registered in February 2014([8]). Notwithstanding these improvements, bank balance sheets continue to be burdened by the quality of corporate exposures and by the high level of delinquency related to consumer loans. Non-performing loans on corporate exposures declined to 18.9% in December 2016 from 27.1% in December 2015, whereas non-performing consumer loans stood at 10.4% in December 2016 as compared to 13.2% at the end of the previous year. On the back of further efforts by banks to clean up their balance sheets and the increase in lending activity, non-performing loans are expected to further decline in the coming months.

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



Source: National Bank of Romania (NBR)

The authorities committed to perform in 2018, an asset quality review and stress test of the banking sector. In 2015, the NBR committed to perform a comprehensive asset quality review (AQR) and stress test with the support of independent and reputable third parties. In order to capture *inter alia* the impact of the law on debt discharge on the balance sheet of banks, the NBR decided to postpone the exercise, on which effective work was supposed to have begun already in 2016. During the mission, the authorities committed to perform the exercise in 2018. Based on preliminary work, the exercise is expected to cover all the banks identified as having systemic relevance. The selection of the independent external third parties (stress test consultant, project manager, external auditors and real estate appraisal companies) will be made on the basis of a transparent process based on strict qualification and selection criteria. 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.

([8]) The NPL definition used by the NBR is fully in line with the EBA definition. Non-performing exposures are: i) material exposures which are more than 90 days past due; or ii) the debtor is assessed as unlikely to pay its 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.

Banks with majority Greek capital are still important players on the Romanian market, which underscores the importance of their close monitoring. Notwithstanding the deleveraging process, the subsidiaries of Greek banks still had a combined market share of roughly 10% at the end of 2016. Banks with Greek capital have maintained reassuring capital buffers both in terms of total capital and common equity Tier 1 ratios. However, similar to other banks, they need further efforts to clean up their balance sheets and continue reducing the overhang of NPLs. Following several years of pressure on profitability, all banks with Greek capital were profitable in 2016 despite higher funding costs as compared to peers.

Romania complied with the recommendation of the European Systemic Risk Board to all EU Member States to set up a macro-prudential authority. Following a lengthy legislative process, the law on the macro-prudential supervision of the national financial system was enacted by the President in mid-March 2017. Based on the provisions of this law, the authorities set up a National Committee for Macro-Prudential Supervision, which will include representatives of the National Bank of Romania, the Financial Supervisory Authority and the government, as recommended by the European Systemic Risk Board. The ultimate objective of macro-prudential supervision is to ensure financial stability. This includes strengthening the resilience of the financial system to potential adverse shocks and limiting the build-up of vulnerabilities, to mitigate systemic risks and ensure the ongoing provision of credit and other financial services to the real economy.

The risks stemming from the law on debt discharge have been largely mitigated by the decision of the Constitutional Court. The law on debt discharge (in force since May 2016 and retroactively applicable also to existing loan contracts), applies to loans with a value below the threshold of EUR 250 000 and covers loans granted for buying, building, renovating a property for living, or loans (irrespective of the scope) which are guaranteed with at least one dwelling as collateral. Following a referral by credit institutions, the Constitutional Court ruled on 25 October 2016 that judges will have to assess whether borrowers comply with the legal provisions on hardship under the 2011 Civil Code ([9]). The ruling of the Constitutional Court minimises the unwarranted adverse impact of this law on the banking sector and reduces moral hazard by focusing the applicability of the law on borrowers in difficulty. However, the development of not uniform jurisprudence for cases based on the law on debt discharge cannot be excluded.

The law on the conversion of Swiss franc loans was recently judged non-constitutional. The law on the conversion of the Swiss franc loans into RON loans at historic exchange rates was adopted by Parliament in October 2016. It was referred by the previous government to the Constitutional Court. In its decision of 7 February, the Constitutional Court rejected the conversion of Swiss franc-denominated loans at historic exchange rates and held that the conversion should be done in line with conditions at the conversion date. Furthermore, the law was declared non-constitutional also based on procedural aspects. Namely, the Court held that the legislative process, which led to the adoption of the law by Parliament, did not observe the principle of bicameralism.

Shortcomings identified during the 2015 balance sheet review and stress test of the insurance sector have been gradually addressed. The Financial Supervisory Authority (ASF) has taken several follow-up measures (including capital increases) to restore the financial situation of insurers in distress based on the results of the 2015 balance sheet review and stress test and of a second exercise performed on insurance companies not included in the first exercise. Astra Asigurari was put into insolvency in August 2015, and, following the April 2016 court decision which declared this insolvency as irrevocable, the Insurance Guarantee Fund started the pay-out compensations to policyholders. As the efforts since 2014 to restore the viability of Carpatica Asigurari have been unsuccessful, the ASF withdrew Carpatica's licence in July 2016 and requested the opening of insolvency proceedings. Furthermore, Euroins, was placed under financial recovery in October 2015. Following measures taken to restore compliance with solvency requirements including a capital increase (RON 300 mn in cash and a subordinated loan of RON 57

([9]) Hardship refers to exceptional circumstances which could not have been foreseen by the contractual parties when they agreed upon the loan contract.

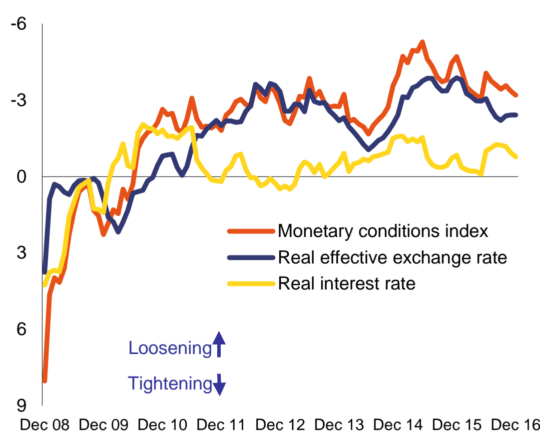
mn), the ASF Board decided in early March 2017 the closure of the financial recovery procedure for Euroins. City Insurance has been also subject to a financial recovery plan and the company was requested to restore its financial situation until the end of December 2016 in order to ensure the protection of policyholders. Notwithstanding these measures, several pockets of vulnerability remain, including the high dependency of several insurance companies on a single line of insurance business (i.e. motor third party liability insurance).

The cap on insurance premiums for compulsory car insurance is likely to further aggravate current market distortions. The cap on insurance premiums, which became effective on 17 November 2016, was triggered by the increase in these premiums *inter alia* due to measures taken to address shortcomings identified during the 2015 balance sheet review and stress test. The government argued that the hike in insurance premiums is the result of a distortion in competition, due to the insolvency of Astra Asigurari and Carpatica, and adopted an emergency ordinance to cap the insurance premiums for 6 months. The maximum caps on the premiums were calibrated by the Financial Supervisory Authority and endorsed by government decision in November 2016. The caps on insurance premiums will expire on 18 May 2017. The intervention in the price setting of insurance premiums in the absence of a general system of price control does not appear to be in line with the provisions of the Solvency II directive. The European Commission is currently assessing the reply submitted by the authorities following a request for information by the Commission services on the insurance caps introduced last year. To prepare for the period after the expiration of the caps on insurance premiums, the ASF approved in mid-March several measures aimed at stabilising the compulsory car insurance market.

5. MONETARY AND EXCHANGE RATES POLICIES

The monetary policy stance remains accommodative (Graph 5.1)**.** The key policy rate has remained unchanged at 1.75% since May 2015 thanks to relatively low inflation and expected favourable inflation developments in the short term. The symmetrical corridor of the interest rates on permanent credit and deposit facilities was also narrowed to ±1.5 pp. around the monetary policy rate with a view to mitigating interbank money market rate volatility and further strengthening the transmission of the policy rate signal. The NBR forecasts inflation to re-enter its target band (2½%±1pp) at the end of 2017 and to raise to the upper half of the target band in 2018 (see Section 2). The conduct of monetary policy has to accommodate opposing developments. On the one hand, domestic demand pressures are mounting rapidly while, on the other hand, due to disinflationary supply-side measures, the inflation outturn and forecast remain benign and uncertainty about fiscal policy implementation and administrative decisions persists.

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



Source: Bloomberg

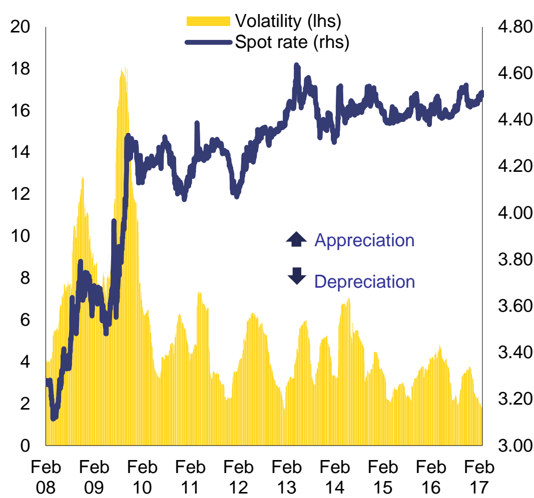
Liquidity in the money markets improved and interbank rates remained low. Monetary transmission has improved in recent years, supported by the NBR's substantial narrowing of the interest rate corridor, the growing share of leu-denominated loans in total credit, and the cleaning up of banks' balance sheets. Due to abundant liquidity, supported by use of EU funds, treasury operations and cuts in the Minimum Reserve Requirements (MRR), interbank rates have been persistently low. Leu-denominated credit growth to the non-government sector remained strong but slowed somewhat (+14.1% y-o-y in March 2017) after a peak at 21.1% in April 2016. It was mainly driven by loans to households (+22.6% y-o-y), supported by the state guaranteed mortgage scheme "Prima Casa". On the other hand, foreign-currency denominated credit growth remained strongly negative (-10.6% y-o-y). As a result, the share of the domestic currency increased to 58.2% of the total loan stock in March 2017 (up from a low of 35.6% in May 2012), certifying an improvement in monetary policy transmission and helping to mitigate risks to financial stability. Credit to non-financial corporations remained negative, mainly due to the clean-up of banks' balance sheets, though it started to pick up recently. Since January 2014, the NBR cut the MRR ratio on leu-denominated liabilities of credit institutions from 15% to 8%, and that on foreign currency-denominated liabilities was cut from 20% to 10% ([10]). Reductions of the MRR on leu-denominated liabilities supported recovery in lending activity in domestic currency, while further cuts are constrained by the liquidity surplus in the banking system.

The leu has been trading within a relatively narrow range in recent years, 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 4.4-4.5 RON/EUR since 2013. The leu weakened somewhat during April 2016 after the parliament adopted the "Debt discharge law" (see Section 4) and again in autumn 2016 ahead of the adoption of the CHF loan conversion law, before it firmed somewhat as the bill was referred to the Constitutional Court (see Section 4). The leu has been weakening slightly in early 2017 following domestic political protests (see Section 1) and again in mid-March 2017, following global risk reassessment and the Fed monetary policy decision (by 3% since 1 October 2016) (Graph 5.2). Lower

([10]) The NBR cut the MRR ratio on leu-denominated liabilities of credit institutions from 15% to 12% in its monetary policy meeting in January 2014, to 10% in September 2014, and to 8% in May 2015. The MRR ratio on foreign currency-denominated liabilities was cut from 20% to 18% in January 2014, to 16% in July 2014, to 14% in November 2014, to 12% in January 2016, and to 10% in September 2016.

short-term volatility of the leu as compared to regional peers under floating exchange rate regimes (HU, PL) reflected the anchor effects of the EU-IMF international financial assistance to Romania until September 2015 and occasional operations by the NBR in the interbank and foreign exchange markets to contain RON depreciation on the back of a global and local risk reassessment.

Graph 5.2: **Daily exchange rate volatility (vis-a-vis euro, over the previous 3m)**



Source: Bloomberg

Foreign exchange reserves increased despite repayments to private and official creditors and were boosted by issuances of Eurobonds. Romania's foreign exchange reserves held at the central bank, excluding gold, increased to EUR 34.5 bn at the end of February 2017, recovering from falling below EUR 30 bn in 2015, when Romania made substantial repayments to the IMF and the EU. The current level of foreign-exchange reserves covers more than 100% of short-term external debt at remaining maturities and around 6 months of imports. Romania issued a EUR 1 bn 12-year Eurobond at 2.99% yield in May 2016 and another EUR 1 bn 12-year Eurobond at 2.15% in September 2016. Due to domestic protests in relation to government's controversial judiciary-related emergency decree reversing anti-corruption measures, increasing fiscal risks and later due to global risk reassessment, Romania's 10-year bond yields steepened in early 2017. However, the trend has been reversed in the recent months, allowing Romania to successfully draw from international financial markets by issuing 10-year and 20-year Eurobonds in April 2017.

ANNEX 1
Financial assistance programmes, 2009-2015

Table A1.1: **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
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, Worldbank

Table A1.2: **Repayment schedule**

	EU (€ mn)			IMF (SDRs mn)			Grand total (€ mn)
Yearly data	Charges	Principal	Total	Charges	Principal	Total	
2013	151.6	0.0	151.6	236.7	4051.8	4288.6	5101.2
2014	151.6	0.0	151.6	67.0	3881.1	3948.1	5708.4
2015	151.6	1500.0	1651.6	7.8	1232.8	1240.5	3083.4
2016	104.8	0.0	104.8	0.2	96.1	96.3	215.9
2017	104.8	1150.0	1254.8			-	1254.8
2018	77.4	1350.0	1427.4			-	1427.4
2019	33.8	1000.0	1033.8			-	1033.8

Source: European Commission, IMF

ANNEX 2
Key economic indicators

Table A2.1: **Key economic indicators overview 2009-2018**

	2009	2010	2011	2012	2013	2014	2015	2016	2017*	2018*
Gross Domestic Product	*(annual percentage change, unless otherwise indicated)*									
Nominal GDP (in bn RON)	511	534	565	595	637	668	711	761	810	861
Real GDP	-7.1	-0.8	1.1	0.6	3.5	3.1	3.9	4.8	4.4	3.7
Private Consumption	-10.1	1.0	0.8	1.2	0.7	4.7	6.0	7.4	6.7	4.2
Public Consumption	3.7	-4.9	0.6	0.4	-4.6	0.8	0.1	4.5	3.5	3.0
Gross fixed capital formation	-36.6	-2.4	2.9	0.1	-5.4	3.2	8.3	-3.3	6.2	6.3
Exports	-5.3	15.2	11.9	1.0	19.7	8.0	5.4	8.3	5.0	5.4
Imports	-20.7	12.6	10.2	-1.8	8.8	8.7	9.2	9.8	9.2	7.3
Contribution to GDP growth										
Domestic demand	-19.9	-0.9	1.4	0.9	-1.7	3.8	5.7	4.9	6.3	4.7
Inventories	5.9	0.2	-0.2	-1.4	1.6	-0.3	-0.2	0.6	0.0	0.0
Net exports	6.9	-0.1	-0.1	1.1	3.6	-0.3	-1.6	-0.8	-1.9	-1.0
Prices										
HICP inflation (average)	5.6	6.1	5.8	3.4	3.2	1.4	-0.4	-1.1	1.6	2.9
HICP inflation (year-end, quarterly)	4.5	7.8	3.4	4.7	1.3	1.4	-1.0	-0.1	2.0	0.0
NBR target	3.5	3.5	3.0	3.0	2.5	2.5	2.5	2.5	2.5	3.5
Labour market										
Total employment	9181	9156	9082	8645	8569	8635	8558	8477	8549	8586
Unemployment rate (harmonised:15-74)	6.5	7.0	7.2	6.8	7.1	6.8	6.8	5.9	5.7	5.6
General Government Accounts	*(in percent of GDP, cash)*									
Total revenues [1)]	30.8	31.6	32.2	32.5	31.4	32.1	32.8	29.1	29.8	30.1
Total expenditures [1)]	37.9	37.9	36.4	34.9	33.9	33.8	34.2	31.7	32.6	32.4
Current [1)]	34.1	34.3	32.5	31.7	31.2	31.5	31.9	29.2	30.0	29.7
Capital [1)]	4.3	3.6	4.0	3.2	2.8	2.6	2.6	2.5	2.6	2.7
Govn deficit, cash definition [1)]	-7.1	-6.3	-4.2	-2.4	-2.5	-1.7	-1.4	-2.6	-2.8	-2.3
Government deficit, ESA2010 definition	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0	-3.6	-3.9
Gross debt, general govn, ESA2010 definition	23.2	29.9	34.2	37.3	37.8	39.4	38.0	37.6	40.5	42.3
Balance of payments	*(in percent of GDP)*									
Current account balance **	-4.1	-4.5	-4.4	-4.2	-0.6	-0.1	-0.6	-2.4	-2.9	-3.1
Trade balance**	-6.4	-6.1	-5.6	-5.0	-0.8	-0.4	-0.6	-0.9	-2.8	-3.0
Capital and financial account balance	-3.9	-4.2	-3.0	-1.1	3.3	4.7	3.9	n.a.	n.a.	n.a.
FDI balance	-1.8	-1.3	-1.9	-2.0	-1.8	-1.8	-2.3	n.a.	n.a.	n.a.
Net international investment position	-62.1	-62.3	-64.2	-67.9	-61.7	-56.8	-51.1	n.a.	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	28.3	32.4	33.2	31.2	32.5	32.2	32.2	34.2	n.a.	n.a.
Gross external debt	67.4	72.9	74.1	74.7	68.0	63.0	56.5	n.a.	n.a.	n.a.
Monetary and exchange rate developments										
Broad money M3 (annual % change, end of the period)	9.0	6.9	6.6	2.7	8.8	8.4	9.3	9.7	12.2	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	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	4.54	4.54	n.a.
REER (Unit Labour Costs deflator, % change)	6.75	1.09	-5.93	-5.22	0.65	3.35	-5.91	n.a.	n.a.	n.a.
Financial market & banking sector developments										
Private credit growth (y-o-y)	0.9	4.7	6.6	1.3	-3.3	-3.3	3.0	1.2	3.1	n.a.
Capital Adequacy										
CAR	14.7	15.0	14.9	14.9	15.5	17.6	19.2	18.3	n.a.	n.a.
Leverage ratio	7.6	8.1	8.1	8.0	8.0	7.4	8.2	8.3	n.a.	n.a.
Ratio of level 1 own funds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.6	16.7	17.7	n.a.
Asset quality										
NPLs (90 dpd)	2.8	2.8	11.9	14.3	18.2	21.9	13.9	12.3	n.a.	n.a.
NPLs (60 dpd)	n.a.	n.a.	n.a.	n.a.	n.a.	20.7	13.5	9.5	n.a.	n.a.
Profitability										
ROA (after tax)	0.3	-0.2	-0.2	-0.6	0.0	-1.3	1.2	1.1	n.a.	n.a.
ROE (after tax)	2.9	-1.7	-2.6	-5.9	0.1	-12.5	11.8	10.7	n.a.	n.a.
Liquidity										
Immediate liquidity	35.8	36.8	37.8	37.2	35.9	41.5	41.1	40.8	41.8	n.a.

* Forecast or latest figures
**Current account and trade balances are reported based on the latest Commission forecast using National Accounts Data.
Source: BNR; European Commission

Table A2.2: **General government accounts 2015-2018**

	ESA code	2015	2016	2017	2018
	(% of GDP, unless otherwise indicated)				
1. Taxes on production and imports	D2	13.3	11.3	10.7	10.6
2. Current taxes on income and wealth	D5	6.6	6.5	6.4	6.6
2a. - of which, paid by households and NPISH		3.6	3.6	3.4	3.4
2b. - of which, paid by corporations		3.0	2.9	3.1	3.2
3. Social contributions	D61	8.1	8.1	8.2	8.1
4. Sales and other current revenue		4.4	4.3	4.3	4.4
5. Total current revenue (1+2+3+4)		**32.4**	**30.2**	**29.6**	**29.7**
6. Compensation of employees	D1	7.7	8.2	8.7	8.7
7. Intermediate consumption	P2	5.7	5.3	5.4	5.4
8. Social transfers in kind supplied via market producers		0.9	0.9	0.6	0.6
9. Social transfers other than in kind	D62	10.6	10.7	11.0	11.1
10. Interest	D41	1.6	1.5	1.6	1.7
11. Subsidies	D3	0.5	0.4	0.5	0.5
12. Other current expenditure		2.5	2.5	2.2	2.4
13. Total current expenditure (6+7+8+9+10+11+12)		**29.4**	**29.5**	**30.0**	**30.5**
14. Gross saving (5-13)	B8g	2.9	0.7	-0.4	-0.8
14a. p.m. as % of GDP		0.4	0.1	0.0	-0.1
15. Capital Transfers, received	D9	2.7	1.5	1.6	1.9
16. Gross fixed capital formation	P51	5.2	3.6	3.7	3.9
17. Other capital expenditure		1.2	1.6	1.2	1.2
18. Total government revenue (5+15)	**TR**	**35.0**	**31.7**	**31.3**	**31.7**
19. Total government expenditure (13+16+17)	**TE**	**35.8**	**34.7**	**34.9**	**35.6**
20. Net lending (+) / net borrowing (-) (18-19)	**B9**	**-0.8**	**-3.0**	**-3.6**	**-3.9**
20a. - primary balance (20+10)		0.9	-1.5	-2.0	-2.2
21. Net lending/borrowing for EDP purposes	**EDP B9**	-0.8	-3.0	-3.6	-3.9

Source: European commission, Winter 2017 forecast

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Broad money (M3), mln RON, eop	**189630**	**202773**	**216208**	**222018**	**241547**	**261831**	**286256**	**314162**	**309889**
Intermediate money (M2)	199572	199572	212059	221830	241251	261573	286126	314053	309776
Money market instruments	3201	3201	4149	188	296	258	129	109	113
Narrow money (M1)	81592	81592	85834	89020	100311	118582	149550	180014	177743
Currency in circulation	26794	26794	30610	31477	34784	39890	46482	54750	54324
Overnight deposits	54799	54799	55224	57543	65526	78691	103069	125264	123419
Time deposits*	117980	117980	126225	132809	140940	142991	136576	134040	132033
Money and credit (Annual percentage change, eop)									
Broad money (M3)	9.0	6.9	6.6	2.7	8.8	8.4	9.3	9.7	9.1
- NFA contribution	64.9	8.0	-13.4	69.8	85.8	43.8	15.2	28.5	30.1
- NDA contribution	4.3	6.8	9.3	-4.4	-5.8	-4.8	6.0	-1.8	-4.2
Intermediate money (M2)	8.3	6.1	6.3	4.6	8.8	8.4	9.4	9.8	9.1
Narrow money (M1)	-14.2	2.8	5.2	3.7	12.7	18.2	26.1	20.4	19.6
Currency in circulation	-5.2	11.8	14.2	2.8	10.5	14.7	16.5	17.8	14.9
Overnight deposits	-17.6	-1.1	0.8	4.2	13.9	20.1	31.0	21.5	21.8
Time deposits*	34.0	8.6	7.0	5.2	6.1	1.5	-4.5	-1.9	-2.4
p.m. Credit to private sector	n.a.	4.7	6.6	1.3	-3.3	-3.3	3.0	1.2	0.9
Interest rates (In percent, eop)									
Robor, 3 m	10.65	6.17	6.05	6.05	2.44	1.71	1.02	0.90	0.82
Robor, o/n	8.90	2.99	4.53	6.30	1.74	0.61	0.53	0.56	0.47
NBR policy rate	8.00	6.25	6.00	5.25	4.00	2.75	1.75	1.75	1.75
NBR credit facility rate	12.00	10.25	10.00	9.25	7.00	5.25	3.25	3.25	3.25
NBR deposit facility rate	4.00	2.25	2.00	1.25	1.00	0.25	0.25	0.25	0.25
Exchange rates									
Lei per euro (end of period)	4.24	4.26	4.32	4.44	4.47	4.48	4.52	4.54	4.54
Lei per euro (average)	4.24	4.21	4.24	4.46	4.42	4.44	4.45	4.49	4.51
Real effective exchange rate (percentage change)									
HICP based	7.4	2.51	3.15	-5.46	4.27	0.86	-2.65	n.a.	n.a.
ULC deflator based	6.8	1.09	-5.93	-5.22	0.65	3.35	-5.91	n.a.	n.a.

(1) 2017Q1
Source: BNR, European commission

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Government balance (ESA-2010)	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0	-3.6	-3.9
Primary balance	-5.4	-3.8	-1.9	-0.3	0.3	0.9	-1.5	-2.0	-2.2
Cyclically adjusted balance	-5.5	-4.1	-2.0	-1.0	-0.5	-0.3	-3.0	-3.8	-4.0
Cyclically adjusted primary balance	-4.0	-2.5	-0.2	0.8	1.1	1.3	-1.5	-2.2	-2.3
Structural government balance	-5.6	-2.9	-2.5	-1.0	-0.6	-0.6	-2.6	-3.9	-4.0
GDP growth	-0.8	1.1	0.6	3.5	3.1	3.9	4.8	4.4	3.7
Potential growth	1.3	1.1	1.8	1.7	2.1	2.8	3.5	3.8	3.9
Output gap	-4.0	-4.0	-5.0	-3.3	-2.4	-1.3	-0.1	0.6	0.4

Source: European commission

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

	2009	2010	2011	2012	2013	2014	2015	2016	16 Q2	16 Q4	*2016-2015**
1 - Population (total, 1000 pers.)	**20440**	**20295**	**20199**	**20096**	**20020**	**19947**	**19871**	**19760**	**8756**	**8629**	***-0.6*** %
2 - Population (working age:15-64, 1000 pers.)	**13919**	**13814**	**13745**	**13669**	**13622**	**13556**	**13414**	**13259**	**13307**	**13214**	***-1.2*** %
3 - Labour force (15-64, 1000 pers.)	**9485**	**8958**	**8799**	**8849**	**8832**	**8883**	**8858**	**8696**	**8756**	**8629**	***-2.2*** %
4 - Activity rate (% of population 15-64)	**63.1**	**64.9**	**64.1**	**64.8**	**64.9**	**65.7**	**66.1**	**65.6**	**65.8**	**65.3**	***-0.8*** pps
Young (15-24)	30.9	31.2	30.7	30.5	30.1	29.6	31.3	28.0	27.6	27.1	***-1.9*** pps
Prime age (25-54)	78.5	81.9	80.9	81.5	81.5	82.1	82.5	81.9	82.1	81.8	***-0.9*** pps
Older (55-64)	43.9	42.1	41.4	43.0	43.4	44.6	42.7	44.2	45.0	44.0	***0.8*** pps
Nationals (15-64)	63.1	64.9	64.1	64.8	64.9	65.7	66.1	65.6	65.8	65.3	***-0.8*** pps
Non-nationals (15-64)	65.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	73.5	n.a.	
Male	70.9	73.7	72.1	73.2	73.4	74.3	75.3	74.8	75.1	74.5	***-0.5*** pps
Female	55.4	56.2	56.1	56.4	56.3	56.9	56.7	56.2	56.2	56.0	***-0.9*** pps
5 - Employment rate (% of population 15-64)	**58.6**	**60.2**	**59.3**	**60.2**	**60.1**	**61.0**	**61.4**	**61.6**	**61.8**	**61.6**	***-0.1*** pps
Young (15-24)	24.5	24.3	23.4	23.7	22.9	22.5	24.5	22.3	22.2	21.5	***-1.8*** pps
Prime age (25-54)	73.7	76.8	75.8	76.6	76.3	77.1	77.4	77.6	77.7	77.9	***-0.2*** pps
Older (55-64)	42.6	40.7	39.9	41.6	41.8	43.1	41.1	42.8	43.5	42.6	***1.2*** pps
Low-skilled (15-64)	42.0	44.2	40.9	42.0	42.2	44.4	42.6	41.0	42.4	39.5	***-1.8*** pps
Medium-skilled (15-64)	62.2	63.9	63.6	64.2	63.7	65.0	64.9	65.2	65.5	65.4	***-0.2*** pps
High-skilled (15-64)	84.1	83.4	83.1	82.5	82.6	82.5	85.3	86.2	85.7	87.1	***1.0*** pps
Nationals (15-64)	58.6	60.2	59.3	60.2	60.1	61.0	61.4	61.6	61.8	61.6	***-0.1*** pps
Non-nationals (15-64)	62.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68.0	n.a.	
Male	65.2	67.9	66.3	67.6	67.6	68.7	69.5	69.7	70.0	70.0	***0.1*** pps
Female	52.0	52.5	52.3	52.8	52.6	53.3	53.2	53.3	53.4	53.1	***-0.2*** pps
6 - Employed persons (15-64, 1000 pers.)	**8805**	**8307**	**8139**	**8222**	**8179**	**8254**	**8235**	**8166**	**8225**	**8144**	***-1.3*** %
7 - Self employed (% of total employment)	**18.4**	**20.3**	**18.6**	**18.9**	**18.8**	**18.4**	**17.6**	**16.5**	**17.3**	**15.7**	***-1.1*** pps
8 - Temporary employment (% of total employment)	**0.7**	**0.7**	**1.0**	**1.1**	**1.0**	**1.1**	**1.0**	**1.0**	**1.1**	**1.0**	***0.1*** pps
9 - Part-time (% of total employment)	**8.5**	**9.9**	**9.5**	**9.3**	**9.0**	**8.7**	**8.8**	**7.4**	**7.6**	**6.7**	***-1.4*** pps
10 - Unemployment rate (harmonised:15-74)	**6.9**	**7.0**	**7.2**	**6.8**	**7.1**	**6.8**	**6.8**	**5.9**	**5.9**	**5.5**	***-0.8*** pps
Young (15-24)	20.8	22.1	23.9	22.6	23.7	24.0	21.7	20.6	19.4	20.8	***0.6*** pps
Other (25-74)	5.4	5.6	5.7	5.4	5.7	5.5	5.6	4.8	4.9	4.4	***-0.9*** pps
Low-skilled (15-74)	7.5	5.9	7.2	6.7	6.7	6.7	8.1	7.6	7.2	8.0	***-0.3*** pps
Medium-skilled (15-74)	7.2	8.0	7.9	7.3	7.8	7.2	7.2	6.2	6.2	5.6	***-0.8*** pps
High-skilled (15-74)	4.3	4.8	4.7	5.1	5.4	5.8	4.1	3.1	3.3	2.8	***-1.3*** pps
Nationals (15-74)	6.9	7.0	7.2	6.8	7.1	6.8	6.8	5.9	5.9	5.5	***-0.8*** pps
Non-nationals (15-74)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Male (harmonised:15-74)	7.7	7.6	7.7	7.4	7.7	7.3	7.5	6.6	6.6	5.9	***-0.7*** pps
Female (harmonised:15-74)	5.8	6.2	6.5	6.1	6.3	6.1	5.8	5.0	4.9	4.9	***-1.0*** pps
11 - Long-term unemployment (% total unemployment)	**31.6**	**34.5**	**41.0**	**44.2**	**45.2**	**41.1**	**43.9**	**50.0**	**51.4**	**47.4**	***7.7*** %
12 - Worked hours (average actual weekly hours)	**40.4**	**40.2**	**40.2**	**40.1**	**40.0**	**40.0**	**39.8**	**39.9**	**39.9**	**40.0**	***0.5*** %
13 - Indicator board on wage developments (% change)											
Compensation per employee	-4.4	-1.4	-1.5	10.6	4.6	7.6	5.4	14.8	16.8	12.9	***5.5*** pps
Real compensation per employee (GDP deflator)	-8.8	-6.4	-5.9	5.6	1.1	5.8	2.9	12.4	12.5	9.3	***7.9*** pps
Hourly labour costs (Eurostat labour cost index)	11.2	1.7	3.9	6.2	5.8	4.2	6.2	13.1	11.9	13.7	***11.5*** pps
Wage and salaries	10.0	2.1	4.3	6.1	5.5	5.5	9.0	13.1	12.0	13.7	***8.8*** pps
Labour productivity (real GDP/person employed)	-5.2	-0.5	1.9	5.7	4.4	2.3	4.9	5.8	7.5	6.1	***0.9*** pps
Nominal unit labour costs	3.2	3.2	-7.0	2.4	-0.5	4.7	-3.3	5.9	8.9	6.9	***4.6*** pps
14 - Sectoral breakdown of unit labour costs											
Business economy	12.3	6.2	6.0	5.8	4.2	5.0	5.6	10.6	9.9	11.9	***8.6*** pps
15 - Sectoral breakdown of compensation per employee											
Agriculture and fishery	32.8	109.6	-78.0	-22.3	11.1	7.9	10.8	7.7	25.9	4.3	***-14.5*** pps
Industry	-20.4	6.3	3.4	13.0	-0.2	1.0	8.6	7.4	9.7	9.6	***-0.3*** pps
Construction	15.8	-21.0	9.3	3.4	2.2	-7.2	15.0	21.7	44.7	13.3	***17.8*** pps
Trade, transport and information services	7.7	-5.5	5.1	12.1	1.8	4.9	-0.5	8.0	-1.3	9.7	***8.4*** pps
Finance and business services	0.7	6.4	6.7	-8.1	7.3	2.6	-2.1	1.6	7.1	-0.6	***-10.2*** pps
Non-market related services	1.9	-5.6	-8.5	10.9	5.0	16.9	-10.7	14.9	24.4	20.4	***5.2*** pps

* Development 2016-2015 are yearly or latest quarter available
Source: European Commission

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