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ROMANIA

BALANCE-OF-PAYMENTS ASSISTANCE PROGRAMME

MISSION REPORT (22 OCTOBER- 5 NOVEMBER 2013)

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The cut-off date for the data used in this report was 1 December 2013.

I. EXECUTIVE SUMMARY

- 1. EC and IMF staff conducted a first mission in Romania under the 3rd economic adjustment programme covering 2013-2015.**¹ The mission (22 October – 5 November 2013) was the first formal review on the IMF's side and an informal review on the Commission's side. It negotiated the draft Letter of Intent (LoI) / Memorandum of Economic and Financial Policies (MEFP), and the revised Technical Memorandum of Understanding (TMU). At the end of the mission, a joint press statement was issued (Annex A). No supplemental Memorandum of Understanding (MoU) was discussed and reviews of the MoU are to be conducted only every 6 months.²
- 2. Projections for growth were revised upwards, while inflation and the current-account deficit were revised downwards.** The mission reviewed the macro framework, scaling up projections for growth for 2013 from 1.9% to 2.2% based on better exports and a very good agricultural output (Annex B contains an overview of key economic indicators). For 2014, real GDP growth is forecast to continue at 2.2%, with growth drivers expected to gradually switch from net exports to domestic demand as both consumption and investment are projected to pick up in 2014. HICP inflation is projected to average 3.3% in 2013 and to decelerate further to an average of 2.5% in 2014 as falling food prices are expected to drive inflation to historical lows in the first half of 2014. The current-account deficit is expected to decline from around 4% of GDP in 2012 to around 1% of GDP in 2013, mainly on account of a much lower trade deficit. The current-account deficit is, however, expected to gradually widen somewhat over the forecast horizon, as imports will progressively increase, along with the revival of domestic demand.
- 3. Discussions on the budgets for 2013 and 2014 dominated the agenda.** The main focus of the discussions during the mission was on the last budget revision for 2013 and the budget for 2014. For both years, adjusters worth 0.2% of GDP for co-financing EU funded projects were agreed. If fully used, this would imply a budget deficit of 2.6% of GDP in ESA terms in 2013 (rather than the previously envisaged 2.4%) and a deficit of 2.2% in 2014 (rather than 2.0%). The extra fiscal space in 2014 for national co-financing of EU funded projects was granted by way of a limited application of the investment clause.
- 4. Rising non-performing loans continue to strain the banking sector while further financial sector reforms are being pursued.** While asset quality continued to deteriorate throughout 2013, the prudent loan-loss provisioning policy of the banking supervisor has mitigated associated risks and capital adequacy at system level remains adequate. The loan-loss provisions do, however, put pressure on banking sector profitability. As to reforms, some steps were taken to bring the non-bank financial supervisor (FSA) closer to good international practice although important shortcomings remain. Other issues discussed related to the setting up of specialised courts to deal with "abusive clauses" in loan contracts and to the insolvency code (a recent Government Emergency Ordinance was declared unconstitutional).

¹ It refers to the EU's precautionary balance-of-payments programme and the IMF's Stand-By Arrangement.

² The full programme documentation underlying the new programme is included in Occasional Paper 165: http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/op165_en.htm

5. **Progress with structural reforms is mixed.** As to *the energy sector*, further steps were taken to develop gas and electricity platforms, but the separation between production and supply, on the one hand, and transmission and dispatch of energy, on the other hand (the so-called unbundling) has not yet taken place. While initial public offerings of *state-owned enterprises* Nuclearelectrica (10%) and Romgaz (15%) were successful and on time, the attempt to (majority) privatise rail freight company CFR Marfă failed. A new deadline has been set for May 2015. In the area of *healthcare*, the basic benefits package for publicly-reimbursed medical services and products was redesigned, but the financial impact assessment was missing and the adoption of the package has consequently been delayed. Importantly, there were no arrears with regard to the payment commitments of the national health insurance house. Measures to improve the *business environment* are being introduced, but the coverage of the land registry requires substantial improvement in the near-term.
6. **Future reviews are likely to be conducted in a tenuous political environment.** The electoral calendar in 2014 will include European elections in May and presidential elections in autumn that already seem to cast their shadow ahead.³

II. POLICY AREAS

II.1 Macroeconomic and financial situation

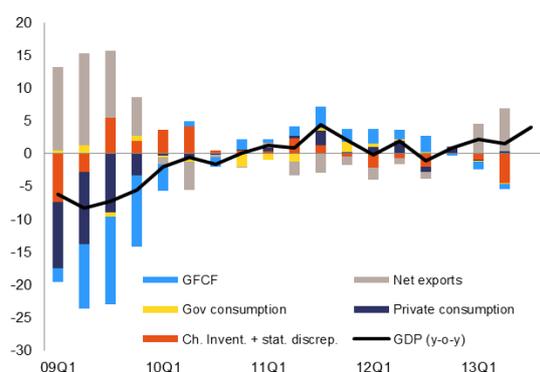
7. **Growth for 2013 was revised upwards to 2.2% in real terms thanks to the very good agricultural output and a robust export performance.** As agreed during the bilateral meeting organised as part of the Commission's 2013 Autumn Forecast (AF) exercise,⁴ the 2013 GDP growth was revised upwards from 1.9% (July review mission) to 2.2% in real terms (Figure II-1). The revision reflects the very good harvest this year and a stellar export performance in the first half of the year that was mainly driven by sales of machinery and transportation equipment. These positive developments, however, mask weak domestic demand, with consumption being flat and investment contracting in the first half of 2013. Therefore, economic activity in 2013 is forecast to have been largely driven by net exports with very little support from domestic demand.⁵

³ The President and Prime Minister reached, in late December 2013, a compromise on the measures underlying the 2014 budget. It entails a three-month delay in the increase in excises for diesel and unleaded gasoline by 7 euro cents, the cost of which amounts to roughly 0.1% of GDP. Following this compromise, the President enacted the 2014 budget law. The authorities have not yet specified the measures to counterbalance the impact of this delay.

⁴ COM 2013 AF: http://ec.europa.eu/economy_finance/eu/forecasts/2013_autumn_forecast_en.htm. COM AF for Romania: http://ec.europa.eu/economy_finance/eu/forecasts/2013_autumn/ro_en.pdf.

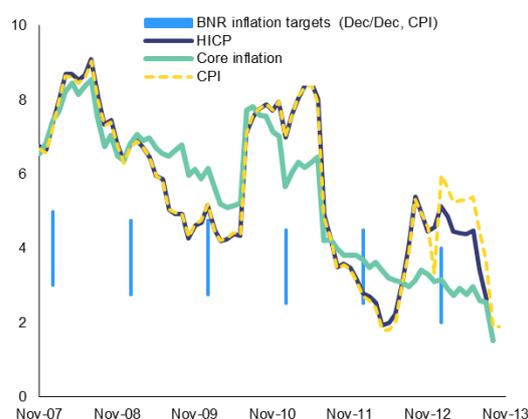
⁵ The flash GDP estimate for Q3 2013 was published on 14 November 2013. Real GDP grew above most expectations by 1.6% q-o-q SA and 4.1% y-o-y in Q3 2013. The main driver was the very good harvest this year. However, based on the high frequency indicators data, the industry, construction and retail sales also contributed positively to the economic activity in Q3. The National Institute of Statistics (NIS) will release detailed data (provisional 1) on 4 December 2013.

Figure II-1: GDP contributions - Expenditure side (2009-2013)



Source: Eurostat and own calculations.

Figure II-2: Inflation (y-o-y)



Source: National Bank of Romania.

8. **Growth is forecast to continue at 2.2% in 2014 and to accelerate to 2.4% in 2015 as domestic demand is expected to pick up.** Growth drivers are expected to gradually switch from net exports in 2013 to domestic demand over the forecast horizon. Investment is projected to regain momentum supported by a better absorption of EU funds as major infrastructure projects are expected to gain traction. During the mission, staff revised real growth for 2014 slightly upwards (from 2.1% in the 2013 AF) as it took into account the impact of the additional fiscal space of 0.2% of GDP provided for EU co-funded investments.⁶ Although constrained by the continuing need to repair households' balance sheets,⁷ private consumption is expected to pick up on the back of improving consumer confidence and increasing real disposable income as employment grows and inflation remains moderate. Public consumption would remain constrained by the need for further fiscal consolidation.

9. **The forecast for inflation was revised downwards for both 2013 (3.3%) and 2014 (2.5%) thanks to the sharp drop in food prices and the reduction in VAT on bread and bakery products.** Inflation (HICP) declined during the summer to reach 1.1% y-o-y in September (Figure II-2). Inflationary pressures are set to recede for the rest of 2013 and thus annual average inflation is forecast to remain within the NBR's target range of 2.5%±1pp. in the last quarter of 2013. Average annual inflation is expected to be around 3.3% in 2013. Inflation is projected to decelerate further to an average of 2.5% in 2014⁸ as falling food prices are expected to drive inflation to historical lows in the first half of 2014. In 2015, inflation may pick up somewhat (to an average of 3.4%), as domestic demand recovers further and price convergence towards the EU average continues.

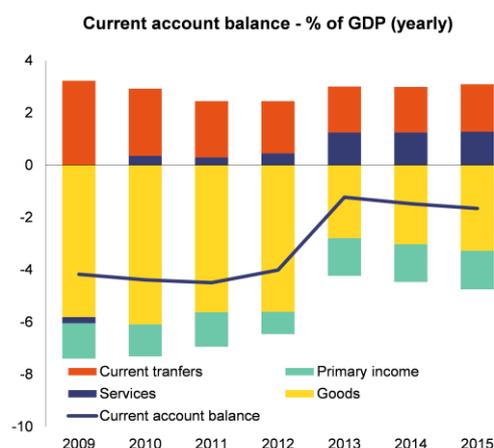
⁶ A multiplier of 0.5 was agreed with the Romanian authorities and the IMF. During the fiscal discussions, an adjuster equal to 0.2% of GDP was agreed and therefore the impact on the GDP growth was estimated at +0.1% in real terms. The full impact was reflected in the GFCF (gross fixed capital formation) volume growth for 2014.

⁷ Many households still suffer from high debt-service-to-income ratios due to high interest rates and low incomes.

⁸ The 2.5% annual average forecast for HICP in 2014 forecast does not take into account the impact of the planned hikes in indirect taxes taking effect in January 2014.

10. **The current-account deficit was revised downwards to around 1% of GDP in 2013, mainly on account of a lower trade deficit.** This compares with a deficit of about 4% of GDP in 2009-2011. An improving external environment is expected to support continued export growth. Imports, driven by stronger domestic demand, are projected to pick up in 2014 and 2015 and to mildly outpace exports. Consequently, the current-account deficit is expected to gradually widen over the forecast horizon (Figure II-3).

Figure II-3: Current account balance (% of GDP, yearly)



Source: Eurostat, Commission AF 2013 for 2013-2015 data.

11. **Financial market conditions have significantly improved throughout 2013.** However, some volatility was noticeable in May-June mainly due to changes in global market sentiment. CDS sovereign spreads have remained relatively stable at around 200 basis points since the beginning of the year. The Bucharest (BET) stock market index gained about 11% since the beginning of the year until end-October.
12. **With subdued employment growth, unemployment remains above 7%.** After coming down to below 7% in the second half of 2012, unemployment reverted to its long-term level of just above 7% in early 2013 reaching 7.5% in August. The year average is expected to be at 7.3%. Growth in employment among employees (+ 0.4% year-on-year in the first half of 2013) has remained subdued. Growth in employment among self-employed (accounting for some 21% of total employment) has been slightly higher, at 0.9%. On average, employment in 2013 is likely to grow by about half a percent.
13. **Wages and pensions are set to rise.** The authorities plan to increase the monthly minimum wage of 800 lei (circa 180 euros) by 50 lei (circa 11 euros) on 1 January 2014 and a further 50 lei on 1 July 2014. This wage increase is not expected to lead to significant second-round effects on inflation, considering that the output gap is still negative and the labour market is still weak. The impact on firm competitiveness is also expected to be limited as most likely this wage increase will partly translate into a reduction in side-payments and other benefits for employees. It shall thereby help to whiten the grey economy. For the public sector, additional small wage increases are limited to targeted public employee categories. Public pensions will be increased by 3.76%, in line with the indexation formula that includes inflation and wage growth provided for by the pension law.

II.2 Public finance

Fiscal consolidation

14. **The final budget revision for 2013 adjusts for lower revenue performance, while allowing increased flexibility in the budget to accommodate higher spending on co-financing linked to EU funds absorption.** Revenue underperformance in mainly non-fiscal revenues, excise and VAT has been offset by tightened discretionary expenditure across the board, in order to meet the previously-agreed deficit target of 2.4% of GDP in ESA terms (corresponding to a deficit of 2.3% of GDP in cash terms). However, the mission decided to allow for increased spending on national co-financing for investment projects supported by EU funds via a deficit adjustor of 0.2% of GDP. This would accommodate an expected acceleration in EU funds absorption towards year-end reflecting successful efforts to avert de-commitment risks and the relatively recent un-blocking of several operational programmes under the social and cohesion funds. In practice this means that the authorities can spend 0.2% of GDP more on co-financing EU funds until the end of the 2013. If so, the deficit will be allowed to rise to 2.6% of GDP in ESA terms (corresponding to 2.5% of GDP in cash terms). Under this scenario, Romania is expected to still achieve a structural effort of around 0.7% of GDP in 2013.
15. **The budget for 2014 targets a deficit of 2.2% of GDP in ESA terms, reflecting a baseline of 2.0% and an adjustor for co-financing EU funded projects of up to 0.2% of GDP.** The adjustor can only be used to the extent authorities spend more on co-financing EU funded projects. It reflects a limited application of the investment clause. The authorities had requested an application of the investment clause that would allow for additional fiscal space relative to the agreed adjustment path. But as this would have implied a negative structural effort and deterioration of the headline deficit in ESA terms, it would have been at odds with the key programme requirement to make further progress towards the MTO of a deficit of 1% in structural terms. Hence, only a limited application of the investment clause was granted. The 2.2% deficit scenario (full use of the adjustor) corresponds to a structural effort of 0.2% of GDP in structural terms, as opposed to the earlier envisaged 0.4% effort.
16. **The gap in the 2014 budget was filled in a balanced way by revenue and expenditure measures.** To cover the gap of about 6 billion lei (or 1% of GDP) identified by the mission, both revenue and expenditure measures were taken. On the revenue side, the authorities opted for changes in excises (introduction of inflation indexation, increase in the rates for fuels), a new tax on special constructions and increases in royalties for mineral resources other than oil and gas. On the expenditure side, savings were found by limiting the increase of public wages to a limited number of targeted categories, by adjusting expenditure on goods and services, on transfers, and on social assistance and interest payments. The 2014 budget also allows for the legally-required pension indexation and for an increase in the minimum wage in two tranches (from 800 to 850 lei as of 1 January and from 850 to 900 lei as of 1 July 2014). In order to safeguard against possible negative developments later in the year, several contingency mechanisms and buffers were agreed upon. The 10% regular buffer included in the budget will not be used (either disbursed or cut) at the first budget revision (i.e. effectively postponing its use until October). Additional buffers were included in capital expenditure and expenditure on goods and services.

17. **It will be difficult to cater for a significant, yet budget-neutral, reduction in social contributions, as requested by the government.** This time around, the mission was able to conclude with the condition that an impact analysis of a reduction in social contributions by 3-5 percentage points will be conducted by the authorities and will be taken into consideration during the first budget revision (summer 2014), only if this can be done in a budget-neutral way. While the programme asks for a study by end-2013 on a possible reduction of the tax wedge on low and middle-income earners in a budget-neutral way, the authorities seem to have already decided to reduce social security contributions by 3 to 5 percentage points across the board, albeit off-setting measures still need to be specified.
18. **Achievement of the MTO in 2015 will be challenging.** The enhanced flexibility to accommodate EU funds absorption in 2013 and 2014 implies some back-loading of the fiscal effort into 2015 (compared to the initially envisaged structural adjustment of about 0.4% of GDP in 2014 and about 0.5% in 2015). The required structural fiscal effort for 2015 in order to reach the MTO is close to the adjustment undertaken in 2013 (about 0.7% of GDP), and therefore not without precedent. However, such consolidation may be difficult to achieve in the context of approaching European (May 2014) and presidential (December 2014) elections.

Fiscal governance

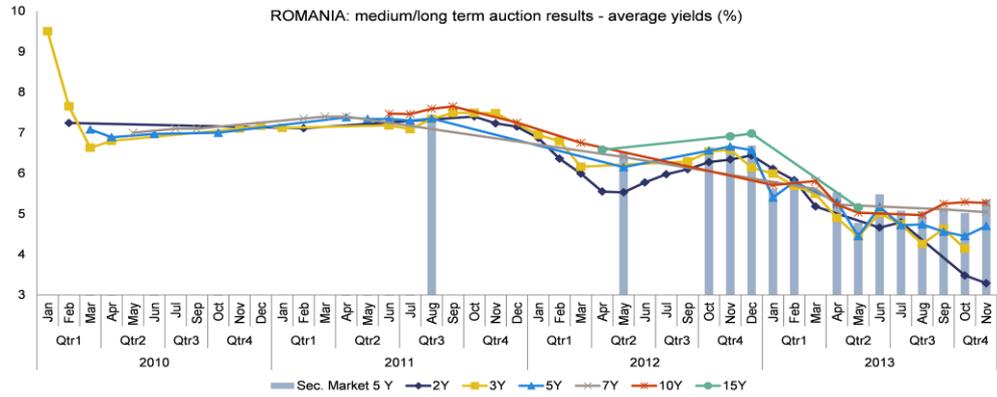
19. **Prioritisation of significant investment projects at central-government level was improved and prioritisation for the whole investment portfolio was incepted.** The authorities adopted an updated list of significant public investments at central government level in keeping with the agreed deadline. Major challenges in the field remain, as there is a high number of delayed and/or abandoned investment projects, notably at local level. Agreement was reached to set up a list of non-performing investment projects and their respective time and cost over-runs. Projects with major over-runs shall be re-appraised and either the whole project (for central government projects) or the central government co-financing (for local government projects) shall be cancelled.
20. **Additional means to monitor tax collection were agreed.** Revenue collection underperformed in August and September. This was mostly attributed to the restructuring of the tax collection agency ANAF. The latter's restructuring will advance further and ANAF will extend its regular data provision, including on: i) filing activity; ii) on stocks and flows of tax arrears; iii) on the number of audits conducted; and iv) on instalment agreements.
21. **Other improvements in public financial management are underway, in line with the agreed schedule.** Authorities are working on amending the Fiscal Responsibility Law by end-2013. This is necessary to ensure implementation of the Fiscal Compact, notably to provide for an automatic correction mechanism in case of deviations. The roll-out of the commitment control system is on track; by end-January 2014 it is supposed to be fully operational in the finance ministry and at least one unit at local government level. The authorities committed to ensure that the administrative decentralisation, which is currently being considered, will be deficit-neutral and that fiscal control will remain at central government level.

22. **The information flow from line ministries to the finance ministry is being improved.** The MoU includes conditionality on a protocol to strengthen this flow of information. A government decision detailing reporting obligations for the Ministry for EU Funds was passed. The authorities reported that this led to significant improvements in the information flow, which was important for medium-term financial projections on EU co-financed expenditure. The protocol detailing the full information flow has, however, yet to be established.

Public debt management

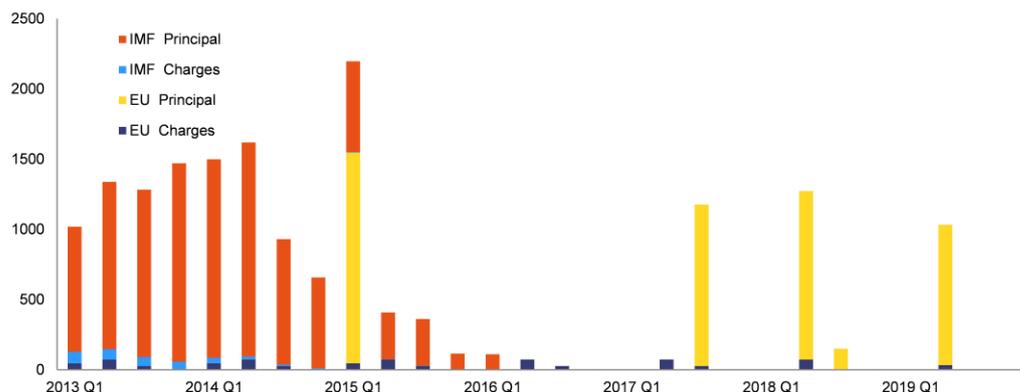
23. **Regarding sovereign financing, the issuance performance of the sovereign has improved and financing for 2013 is well on-track.** Gross financing needs of the sovereign in 2013 are estimated at 71.2 bn lei of which 15.9 bn lei for the deficit, 47.4 bn lei for the rollover of government securities and 7.8 bn lei for principal repayments of loans. As of end-October 2013, the treasury had raised 90% of their financing needs for the year, hitting record low yields on several maturities in September and October (Figure II-4) and attracting foreign demand (the non-resident share of holdings of government securities issued on the domestic market amounts to 24%). The ceiling of the current EMTN programme has been reached this year with 7Y-issuances in September and October totalling 2 bn euros. Repayment of official financial assistance amounts to 5.2 billion euros in 2013 (Figure II-5). The treasury aims at maintaining a foreign-exchange buffer covering four months of gross financing needs (currently the buffer covers more than five months). There are no external redemptions falling due this year, but there will be a domestic redemption of 1.3 bn euros in November.

Figure II-4: Romania - Medium/Long term auction results for RON-denominated issuances (average yields, %)



Source: Bloomberg.

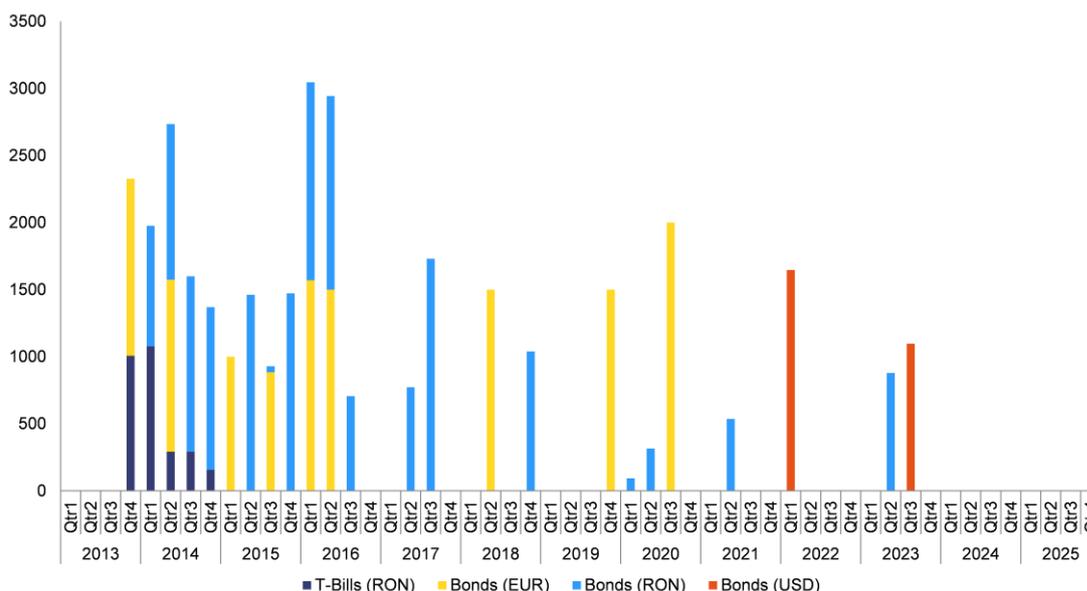
Figure II-5: Quarterly repayment schedule to the EU and the IMF



Source: Commission services and the IMF.

24. **The treasury has exercised its option to draw on the World Bank credit line for an amount of 0.7 bn euros this year.** It is considering drawing the remaining 0.3 bn euros of the DPL DDO in 2014. The loan has an 18-year maturity and carries a 3.6% fixed interest rate. Its main functions are to help the treasury to maintain an appropriate liquidity buffer and to manage debt management operations as roll-over needs remain important (Figure II-5). The finance ministry is taking into consideration for the 2014 borrowing plans a new DPL and a request for a new loan for health sector reform amounting to 1 bn US dollars.

Figure II-6: Sovereign – maturing debt (in RON, mn)



Source: Commission services and IMF.

25. **Progress towards fulfilling programme conditionality on debt management seems satisfactory.** The Debt Management Strategy is to be updated in Q1 2014 consistently with the 2014 Annual Borrowing Plan (to be published in December 2013). The primary auction system operated with the NBR should be operational in the first quarter of 2014. Discussions on the introduction of an electronic trading platform to increase the price disclosure are on-going under a technical assistance (TA) project with the World Bank. Regarding investor relations, a non-deal road show will be organised in Asia. On the liability management, consultants have already provided guidelines for the necessary legal and procedural framework and work is on-going on building up capacity and the necessary infrastructure and operational framework. Finally, to improve cash management, the TA project with the World Bank is focusing on improving the forecasting of the treasury single account and pursuing a more active cash management via specific instruments such as short-term T-bills (e.g. 3 months) and reverse repos.

II.3 Monetary policy

26. **Falling inflation expectations allow the National Bank of Romania to ease monetary policy.**

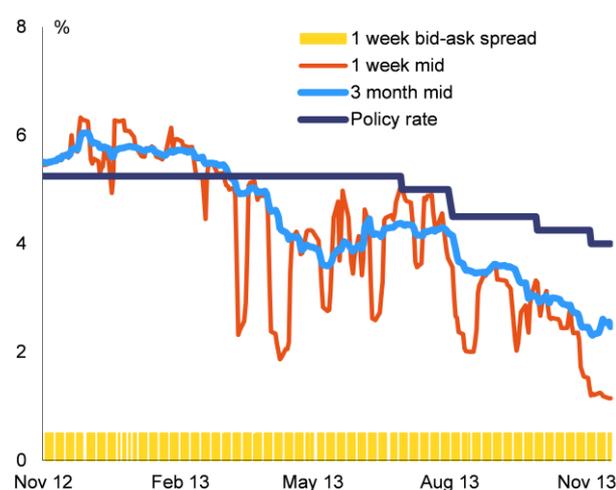
The National Bank of Romania (NBR) continued the monetary easing cycle set in by a 25 basis points (bps) cut in July, a 50 bps cut in August and a 25 bps cut in September, by lowering its key policy rate by another 25 bps to 4.00% in November (Figure II-7). The NBR indicated that the current outlook enables a possible further gradual easing of the monetary policy stance, as inflation has fallen

into the $2\frac{1}{2}\% \pm 1\text{pp}$ target range in September 2013 (consumer price inflation dropped from 3.7% in August to 1.9% in September, reflecting also the cut in VAT on bread), as the output gap remains still negative, and as economic recovery remains slow and credit growth remains negative. Risks to the inflation outlook appear broadly balanced and underlying inflation pressures remain low.

27. **Liquidity conditions in the interbank market have improved substantially over 2013.**

The NBR started easing liquidity conditions in spring 2013 and the situation in the market has changed from a negative to a positive net liquidity position since summer 2013. Recent abundant liquidity also led interbank rates to decrease below the NBR's key policy rate. There was no use of the NBR repo operations by banks since August 2013. Strengthening the interest-rate channel of monetary transmission remains an important challenge, particularly in view of the highly volatile interbank market and persistently weak lei-denominated credit activity.

Figure II-7: Policy and interbank rates



Source: Bloomberg

28. **Even though conditions for monetary easing are favourable, further easing of monetary policy should be done in a prudent manner and only if inflation expectations are well anchored.** The mission discussed broader monetary policy instruments, including the possibility to reduce the level of the minimum reserve requirements (MRR) and the need to carefully assess possible implications of a reduction on market liquidity, lending, exchange rate and foreign banks' balances. Maintaining the wedge between FX- and RON-denominated liabilities is important. The NBR discussed the policy outlook with IMF and EC staff as part of the inflation consultation mechanism, which was triggered by the September inflation rate crossing the lower limit of the inner band of the mechanism. The NBR's performance in terms of net international reserves (NIR) targets over 2013 seems satisfactory and the NBR was confident to meet the end-2013 NIR target (a cumulative increase in net international reserves of 4.6 bn euros over 2013).

II.4 Financial sector

29. **The deterioration in asset quality has continued throughout 2013 and has put further pressure on banking sector profitability** (Table II-1). Capital adequacy at system level remained flat at roughly 14.7% in the first half of 2013, but declined to slightly below 14% at the end of the third quarter of 2013 which is, however, still high by international comparison. Non-performing loans (90 days overdue) reached 21% at the end of August and further increased to 21.6% at the end of September 2013. The risks associated with the still on-going increase in non-performing loans (NPLs) have continued to be mitigated by the prudent loan-loss provisioning policy of the banking supervisor. However, the increase in loan-loss provisions has continued to put strain on banking sector profitability. The collateral audit based on June 2013 data requested by the NBR resulted in additional loans-loss provisions of roughly 112 million euros (in both accounting and prudential terms), which were already recognised by banks. Going forward, further pressure on profitability is expected due to additional loan-loss provisions related to the restructured loans portfolio. At the end of September 2013, the banking sector recorded a meagre profit, as the return on equity stood at roughly 5%. The liquidity conditions have continued to improve, *inter alia*, due to the on-going deleveraging process and the increase in retail deposits. The loan-to-deposit ratio at system level has declined steadily in 2013 and stood at 112% at the end of September 2013 compared with 117% at the end of December 2012.

Table II-1: Banking sector – Financial soundness indicators

(%)	2007	2008	2009	2010	2011	2012	2013Q1	2013Q2	2013Q3
Capital Adequacy									
Capital Adequacy Ratio	13.8	13.8	14.7	15.0	14.9	14.6	15.0	14.7	13.9
Leverage Ratio	7.3	8.1	7.6	8.1	8.1	7.9	8.2	8.0	na
Ratio of level 1 own funds to credit risk exposure	10.7	11.8	13.4	14.2	14.3	16.2	16.7	16.4	na
Asset quality									
NPL's (90 days overdue)	-	2.8	7.9	11.9	14.3	18.2	20.9	21.0	21.6
NPL's (60 days overdue)	4.0	6.5	15.3	20.8	23.3	29.9	31.4	31.7	31.8
Profitability									
Return on assets (after tax)	1.0	1.6	0.3	-0.2	-0.2	-0.6	0.7	0.7	0.6
Return on equity (after tax)	9.4	17.0	2.9	-1.7	-2.6	-5.4	6.3	5.9	5.0
Liquidity									
Immediate liquidity	38.7	34.4	35.3	37.8	37.2	35.9	38.1	38.9	38.2

Source: National Bank of Romania.

Note: September 2013 – provisional data.

30. **Further progress has been made as regards the fulfilment of programme conditionality in the financial sector.** In order to speed-up the process of writing off fully provisioned *non-performing loans* (NPLs), the NBR has committed in the MEFP that was agreed during the mission to request the IFRS Interpretations Committee (IFRIC) to provide guidance on the application of IAS 39 rules on the de-recognition of financial assets to uncollectible loans. The assessment on the asset quality in the banking sector will be broadened with an impact assessment of the new EBA (European Banking Authority) definition of NPLs and will be finalised by end-November 2013. The on-site inspections by the NBR covering the IT systems of banks for managing impaired assets and the restructuring policies of banks have been launched for a sample of 20 banks and are expected to be finalised before year end as foreseen in the MoU. Taking into account the new state aid rules, the amendments to the stabilisation measures included in the banking law as well as the amendments to the DGF (deposit guarantee fund) legislation will be finalised at the end of January 2014. In line with the MoU requirements, the number of board members on the *non-bank financial supervisor* (ASF) was reduced from eleven to nine. Albeit with delays compared to the MoU deadline, the ASF has launched the process of selecting the external consultant to assess the ASF staff and staff levels. In case of contestation of the public tender outcome by the consulting companies participating to this tender, the contract with the selected external consultant will not be signed before mid-December 2013. According to the terms of reference, the selected consultant will have 45 working days to complete the assessment of the ASF staff. To provide maximum assurances of a competent treatment of litigations linked to *abusive clauses in loan contracts*, authorities have also committed in the MEFP to speed-up the setting up of the specialised court. In case this specialised court will not ensure a harmonised application of the provisions on abusive clauses, authorities have committed to consider alternative solutions. Last, but not least, following the decision of the Constitutional Court to declare unconstitutional the Government Emergency Ordinance 91/2013 on the *insolvency code*, stakeholders including the Romanian Banking Association, will have more time to communicate to the Ministry of Justice their outstanding suggestions and comments on the insolvency code.

II.5 Structural reform

Administrative capacity

31. **Progress has been made with the review and update of the action plans by the relevant line ministries.** The mission was informed that the action plans based on the outcome of the functional review reports are being updated by the relevant line ministries. More than half of the updates have been already concluded. The remaining updates are expected to be ready by end-December, as committed to in the MoU.
32. **A central Delivery Unit is currently being established under the Prime Minister and it should be in charge of coordinating the follow up of the CSRs.** The mission verified whether preparations were in line with the requirement for the Delivery Unit (DU) it to be in charge of coordinating the follow up to the CSRs as agreed in the MoU. The DU is being developed with technical assistance from the World Bank and is to be financed with EU structural funds. It will be part of the General Secretariat of the Government, and resort under the Prime Minister as agreed in the MoU. The mission staff held extensive discussions on the design, role and responsibility of the new unit with all relevant parties and an agreement was reached on its mandate and scope. The DU will be primarily a "task force" for dealing with urgent cross-cutting issues, but it will also have the complementary task of overseeing the CSRs not covered by the MoU. The end-2013 deadline for establishing the DU is challenging, but feasible.

Energy

33. **The energy law is being adjusted in order to fully comply with the EU's third energy package.** The mission made it clear that the amendments to be introduced should not impinge upon ANRE's (functional) independence. It urged the authorities to explain to relevant parliamentary committees, if needed, that the (functional) independence of the energy regulator ANRE is one of the achievements of the last programme and is required by EU law.
34. **Phasing out regulated electricity and gas prices continued in line with the electricity and gas roadmaps.** For electricity, complete deregulation of electricity prices for corporate consumers is scheduled to be achieved by end-2013 and for households by end-2017. For natural gas, prices are expected to be brought to a pre-defined market level for non-residential consumers by end-2014 (with a possible extension to end-2015, should a significant gap to the market prices remain by end-2014) and for households by end 2018.
35. **The share of electricity sourced from competitive markets increased in September from 65% to 85% and the liberalisation is set to be completed for corporate consumers by January 2014.** Despite increase in regulated tariff by 1.5% and significant increase of electricity sourcing from competitive market, the overall price increase was estimated to be less than 0.5% for 2013. For 2014, no significant electricity price increase is expected due to falling electricity consumption and increased electricity supply from renewables. In 2014, the share in electricity consumption by households to be sourced from the non-regulated market is set to increase from 10% to 30%.
36. **Domestic gas price adjustment for both corporates (reaching 51% market price convergence) and households (reaching 37% market price convergence) took place in October,** in line with the gas roadmap. The increases in final gas prices were lower

than earlier estimated thanks to a fall in the import prices, an increase in internal production and subsequent changes to the gas basket. But for 2014, due to the adjustment of the gas basket, a higher increase (around 25%) in final prices for corporates than originally estimated (18%) by the regulator is expected. For households, a final gas price increase of 10% is expected. It was agreed that the regulator prepares, by early 2014, an assessment of the price liberalisation path and the need for further adjustment.

37. **Some progress was made in developing gas and electricity platforms.** The over-the-counter market in electricity became operational in August 2013 while the trading platform for large electricity consumers on the OPCOM electricity exchange was put in place in October. The regulation on the intra-day electricity market was also finalised in October. The authorities plan to continue these reforms, also by providing secondary legislation by January 2014. Overall, programme partners urged the authorities to further improve gas trading (currently being less developed than electricity trading). The authorities plan to introduce secondary legislation for gas trading by mid-2014 to match the next 'gas year'.
38. **The progress in unbundling the transmission system operators has been slow.** Production and supply, on the one hand, and transmission and dispatch of energy, on the other, should be separated according to the EU 'acquis'. So far, full unbundling has not yet taken place: while the transmission system operators (TSOs) have formally been transferred to the finance ministry, the dispatching has remained with the economics ministry that manages the state's shares in energy production and supply companies. The government has committed to fully unbundle the TSOs in line with the EU rules and to transfer the dispatch centres to the finance ministry. The energy law is in the parliament and, once necessary corrections are introduced, ANRE can proceed with its certification process. The Romanian government needs to ensure full compliance with the certification decision of ANRE on the unbundling of Transelectrica and Transgas by, respectively, July 2014 and August 2014.
39. **There has been some progress in cross-border integration of energy networks and in the implementation of the gas interconnections.** The coupling of the Romanian electricity market with Slovakia, the Czech Republic and Hungary is on-going: a memorandum was signed in July 2013. The coupling in electricity is to be fully implemented by September 2014.

Transport

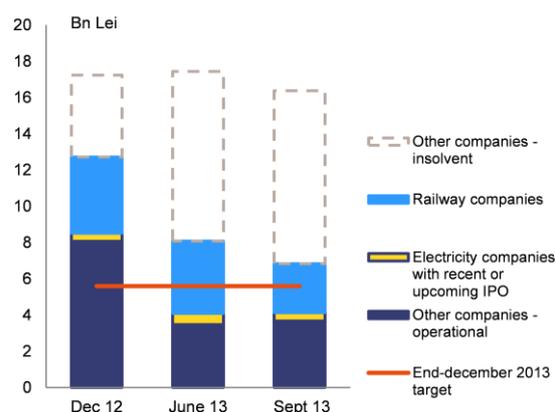
40. **The authorities re-confirmed their commitment to implement the outstanding regulatory measures from the 2nd programme by end-2013.** Incentives for the infrastructure manager to reduce costs and unit charges will be introduced in the 2014 addendum to the activity contract of CFR Infrastructura. Performance schemes related to delays have been presented and were discussed among the relevant parties. They will be introduced in the access contract of each rail operator by end-2013 in order to be in force as of 2014. The formula for the calculation of the public service obligation subsidy will be adjusted as of January 2014. The current share of train-km (80%) will be further reduced and the share of passenger-km (20%) will be further increased.
41. **The authorities confirmed the plan to revisit the terms of the multi-annual infrastructure contract.** Until now, the terms of this contract did not provide for a financial balance. The authorities plan to provide timely budgetary transfers to the

transport sector, in line with budgetary commitments. In addition, a combination of efficiency improvements, network reductions, and subsidy increases is expected to bring the rail companies' budgets into balance. A letter committing 2% of GDP to transport expenditures per year, a political commitment required by the EC for the EU funds allocated to the transport sector in next programming period (2014-20), has reportedly been sent from the finance ministry to the transport ministry. However, it has not yet been shared with the EC as the split between the road and rail share has not been clarified.

State-Owned Enterprises

42. **The arrears target for state-owned enterprises (SOEs) and the operating balance target for the three rail SOEs have been met.** The reduction of arrears by SOEs is in line with the targets defined in the programme (Figure II-8), even if a substantial number of SOEs continue to accumulate new arrears. The authorities committed to prepare and approve realistic and timely budgets and to provide appropriate budget financing for 2014. The companies' budgetary allocations will be paid on a monthly basis and on time. Budgetary funds are expected to cover as a priority access and electricity charges and obligations to the central government.

Figure II-8: Payments past due date at central-government owned enterprises



Note: The electricity companies with recent or upcoming IPOs are Electrica, Nuclearelectrica, Hidroelectrica, Oltenia and Romgaz. The railway companies are CFR Cai Ferate, CFR Calatori, CFR Marfă and their respective subsidiaries. Payments past due date of companies under insolvency are excluded from the target. Any remaining payments past due date will be included again when a company exits insolvency.

43. **The privatisation track record is mixed.** The initial public offerings (IPO) of 10% of Nuclearelectrica's shares in October and of 15% of Romgaz' shares in November have been successful (Table II-2). On the downside, the majority privatisation of rail freight company CFR Marfă, due for end-October, failed; it was not possible to conclude the deal with the final bidder within the timeframe defined in the privatisation law. The aim is now to privatise the company by May 2015, based on a more realistic time schedule. In the meantime, CFR Marfă shall eliminate operational losses through the sale of obsolete freight wagons, reduction in personnel costs and by halting delivery to customers with arrears. CFR Marfă's payment arrears will now be monitored separately on a quarterly basis starting in Q4 2013. The company shall not increase its outstanding payments past due.⁹ Three operations are scheduled for spring 2014: electricity distributor Electrica (51%), energy complex Oltenia (15%) and hydropower generator Hidroelectrica (15%, the share having been increased during the mission from 10%).

⁹ This target excludes existing and future interest as well as penalties incurred on current outstanding payments.

Table II-2: Sales of stakes in state-owned enterprises

Company	Stake on offer	MEFP July 2013	Current status	MEFP Dec. 2013
Nuclearelectrica	10% IPO	End-September 2013	Completed	/
Romgaz	15% IPO	Mid-November 2013	Completed	/
Hidroelectrica	10% IPO	End-June 2014	Preparation phase	IPO stake increased to 15% - deadline remains end-June 2014
Electrica	Majority privatisation	End-May 2014	Preparation phase	End-May 2014
Oltenia	15% IPO	End-June 2014	Preparation phase	End-June 2014
CFR Marfă	Majority privatisation	October 2013	Failure to conclude the deal with the final bidder	Privatisation to be re-launched and to be completed by May 2015

44. **The restructuring of CFR Marfă is part of a broader, if not very ambitious, restructuring of rail SOEs.** Personnel costs will be reduced in the three companies (CFR Infrastructura, CFR Marfă and CFR Călători) through layoffs, attrition and reduction in working days. Ticket prices at CFR Călători, the passenger company, were increased by 10% in September and ticket controls intensified. Electricity costs shall be reduced by moving to more competitive contracts bought on the electricity platform OPCOM.
45. **Progress on corporate governance reform has been mixed.** The appointment of a professional board in Hidroelectrica by end-November 2013 is a structural benchmark for the IMF and is expected to be met, but few recent appointments seem to have followed both the spirit and the letter of the current legislation on corporate governance. With support of the World Bank, the government will seek an independent assessment of the implementation of the corporate governance ordinance enacted in 2011.

Healthcare

46. **Some progress was made in preparing a comprehensive reform of the healthcare system aimed at improving its financial sustainability and at raising the efficiency of healthcare spending.** Although the basic-benefits package for publicly-reimbursed medical services and products was redesigned by Q3 as agreed, several elements are still missing. Notably the fiscal impact assessment and the assessment of the effects on the efficiency of healthcare delivery have been insufficiently developed. The adoption of the package by mid-February 2014 is now conditional on a, yet to be provided, financial impact assessment by mid-November 2013. The package aims to shift health service delivery out of hospitals to ambulatory care providers, to strengthen the provision of primary care services and to provide substantial room for financing of health services by private insurance schemes. The role of private insurance will be defined until end-2013 including a comprehensive health strategy including the revenue side – in close collaboration with the EC, IMF and the WB. On the fiscal side, the National Health

Insurance House reported zero arrears with regard to its payment commitments (and minor arrears in the Ministry of Health), meaning close to full compliance with the Late Payment Directive, which is a huge progress relative to 2012.

47. **Various work streams included in the strategic action plan will be specified with roadmaps and indicators to monitor continuous implementation progress.** This includes: i) the elaboration of the national health strategy unit by end-2013, which will specify the national hospital bed plan. This national health strategy is part of the ex-ante conditionality for access to the European structural funds envelope for the 2014-2020 programming period. It will implement the hospital rationalisation strategy seeking financial support from the EC and the WB; ii) rapid progress of the centralised procurement system, providing an operational action plan including targets of expenditure items to be covered in centralized tendering processes in 2014 and 2015; iii) the improved usage of the *e*-prescription tool to achieve cost-savings in pharmaceutical expenditure; iv) the distribution of patient *e*-health cards to all eligible population by mid-2014; and v) the revision of the list of compensated drugs (covering 140 molecules) by end-2013; it would be the first revision in five years.

Labour market

48. **The achievements of the labour market reforms initiated during the previous programme are being preserved.** The authorities continue to monitor the labour market developments following the implementation of the Labour Code and the Social Dialogue Code. The number of fixed-term contracts, most likely facilitated by the 2011 Labour Code, grew by around 4% by end-August (year-on-year), twice as much as the overall number of new contracts. Two small amendments of the Labour Code that are being finalised for end-2013 are of merely technical nature (allowing for greater payment flexibility for day workers and for applying a different NACE code). No amendments of the Social Dialogue Code are planned for 2013 as a moratorium has been proposed by the government. Proposals on possible amendments from social partners will be received by end-2013 and, if appropriate, will be submitted for discussion in parliament in September 2014.
49. **Measures to help boost youth employment are being implemented.** The National Job Plan that has a special focus on youth unemployed is being implemented with the monitoring indicators being developed. The national employment strategy 2014-20 is being drafted. Furthermore, an action plan of measures that could qualify for support under the Youth Employment Initiative is being developed and is expected to be finalised by end-2013. Pilot projects supporting youth with high school diploma have been launched. The methodological norms for the Apprenticeship Law and the law facilitating professional training internships for higher education graduates are being finalised by end-2013 and are to be implemented in 2014. The work-based vocational training scheme, now in its second year, is attracting a growing number of students and partner companies.
50. **The high tax burden on labour for low and middle income earners is currently being re-assessed.** The government is preparing a study by end-2013 detailing the tax policy

reform options to reduce the labour tax wedge in a budgetary neutral manner. The tax base for social security contributions could be expanded to better include the self-employed (for pensions) and income sources other than labour (for health). World Bank experts are advising the finance ministry and are preparing a report on reform options for end-2013.

51. **The amendments to the pension law to equalise pensionable age between men and women are being prepared.** The authorities re-confirmed their commitment to amend, by end-2013, the pension law in order to equalise pensionable age for men and women (at 65 years) by further increasing the pensionable age of women from 63 years in 2030 to 65 years in 2035.¹⁰ However, progress on preparing the amendment has been slow. The draft amendments have now been presented for public consultation; after government approval they will enter parliament to be approved through a normal legislative procedure. However, there are risks that the amendments will not be adopted by end-2013, as required by the MoU.

Business environment

52. **Business environment reforms are advancing at different speeds.** On the positive side, the scheme for state guarantees for bank lending has been re-launched with improved and more efficient provisions; simplification of administrative procedures is being prepared; and government services related to export promotion activities are being strengthened. On the negative side, land registry coverage has not advanced due to an alleged lack of financial resources.
53. **Measures are being taken to improve the regulatory framework and to simplify administrative procedures.** The first draft of the Better Regulation strategy 2014-20 is to be prepared for end-2013 (to be adopted by government in March 2014). The earlier strategy made clear that impact assessments are obligatory and that every legislation needs to be accompanied by a 'substantiation note', but implementation has so far been weak and a number of legislative acts per year has been very high (around 2000). Methodological tools (general and sector-specific manuals) regarding impact assessments are being developed with support of the World Bank. A pilot project on drafting sector-specific manual in the Ministry of Economy, including the 'SME test' is on-going. The Better Regulation strategy will also have an action plan whose implementation shall be monitored by the General Secretariat of the Government to assure quality control. Regarding the government's commitment to reduce the administrative burden for companies, information obligations should be substantially reduced by end-2013 by five out of eight ministries. The three remaining ministries should finalise this process in 2014. The 'one-stop shop' (mainly information portal for SMEs) and the point of single contact (a more advanced portal with more on-line functions, operational since February 2013) shall be interlinked before end-2013, as required in the MoU.

¹⁰ This is a condition under the programme (MoU nr. 37) and is also covered by the 2nd country-specific recommendation addressed to Romania in July by the EU council of ministers under the European Semester: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:217:0067:0070:EN:PDF>

54. **The land registration has not advanced as the competent authorities argue that the necessary financial resources for the second part of 2013 and for 2014-15 have not been catered for.** The 10% increase of registration coverage committed to under the programme implies covering by systematic registration around 400 communes. The land registry's estimates that increasing the digital coverage by 10% by mid-2015 corresponds to around 450 mn lei (about 103 mn euros), which includes hiring 600 additional staff.
55. **On the regulatory front, the land registration framework seems to be largely appropriate; the main reason for numerous land disputes remains the restitution law.** The 2010 judicial reform aimed at streamlining the judicial process. In a second, more significant, reform step, a new civil procedure code was adopted in February 2013 (applicable to new court cases). The new code should allow for an improvement in the efficiency of the judicial system: it reduces the duration of the judicial process by limiting the possibility of extensions, provides a better training to judges and obliges the parties to attend an information session of mediation before they go to court. While the legal framework is satisfactory, there is no adequate data on implementation, with statistics about court performance being submitted to the justice ministry with a delay. The 2013 law on restitution introduced an additional burden for the courts dealing with land disputes. The National Agency of Restitution is preparing an inventory of requests by May 2014; by March 2016 the restitution process should be finalised.
56. **The obligation for state assets to be registered prior to any transaction was recently introduced for the private domain of the state.** According to the new civil code of 2013, all private and public domains have to be registered. Prior to this ruling, there were no records of the private domain of the state, while the obligation for the public domain existed since 2001.
57. **Current plans to partially finance the land registry coverage through a concession contract are considered risky from the fiscal sustainability point of view.** The government decision on a service concession for the urban land registry was adopted in July 2013. The state department in charge of big infrastructure projects hired a consultant to carry out a feasibility study, to define the technical specifications, and to prepare the terms of reference for the project. The recent World Bank analysis and the letter to the government emphasise high risks to the quality and fiscal sustainability of the initiative.
58. **The legislative proposal aimed at attracting more private investment in research and development activities was broadly appropriate, but there is a high risk that it will be watered down.** The authorities committed to adopt new legislation on inventions by employees to make investments in R&D more attractive for the employers. The legislation has meanwhile been amended and adopted by the Senate and is now with the Chamber of Deputies. However, some of the Senate's amendments would seem to go against the spirit of the government proposal and would, if kept, substantially water down the proposal. The final version of the law should give companies enough time to consider the patenting option after notification by the employee and provisions regarding the remuneration of inventor should provide for more predictability for companies. The law is to be adopted by end-2013; after that a guide should be prepared by the National Office of Patents, with support of Executive Agency for Higher Education, Research and Innovation Funding that will organise workshops with experts and stakeholders.

59. **The scheme for state guarantees for bank lending has been re-launched with improved and more efficient provisions.** The maximum loan amount has been increased (from around 90 000 euros to around 1.1 mn euros) and the duration extended (from one to two years), the roll-over conditions were also improved. The methodological norms are being prepared and will be shared with the programme partners for consultation. If successful, the current scheme with a ceiling of 2 bn lei should be extended by another 2 bn lei in 2015. The authorities are discussing with the banks to cap the interest rate charged and are negotiating the fees with the National Guarantee Fund.
60. **Preparations are under way to strengthen export promotion services.** The national export strategy has been launched in October 2013. The three-year project of setting up regional export centres, co-financed by the Swiss government, is under preparation. The contractor should be selected by mid-2014 and pilot regional export centres shall be operational by end-2014. The trade portal is being improved: companies should be able to register for trade fairs and trade missions on-line by end-2013. The export centres will be the gates for the 'passport to export' scheme that would provide coaching and consultancy on export capacity. Export councillors' schemes outside Romania are supposed to be strengthened but no additional financing could be secured. In addition, the 1-to-1 rule would not allow the service to hire additional staff. The authorities planned to undertake a study assessing the efficiency of the current export councillors' schemes.

Annex A. PRESS STATEMENT



European Commission
MEMO
Brussels, 5 November 2013

Romania: Statement of the European Commission and International Monetary Fund Staff Visit

Teams from the International Monetary Fund and the European Commission visited Bucharest 22 October - 5 November to conduct discussions on the first review of the economic programme supported by an IMF Stand-By Agreement and a status update of the precautionary balance of payments programme with the European Union.

Staff-level agreement has been reached. The programme remains broadly on track. All end-September 2013 performance criteria were met and progress was made toward meeting most of the structural benchmarks.

Real GDP growth in 2013 has strengthened on the back of strong agricultural output and robust export performance, and is now projected to reach 2.2 percent. Domestic demand, however, remains subdued contributing to a strong adjustment of the current account to 1.2 percent of GDP. In 2014, real GDP growth is forecast to remain flat at 2.2 percent with growth drivers gradually switching from net exports to domestic demand, and in particular to investment which is set to increase as the EU funds absorption accelerates. Inflation entered the central bank's target band in September, reflecting largely lower food prices, and it is expected to close 2013 at around 2 percent. Notwithstanding the ongoing deterioration in asset quality, the banking sector remains resilient and has maintained sufficient capital buffers and reassuring loan-loss provisions.

The authorities have continued the fiscal adjustment and met the September fiscal deficit target as revenue shortfalls were compensated by expenditure restraint. The end-year target is now set at 2.5 percent of GDP (up by 0.2 percent in cash terms) to accommodate higher co-financing needs associated with faster absorption of EU funds. For next year, the authorities plan to gradually lower the deficit further, in line with achieving Romania's medium-term budgetary objective (MTO) of a structural deficit (ESA-based) of 1 percent in 2015, while also accommodating expected further increases in co-financing expenditure.

The structural reform efforts are bringing good results in some areas. The successful initial public offering for 15 percent of Romgaz represents a landmark transaction for the state owned enterprise sector and for Romania's capital markets. However, the failure to complete the majority privatization of the freight railway company CFR Marfa was a setback though the government remains committed to continue the privatization process and to support a restructuring of the company in the interim. Healthcare reform preparations are advancing, the price liberalization agenda for energy is on track, and steps were taken to strengthen public financial management, such as investment prioritization.

Annex B. Key Economic Indicators (2007-2015)

Table B-1: Key economic indicators for Romania (Overview, 2007-2015)

	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Gross Domestic Product									
<i>(annual percentage change, unless otherwise indicated)</i>									
Nominal GDP (in bn RON)	416	515	501	524	557	587	626	658	692
Real GDP	6.3	7.3	-6.6	-1.1	2.2	0.7	2.2	2.2	2.4
Private Consumption	11.9	9.0	-10.1	-0.3	1.1	1.1	0.3	1.6	2.2
Public Consumption	-0.1	7.2	3.1	-4.7	0.2	1.7	0.0	1.8	1.3
Gross fixed capital formation	30.3	15.6	-28.1	-1.8	7.3	4.9	-2.0	3.5	4.4
Exports	7.8	8.3	-6.4	13.2	10.3	-3.0	9.6	5.0	6.1
Imports	27.3	7.9	-20.5	11.1	10.0	-0.9	0.8	5.1	6.5
Contribution to GDP growth									
Domestic demand	15.9	11.9	-15.0	-1.5	2.6	2.2	-0.3	2.3	2.7
Inventories	0.0	-3.5	1.4	0.4	0.1	-0.7	-0.9	0.0	0.0
Net exports	-9.6	-1.0	7.0	0.0	-0.5	-0.8	3.5	-0.1	-0.3
Prices									
HICP inflation (average)	4.9	7.9	5.6	6.1	5.8	3.4	3.3	2.5	3.4
HICP inflation (year-end, quarterly)	6.8	6.9	4.5	7.8	3.4	4.7	1.6	3.5	3.3
NBR target	4.0	3.8	3.5	3.5	3.0	3.0	2.5	2.5	2.5
Labour market									
Total employment	9365	9366	9181	9156	9058	9198	9249	9308	9373
Unemployment rate (registered, year-end)	4.0	4.4	7.8	7.0	5.2	5.6	5.0	n.a.	n.a.
Unemployment rate (LFS, year-end)	6.4	5.8	6.9	7.3	7.4	7.0	7.3	7.1	7.0
General Government Accounts									
<i>(in percent of GDP, cash)</i>									
Total revenues	30.6	32.2	31.4	32.3	32.7	33.1	32.9	32.9	n.a.
Total expenditures	32.8	37.0	38.7	38.7	37.2	35.6	35.2	34.9	n.a.
Current	29.4	32.1	34.8	35.1	33.0	32.3	32.4	32.2	n.a.
Capital	3.5	5.0	4.4	3.7	4.1	3.3	2.8	2.7	n.a.
Govn deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.5	-2.5	-2.3	-2.0	n.a.
Government deficit, ESA95 definition, target ¹⁾	-2.9	-5.7	-9.0	-6.8	-5.6	-3.0	-2.4	-2.0	n.a.
Deficit adjustor (for co-financing EU funds)							-0.2	-0.2	
Government deficit, cash definition including adjustor							-2.5	-2.2	
Government deficit, ESA95 definition, including adjustor							-2.6	-2.2	
Gross debt, general gov. ESA95 definition	12.8	13.4	23.6	30.5	34.7	37.9	38.5	39.1	39.5
Balance of payments									
<i>(in percent of GDP)</i>									
Current account balance **	-13.6	-11.4	-4.2	-4.4	-4.5	-4.0	-1.2	-1.5	-1.7
Trade balance	-13.9	-13.0	-6.0	-5.7	-5.3	-5.2	-1.5	-1.8	-2.0
Capital and financial account balance	14.0	12.8	5.0	4.6	4.2	3.8	n.a.	n.a.	n.a.
FDI balance	5.7	6.7	3.0	1.8	1.4	1.7	n.a.	n.a.	n.a.
Net international investment position	-43.5	-49.4	-62.4	-62.6	-64.3	-67.9	-63.7	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	31.6	28.5	34.0	32.6	31.1	31.3	n.a.	n.a.	n.a.
Gross external debt	47.0	51.8	68.7	74.4	75.2	75.1	70.3	n.a.	n.a.
Monetary and exchange rate developments									
Broad money M3 (annual % change, end of the period)	33.70	17.49	8.97	6.93	6.63	2.69	4.75	n.a.	n.a.
NBR policy rate (in %, end of period)	7.50	10.25	8.00	6.25	6.00	5.25	4.25	n.a.	n.a.
Exchange rate (lei/euro, end of period)	3.61	3.99	4.23	4.28	4.32	4.43	4.43	n.a.	n.a.
REER (Unit Labour Costs deflator, % change)	19.9	8.0	-13.0	-3.6	11.8	-3.2	n.a.	n.a.	n.a.
Financial market & banking sector developments									
Private credit growth (y-o-y)	60.4	33.7	0.9	4.7	6.6	1.3	-3.3	n.a.	n.a.
Capital Adequacy									
CAR	13.8	13.8	14.7	15.0	14.9	14.6	13.9	n.a.	n.a.
Leverage ratio	7.3	8.1	7.6	8.1	8.1	7.9	8.0	n.a.	n.a.
Ratio of level I own funds	10.7	11.8	13.4	14.2	14.3	16.2	16.4	n.a.	n.a.
Asset quality									
NPLs (90 dpd)	-	2.8	7.9	11.9	14.3	18.2	21.6	n.a.	n.a.
NPLs (60 dpd)	4.0	6.5	15.3	20.8	23.3	29.9	31.8	n.a.	n.a.
Profitability									
ROA (after tax)	1.0	1.6	0.3	-0.2	-0.2	-0.6	0.6	n.a.	n.a.
ROE (after tax)	9.4	17.0	2.9	-1.7	-2.6	-5.4	5.0	n.a.	n.a.
Liquidity									
Immediate liquidity	38.7	34.4	35.3	37.8	37.2	35.9	38.2	n.a.	n.a.

Note: * Latest staff estimates

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

¹⁾The ESA95 deficit for 2011 includes the one-off item regarding the payment of obligations related to court decisions which became definitive in 2011.

Source: European Commission, National authorities

Table B-2: General government accounts (2007-2014)

	2007	2008	2009	2010	2011	2012	2013	2014
	Final	Final	Final	Final	Final	Final	Proj	Proj
	(in percent of GDP, cash projection)							
TOTAL REVENUES	30.6	32.2	31.4	32.3	32.7	33.1	32.9	32.9
Profit tax	2.5	2.5	2.4	1.9	1.9	1.9	1.9	1.9
Income and wage tax	3.5	3.6	3.7	3.4	3.4	3.6	3.7	3.6
VAT	7.5	7.9	6.8	7.5	8.6	8.6	8.4	8.3
Excises	3.0	2.7	3.1	3.3	3.4	3.5	3.3	3.7
Social insurance contributions	9.3	9.5	9.6	8.7	9.1	8.8	8.7	8.8
Non fiscal revenue	1.9	3.1	3.1	3.8	3.3	3.2	2.8	2.6
Other fiscal taxes	1.9	2.0	2.0	2.6	1.7	2.0	2.0	1.6
Revenue from capital	0.9	0.8	0.8	0.9	1.2	1.5	2.1	2.3
TOTAL EXPENDITURES	32.8	37.0	38.7	38.7	37.2	35.6	35.2	34.9
Current expenditures	29.4	32.1	34.8	35.1	33.0	32.3	32.4	32.2
Personnel expenditures	6.2	8.9	9.3	8.2	6.9	7.0	7.4	7.3
Goods and services	6.2	6.3	5.7	5.7	5.7	5.8	6.3	5.9
Interest	0.7	0.7	1.2	1.4	1.6	1.8	1.8	1.7
Subsidies	1.7	1.5	1.4	1.3	1.2	1.0	0.8	0.9
Transfers	14.7	14.7	16.7	18.2	17.3	16.3	16.0	16.2
Social Assistance	9.2	10.5	12.8	13.1	12.2	11.5	11.0	10.8
Other transfers	5.5	4.1	3.9	5.1	5.0	4.8	5.0	5.3
Other	0.0	0.0	0.4	0.3	0.4	0.3	0.2	0.2
Capital expenditures	3.5	5.0	4.4	3.7	4.1	3.3	2.8	2.7
Other expenditure (net lending)	0.0	-0.1	-0.5	-0.1	0.1	0.1	0.0	0.0
Government deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.5	-2.5	-2.3	-2.0
Government deficit, ESA95 definition 1)	-2.9	-5.7	-9.0	-6.8	-5.6	-3.0	-2.4	-2.0
Deficit adjustor (for co-financing EU funds)							-0.2	-0.2
Government deficit, cash definition including adjustor							-2.5	-2.2
Government deficit, ESA95 definition, including adjustor							-2.6	-2.2

¹⁾ The ESA95 deficit for 2011 includes the one-off item regarding the payment of obligations related to court decisions which became definitive in 2011.
Source: Romanian authorities, European Commission

Table B-3: Key monetary indicators (2008-2013)

(in millions of lei (RON), unless otherwise indicated; end of period)

	2008	2009	2010	2011	2012	Sep-13	2013**
Broad money (M3)	174,028	189,630	202,763	216,208	222,018	231,520	...
Intermediate money (M2)	173,629	188,013	199,586	212,059	221,830	231,259	...
Money market instruments	399	1,617	3,177	4,149	188	262	...
Narrow money (M1)	92,549	79,361	81,605	85,835	89,020	96,158	...
Currency in circulatio	25,287	23,968	26,793	30,609	31,477	33,992	...
Overnight deposits	67,262	55,394	54,812	55,226	57,543	62,166	...
Time deposits*	87,851	107,661	115,943	126,224	132,809	135,100	...
Money and credit (Annual percentage change, eop)							
Broad money (M3)	17.5	9.0	6.9	6.6	2.7	4.8	...
- <i>NFA contribution</i>	-10.7	5.0	0.7	-1.4	6.7	13.6	...
- <i>NDA contribution</i>	28.2	4.0	6.2	8.0	-4.0	-8.8	...
Intermediate money (M2)	17.3	8.3	6.2	6.2	4.6	4.7	...
Narrow money (M1)	15.8	-14.2	2.8	5.2	3.7	7.7	...
Currency i	17.9	-5.2	11.8	14.2	2.8	3.1	...
Overnight	15.0	-17.6	-1.1	0.8	4.2	10.5	...
Time deposits*	19.0	22.6	7.7	8.9	5.2	2.7	...
p.m. Credit to private sector	33.7	0.9	4.7	6.6	1.3	-3.3	...
Interest rates (In percent, eop)							
Robor, 3 m	15.59	10.43	6.25	6.30	6.04	3.65	5.5
Robor, o/n	12.13	10.16	3.03	5.22	5.77	2.79	...
NBR policy rate***	10.25	8.00	6.25	6.00	5.25	4.25	...
NBR credit facility rate***	14.25	12.00	10.25	10.00	9.25	7.25	...
NBR deposit facility rate***	6.25	4.00	2.25	2.00	1.25	1.25	...
Exchange rates							
Lei per euro (end of period)	4.0	4.2	4.2	4.3	4.4	4.5	4.4
Lei per euro (average)	3.7	4.2	4.2	4.2	4.5	4.5	4.4
Real effective exchange rate (percentage change)							
HICP based	-4.9	-7.7	2.5	3.1	-5.5	4.3	...
ULC deflator based	8.0	-13.0	-3.6	0.5	-2.3	6.2	...

Source: NBR, Commission services

Table B-4: Gross extend financing requirements and sources (2011-2015)

(In billions of euros, unless otherwise indicated)

	2012	2013				Q4 Proj	Year Proj.	2014	2015
		Q1	Q2	Q3	Year Proj.			Year Proj.	Year Proj.
I. Total financing requirements	44.0	8.3	8.0	9.3	9.6	35.1	28.6	30.9	
I.A. Current account deficit	5.8	-0.1	-0.1	0.8	1.0	1.6	2.6	3.8	
I.B. Short-term debt	25.8	5.5	4.7	5.5	4.9	20.6	16.2	16.3	
Public sector	7.5	2.0	1.8	2.2	0.9	6.9	2.9	3.6	
Banks	14.1	2.6	2.1	2.1	2.7	9.5	8.8	8.1	
Corporates	4.2	1.0	0.9	1.1	1.2	4.2	4.6	4.6	
I.C. Maturing medium- and long-term debt	12.1	2.8	3.8	3.3	3.5	13.4	10.1	11.2	
Public sector	2.8	0.4	0.8	1.0	0.9	3.1	2.3	3.6	
Banks	4.9	1.6	2.0	1.5	1.0	6.0	3.1	3.1	
Corporates	4.4	0.8	1.0	0.9	1.6	4.3	4.7	4.5	
I.D. Other net capital outflows 1/	0.3	0.1	-0.4	-0.4	0.1	-0.5	-0.4	-0.4	
II. Total financing sources	42.3	10.9	10.3	10.3	8.3	39.8	28.7	31.0	
II.A. Foreign direct investment, net	2.2	0.6	1.1	-0.3	0.5	1.8	2.1	2.3	
II.B. Capital account inflows	1.9	0.3	0.6	1.2	0.0	2.1	1.9	1.9	
II.C. Short-term debt	23.3	4.9	5.6	4.7	4.9	20.1	15.8	16.3	
Public sector	6.7	1.9	1.8	1.7	0.9	6.4	2.9	3.6	
Banks	12.1	1.9	2.7	1.8	2.7	9.1	8.4	8.1	
Corporates	4.5	1.1	1.0	1.2	1.2	4.6	4.6	4.6	
II.D. Medium- and long-term debt	14.9	5.1	3.0	4.8	2.9	15.7	8.9	10.4	
Public sector	6.7	3.7	1.4	2.9	0.6	8.5	2.1	3.1	
Banks	5.1	0.9	0.9	1.1	0.9	3.9	2.6	2.8	
Corporates	3.1	0.5	0.6	0.8	1.4	3.3	4.3	4.5	
Errors and omissions	0.8	-0.8	-0.7	1.2	0.0	-0.3	0.0	0.0	
III. Increase in gross international reserves	-1.5	1.0	0.4	1.0	-2.0	0.4	-3.4	-2.8	
IV. Financing gap	-0.6	-0.9	-1.2	-1.2	-0.7	-3.9	-3.6	-2.9	
V. Program financing	-0.6	-0.9	-1.2	-1.2	-0.7	-3.9	-3.6	-2.9	
IMF	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-4.4	-1.4	
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Repurchases	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-4.4	-1.4	
European Commission	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Principal repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	
Others	1.0	...	...	...	0.7	0.7	0.8	...
World Bank	0.0	...	...	...	0.7	0.7	0.8	...
EIB/EBRD/IFC	1.0	...	...	...	...	...	...	...
<i>Memorandum items:</i>									
Rollover rates for amortizing debt ST (in percent)									
Public sector	90	97	101	77	100	92	100	100	
Banks	85	73	132	85	100	96	95	100	
Corporates	107	119	116	106	100	109	100	100	
Rollover rates for amortizing debt MLT (in percent)									
Public sector	240	940	172	282	71	278	90	86	
Banks	104	60	47	74	90	64	81	93	
Corporates	71	60	64	93	85	77	91	100	
Rollover rates for total amortizing debt (in percent)									
Public sector	131	236	123	141	86	149	96	93	
Banks	90	68	90	81	97	84	91	98	
Corporates	89	92	89	100	91	93	95	100	
Gross international reserves 2/	35.4	36.4	35.4	36.4	...	35.8	32.4	31.1	
Coverage of gross international reserves									
- Months of imports of GFNS (next year)	7.1	6.9	6.7	6.9	...	6.8	6.5	5.1	
- Short-term external debt (in percent)	93.1	97.0	87.9	95.3	...	100.4	106.7	103.7	

Sources: Romanian authorities; and IMF staff estimates and projections.

1/ Includes portfolio equity, financial derivatives and other investments.

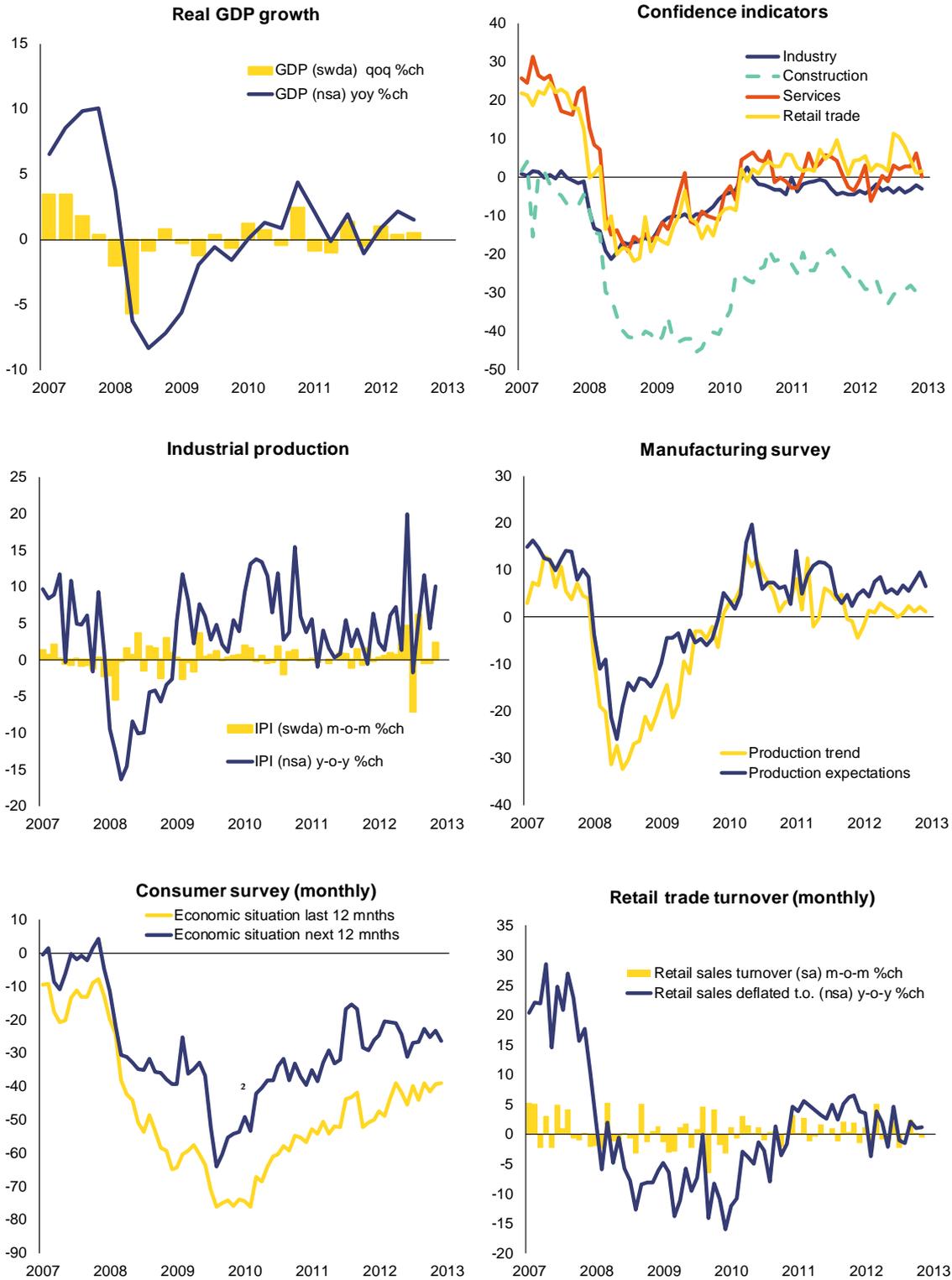
2/ Operational definition.

Table B-5: Key labour market indicators (2007-2013)

	2007	2008	2009	2010	2011	2012	2013 Q1	2013 Q2	2012-2011
1 - Population (total, 1000 pers.)	21551	21517	21484	21447	21384	21336	21305	21305	-0.2 %
2 - Population (working age:15-64, 1000 pers.)	15046	15042	15028	14999	14968	14928	14898	14898	-0.3 %
3 - Labour force (15-64, 1000 pers.)	9479	9462	9483	9540	9474	9584	9386	9728	1.2 %
4 - Activity rate (% of population 15-64)	63.0	62.9	63.1	63.6	63.3	64.2	63.0	65.3	0.9 pps
Young (15-24)	30.5	30.4	30.9	31.2	31.1	30.9	28.3	31.7	-0.2 pps
Prime age (25-54)	79.0	78.3	78.5	79.5	79.1	79.8	78.8	80.7	0.7 pps
Older (55-64)	42.4	44.2	43.9	42.5	41.5	42.9	41.2	43.7	1.4 pps
Nationals (15-64)	63.0	62.9	63.1	63.6	63.3	64.2	63.0	65.3	0.9 pps
Non-nationals (15-64)	67.0	62.7	65.0	:	:	:	:	:	
Male	70.1	70.6	70.9	71.5	70.7	72.1	71.1	72.9	1.4 pps
Female	56.0	55.2	55.4	55.8	56.0	56.4	54.9	57.7	0.4 pps
5 - Employment rate (% of population 15-64)	58.8	59.0	58.6	58.8	58.5	59.5	58.1	60.2	1.0 pps
Young (15-24)	24.4	24.8	24.5	24.3	23.8	23.9	21.6	24.3	0.1 pps
Prime age (25-54)	74.6	74.4	73.7	74.4	74.1	74.9	73.3	75.3	0.8 pps
Older (55-64)	41.4	43.1	42.6	41.1	40.0	41.4	39.8	41.9	1.4 pps
Low-skilled (15-64)	40.3	41.0	42.0	43.0	40.5	41.9	40.3	43.0	1.4 pps
Medium-skilled (15-64)	63.9	63.5	62.2	62.2	62.3	63.1	61.4	63.3	0.8 pps
High-skilled (15-64)	85.8	85.7	84.1	82.4	82.1	81.4	81.4	83.0	-0.7 pps
Nationals (15-64)	58.7	58.9	58.5	58.8	58.5	59.5	58.1	60.2	1.0 pps
Non-nationals (15-64)	0.1	0.1	0.1	0.0	0.0	0.0	:	:	
Male	64.8	65.7	65.2	65.7	65.0	66.5	65.1	66.7	1.5 pps
Female	52.8	52.5	52.0	52.0	52.0	52.6	51.1	53.7	0.6 pps
6 - Employed persons (15-64, 1000 pers.)	8843	8882	8805	8822	8750	8886	8652	8967	1.5 %
7 - Self employed (% of total employment)	22.4	21.9	21.8	22.7	20.9	21.0	20.3	20.8	0.2 pps
8 - Temporary employment (% of total employment)	1.6	1.3	1.0	1.1	1.5	1.7	1.4	1.5	0.2 pps
9 - Part-time (% of total employment)	9.7	9.9	9.8	11.0	10.5	10.2	9.9	10.2	-0.3 pps
10 - Unemployment rate (harmonised:15-74)	6.4	5.8	6.9	7.3	7.4	7.0	7.5	7.5	-0.4 pps
Young (15-24)	20.1	18.6	20.8	22.1	23.7	22.7	23.8	23.3	-1.0 pps
Prime age (25-54)	5.6	5.0	6.1	6.4	6.4	6.2	6.9	6.7	-0.2 pps
Older (55-64)	2.3	2.5	3.0	3.3	3.7	3.4	3.4	4.0	-0.3 pps
Low-skilled (15-64)	8.6	8.6	8.9	7.2	8.6	8.1	8.5	8.5	-0.5 pps
Medium-skilled (15-64)	6.9	6.0	7.3	8.3	8.1	7.6	8.2	8.4	-0.5 pps
High-skilled (15-64)	3.0	2.7	4.4	5.4	5.2	5.6	5.7	5.1	0.4 pps
Nationals (15-64)	5.7	5.0	6.2	6.9	7.1	6.7	7.5	7.5	-0.4 pps
Non-nationals (15-64)	:	:	:	:	:	:	0.0	0.0	0.0
Male (harmonised:15-74)	7.2	6.7	7.7	7.9	7.9	7.6	8.2	8.2	-0.3 pps
Female (harmonised:15-74)	5.4	4.7	5.8	6.5	6.8	6.4	6.6	6.6	-0.4 pps
11 - Long-term unemployment (% total unemployment)	50.0	41.3	31.6	34.9	41.9	45.3	44.7	42.8	3.4 pps
12 - Worked hours (average actual weekly hours)	39.7	39.6	39.4	39.2	39.2	39.1	38.0	39.5	-0.3 %
13 - Indicator board on wage developments (% change)									
Compensation per employee	22.0	31.9	-1.9	-3.3	4.2	5.6	2.5	3.9	1.4 pps
Real compensation per employee (GDP deflator)	7.5	14.4	-5.8	-8.5	0.1	0.7	-1.8	-0.8	0.7 pps
Hourly labour costs (Eurostat labour cost index)	19.8	22.6	10.8	0.8	4.5	4.5	8.6	6.0	0.0 pps
Wage and salaries	22.8	36.3	-6.6	-7.5	7.7	7.3	1.2	4.2	-0.3 pps
Labour productivity (real GDP/person employed)	5.9	7.3	-4.7	-0.9	2.9	-0.8	1.3	1.3	-3.8 pps
Nominal unit labour costs	:	:	2.9	-2.4	0.9	6.5	1.2	2.5	5.6 pps
14 - Sectoral breakdown of unit labour costs									
Business economy	23.5	21.4	11.3	6.0	7.1	6.2	5.6	3.4	-0.9 pps
15 - Sectoral breakdown of compensation per employee									
Manufacturing	27.6	36.3	-29.1	8.5	:	:	:	:	
Construction	7.0	37.9	15.3	-28.8	12.5	4.3	7.4	-3.1	-8.3 pps
Trade, transport and information services	12.7	29.6	3.4	-7.9	9.5	5.6	-9.5	-1.6	-4.0 pps
Finance and business services	41.9	13.3	-0.1	10.1	8.8	13.8	14.4	13.8	4.9 pps
Non-market related services	27.6	34.3	1.0	-7.2	-11.8	6.2	11.4	12.0	18.0 pps

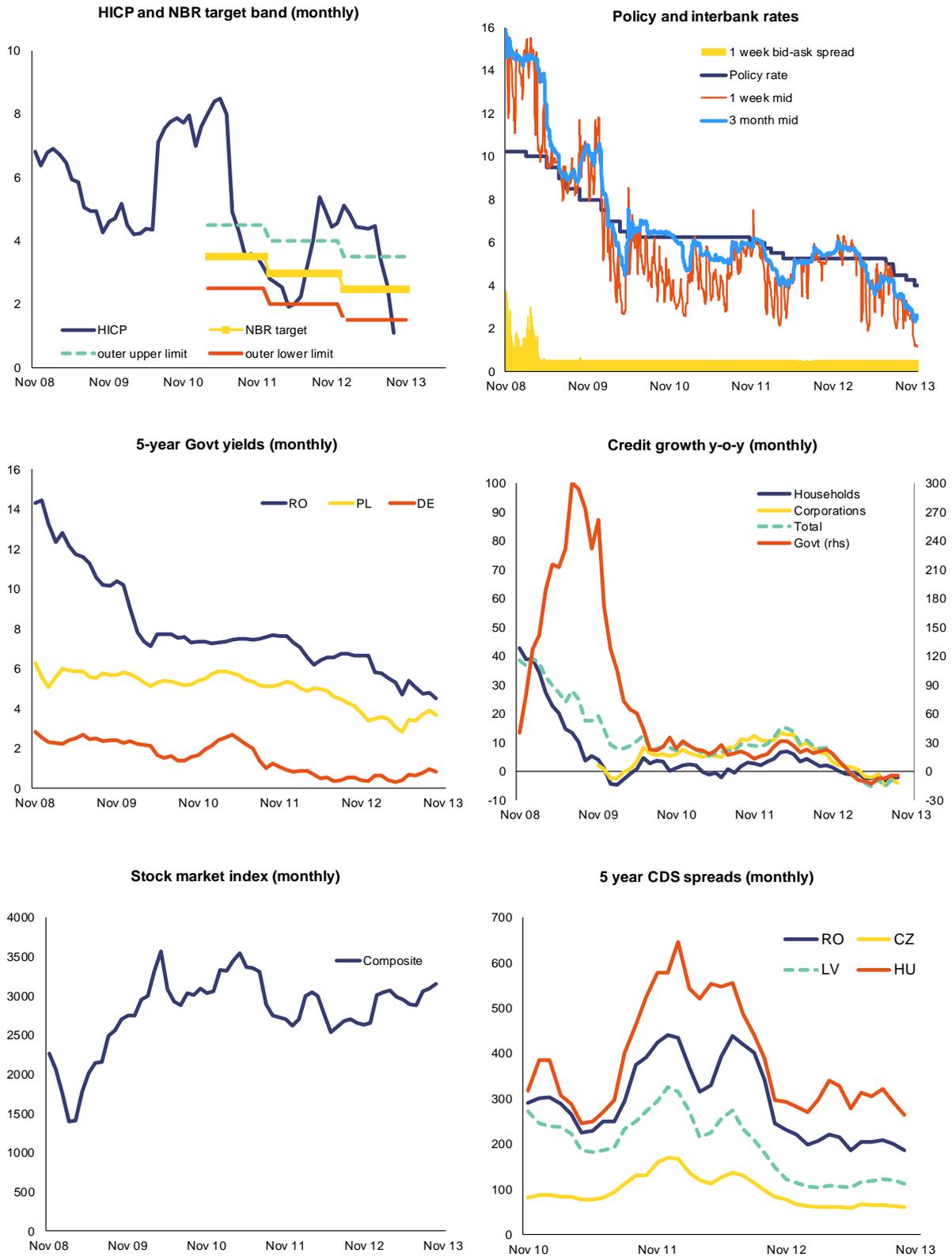
Source: European Commission

Figure B-1: Key economic indicators (2007-2013)



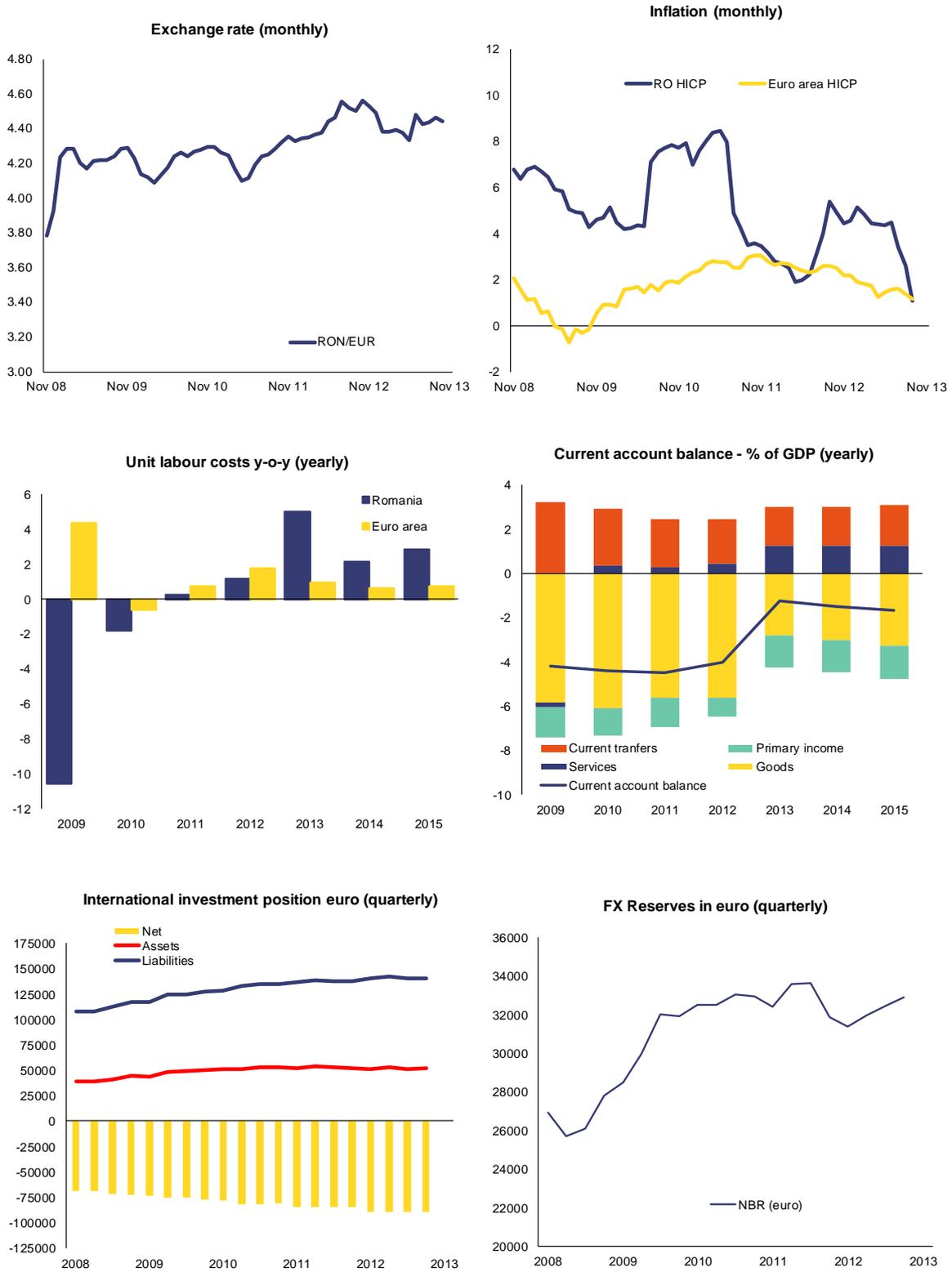
Source: European Commission, Romanian authorities

Figure B-2: Monetary and financial market indicators (2008-2013)



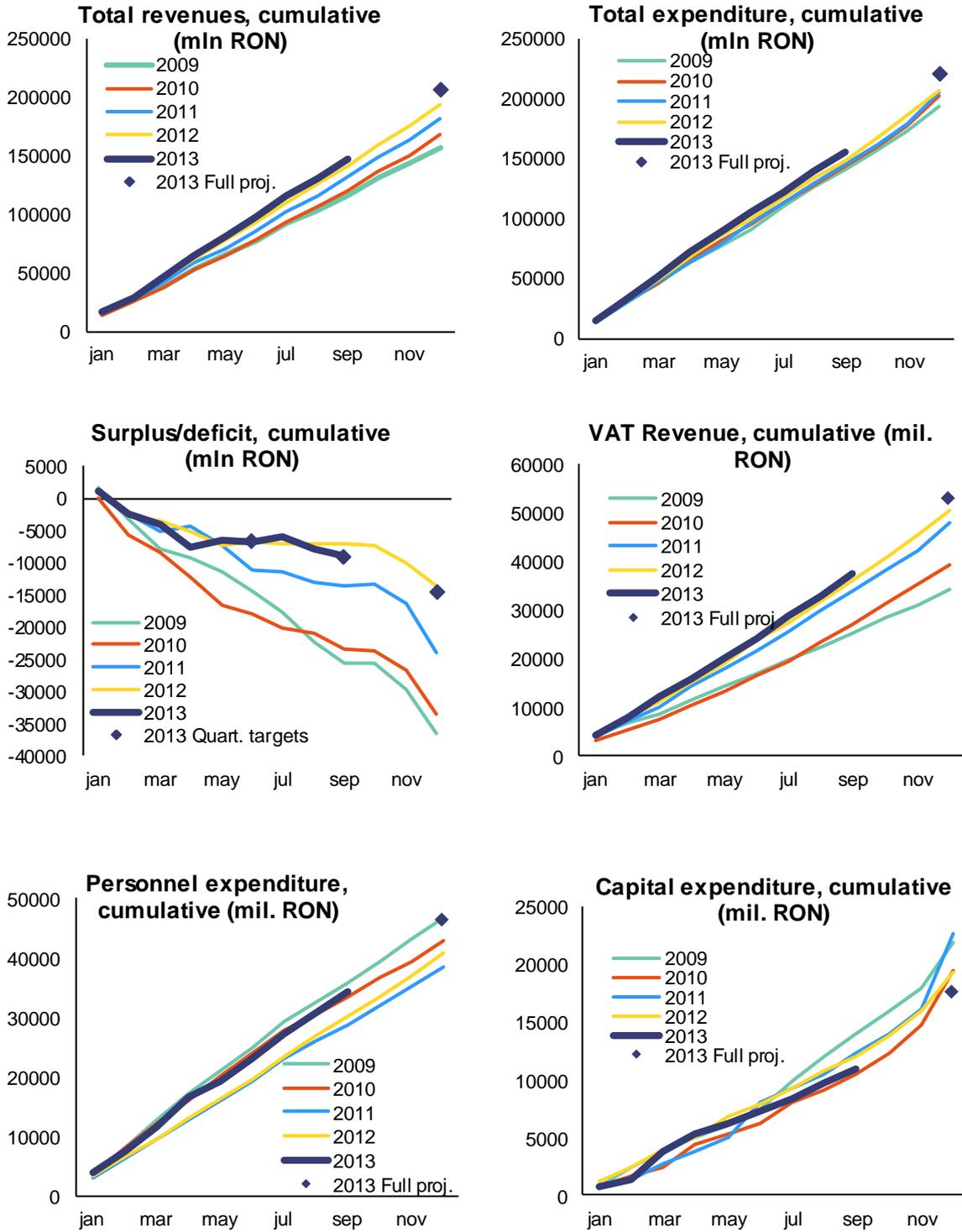
Source: European Commission, Romanian authorities

Figure B-3: Price and competitiveness indicators (2008-2013)



Source: European Commission, Romanian authorities

Figure B-4: Budgetary execution (2009-2013)



Source: European Commission, Romanian authorities

Annex C. Monitoring table of conditionalities

Continuous monitoring

No.	Measure	Due date	Assessment
9	Reduce the stock of outstanding payments not made by due date of SOEs owned by the central government	Continuous, as specified in the TMU	Compliant - End-September target has been met
18	The NBR will continue updating its contingency planning on an on-going basis as well as the bank-by-bank contingency plans.	Continuous	-
20	The NBR will continue to closely monitor bank practices to avoid evergreening as well as the assessment of credit risk of restructured loans, so that they remain prudent and in line with good international practices.	Continuous	Further progress has been made following the data reporting by banks on restructured loans
22	Restrict any possible prolongation of the "Prima Casa" programme after its expiry in September 2013 to mortgage lending denominated in RON.	Continuous	Compliant - New "Prima casa" programme is only denominated in RON
23	Continue refraining from adopting legislative initiatives (such as the personal insolvency law or proposals for the debt collecting law), which would undermine credit discipline.	Continuous	Compliant so far
28	Continue the implementation of the roadmaps for gas and electricity market liberalisation;	Continuous	Compliant - On track
28	Facilitate improved payment of infrastructure access and electricity charges from the state-owned passenger rail company (CFR Calatori) and CFR Marfa through reforms of those enterprises and settle outstanding debts among the three main railway companies.	Continuous	Compliant - Restructuring measures have been defined
38	Continue the corporate governance reform of state-owned enterprises (SOEs).	Continuous	Partially compliant
38	Strengthen Ministry of Public Finance capacities to monitor operating performance and budgets of SOEs and prepare high-quality assessments of SOE performance on an annual basis.	Continuous	In progress
38	All SOEs should submit their 2014 budgets one month after the approval of the state budget.	Continuous	In progress
39	Ensure the sale of stakes in Romgaz, Hidroelectrica, Oltenia, Nuclearelectrica, Electrica and CFR Marfa as specified in the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).	As specified in the TMU	Partially compliant - IPO's of Nuclearelectrica and Romgaz completed. Majority privatisation of CFR Marfa postponed to May 2015
41	Consult in a timely manner with Commission staff and provide all necessary information regarding any proposals for legislative amendments that may have material impact on the fiscal sustainability or efficiency of the healthcare sector. Start early consultations to ensure a timely implementation of the legislative process.	Continuous	Compliant - Bi-monthly teleconference meetings planned
46	Implement according to the deadlines the binding action plan for health care reform as committed to by the authorities.	Continuous	Compliant with delay

Continuous monitoring (cont.)

48	Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation target (central point 2.5% with a band of ± 1 percentage point by end-2013, as of 2014, a continuous central point of 2.5% with a band of ± 1 percentage point). The NBR will conduct discussions with Commission staff should the observed year-on-year rate on consumer-price index (CPI) inflation fall outside the bands specified in the Technical Memorandum of Understanding.	Continuous	Compliant so far - The NBR conducted discussion with the Commission staff after lower limit of inflation band crossed.
49	Confer with Commission staff if reserve losses exceed EUR 600 million in any given day.	Continuous	Compliant so far

By end-September 2013

No.	Measure	Date	
20	The NBR has collected supervisory data on restructured loans, including loans to SOEs, on a quarterly basis by end-September 2013.	End-September 2013	Compliant
24	Amend the legislation on the ASF/FSA (Autoritatea de Supraveghere Financiară/Financial Supervisory Authority) to comply with international best practices.	End-September 2013	Compliant but further progress is warranted - GEO 94/2013 was published in O.G. 643/18.10.2013.
24	The ASF will hire a professional and independent consultancy company to assess staffing levels and staff. Based on this, within two months of the consultancy company's assessment, an action plan will be developed to streamline the ASF with a view to realising the savings in 2014.	End-September 2013	In progress; end-September 2013 deadline was not observed
38	The Fiscal Council publishes a report on the operations of SOEs and their fiscal implications.	End-September 2013	Compliant - Report published
43	Define the publicly-reimbursable basic benefits package based on objective, verifiable criteria, to be financed within the limitations of available funding and establish the framework for a private supplementary insurance market aiming at increasing the share of private in total expenditure on health.	End-September 2013	Partially compliant - Fiscal impact & efficiency-of-healthcare-delivery assessments missing. New target date to adopt the package set at mid-February 2014

By end-October 2013

No.	Measure	Date	
9	all SOEs should file, in accordance with existing regulations, quarterly financial information with the Ministry of Public Finance by the 25th day following quarter end.	End-October 2013	Compliant
20	The NBR will conduct a comprehensive analysis of the asset quality in the banking sector and produce a report containing granular information, migration matrixes and a vintage analysis of the banks' non-performing loans (NPLs).	End-October 2013	In progress; deadline extended in the new MEFP to end-November 2013, due to additional requests
25	Implement the World Bank recommendations on the ROSC (Report on the Observance of Standards and Codes), and send the amended insolvency code draft for approval to parliament.	End-October 2013	In progress

By end-November 2013

No.	Measure	Date	
38	Appoint a supervisory board for Hidroelectrica in accordance with GEO 109/2011 (SOE Corporate Governance law).	end-November 2013	In progress

Annex D. EU Funds

Table D-1: Cumulative absorption of EU funds

Date	% of total		% of total		Grand	
	EAFRD	EAFRD	SCF	SCF	total	% of total
Mar-09	171	2.1%	87	0.5%	258	0.9%
Dec-10	1436	17.7%	368	1.9%	1804	6.6%
Mar-11	1552	19.1%	548	2.9%	2100	7.7%
Dec-11	2209	27.2%	1066	5.5%	3275	12.0%
Dec-12	3323	40.9%	2204	11.5%	5527	20.2%
Oct-13	4538	55.9%	5045	26.3%	9583	35.1%

Legend

EAFRD: European Agricultural Fund for Rural Development

SCF: Structural and Cohesion Funds

Total EAFRD 8124

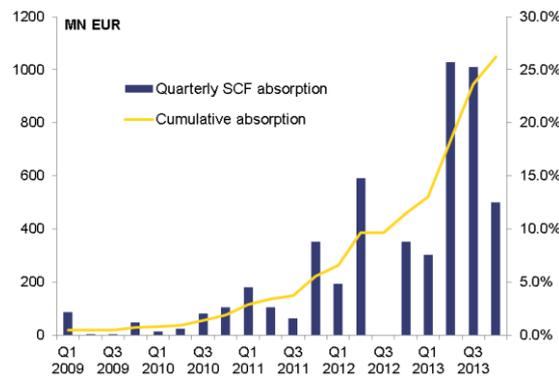
Total SCF 19213

Total Funds 27337

Source: Commission services

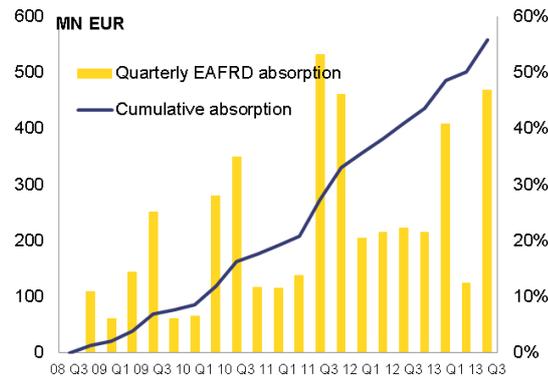
Despite good progress in 2013, Romania still displays the lowest EU funds absorption rate in the EU with EUR 9.6 bn absorbed as of end-October 2013 (i.e. 35.1% of the total structural, cohesion and agricultural funds allocated for the 2007-2013 programming period; Table D-1).

Figure D-1: SCF absorption



Source: Commission services

Figure D-2: EAFRD absorption



Source: Commission services

With an absorption rate of 26.3% as of end-October 2013 for the SCF, Romania stands to lose significant amounts of EU funds at the end of 2013 and 2014 due to the application of the automatic de-commitment rules (Figure D-1). As all the operational programmes (OPs) are disbursing now, the Commission expects to see more payment requests until the end of 2013. However these requests are unlikely to amount to the sum needed for avoiding de-commitment in 2013. For this reason, the Commission has proposed for allowing Romanian and Slovakia to apply a N+3 de-commitment rule for the commitments made in 2010 and 2011 thus reducing the risk of de-commitment in both 2013 and 2014.¹¹ Final agreement by the European Parliament is still pending.

¹¹ Nevertheless, the end-date for eligibility of expenditure for the 2007-13 programming period remains unchanged as end-December 2015.

The current EAFRD absorption rate is 56% and there is a very limited risk of de-commitment of funds in 2013 (Figure D-2). Although the EU funds absorption situation is much better on the agricultural funds arena, Romania is still lagging behind its regional peers.

The 95% "top-up" issue: The Romanian authorities applied for the application of the "top-up" in early November 2013 for the SCF and the EARDF funds. Therefore, Romania is now able to benefit from the "top-up", the 95% co-financing rate, until end-September 2015 when the 2013-2015 BoP programme is due to expire.

The partnership agreement paper setting up the EU funding priorities for Romania for the next programming period (2014-2020) is not finalised yet. A new informal draft of the document was submitted to the Commission on 11 October 2013.

Annex E. List of Abbreviations

AF	Autumn Forecast
ANAF	Agenția Națională de Administrare Fiscală
ANRE	National Energy Regulatory Authority
BoP	Balance of Payments
CA	Current Account
CDS	Credit Default Swap
CF	Cohesion Fund
CPI	Consumer Price Index
CSRs	Country Specific Recommendations
CVM	Cooperation and Verification Mechanism
DGF	Deposit Guarantee Fund
DPL/DDO	Development Policy Loan with a Deferred Drawdown Option
DU	Delivery Unit
EAFRD	European Agricultural Fund for Rural Development
EBA	European Banking Authority
EC	European Commission
EDP	Excessive Deficit Procedure
EMTN	European Medium Term Notes
ERDF	European Regional Development Fund
ESA	European System of Integrated Economic Accounts
ESF	European Social Fund
EU	European Union
FDI	Foreign Direct Investment
FR	Functional Reviews
FRL	Fiscal Responsibility Law
FSA/ASF	Financial Supervisory Authority/ Autoritatea de Supraveghere Financiară
FX	Foreign Exchange
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GSG	General Secretariat of the Government
HICP	Harmonised Index of Consumer Prices
IFRS	International Financial Reporting Standards (www.ifrs.org)
ILO	International Labour Organisation
IMF	International Monetary Fund (www.imf.org/external/country/rou/index.htm , www.fmi.ro)
IPO	Initial Public Offering
LoI	Letter of Intent

MEFP	Memorandum of Economic and Financial Policies
MoU	Memorandum of Understanding
MoPF	Ministry of Public Finance
MRR	Minimum Reserve Requirements
MTO	Medium Term Objective
NBR/BNR	National Bank of Romania/ Banca Națională a României (www.bnr.ro)
NIIP	Net International Investment Position
NIR	Net International Reserves
NIS	National Institute of Statistics
NPL	Non-Performing Loans
OP	Operational Programme
ROE	Return on Equity
RON	ROmanian New lei (leu/lei)
SA	Seasonally Adjusted
SBA	Stand-by Arrangement
SCF	Structural and Cohesion Funds
SDR	Special Drawing Rights
SGP	Stability and Growth Pact
SMEs	Small- and Medium-sized Enterprises
SOE	State-Owned Enterprise
TMU	Technical Memorandum of Understanding
TSO	Transmission System Operators
WB	The World Bank (www.worldbank.org)
YOY (y-o-y)	Year-on-year