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Statement by the EC and IMF on the Review of Romania's Economic Program

Staff teams from the European Commission (EC) and the International Monetary Fund (IMF) visited Bucharest from October 25 until November 7 for the regular review of Romania's economic program.[1] The objectives of the program are to solidify economic growth while maintaining macroeconomic and financial stability.

The teams' assessment is that the program remains on track. All IMF performance criteria for end-September were met. The authorities have made good progress in implementing program policies in a very difficult external environment. Going forward, prudent macroeconomic policies and accelerated structural reforms are important to ensure strong economic performance and instil market confidence.

For 2011, we continue to project real GDP growth of about 1½ percent, thanks in part to a good harvest. Recently, inflation has fallen sharply to within the National Bank of Romania's inflation target band. For 2012, we have revised down our forecast in light of the more difficult economic environment in Europe. We now project growth of about 1¾ - 2¼ percent depending on improved domestic demand and better absorption of EU funds. Inflation is expected to remain within the target band. The current account deficit is projected to remain below 5 percent of GDP in both 2011 and 2012.

In spite of global financial market tensions and deterioration in domestic asset quality, the banking sector has remained resilient. The average capital adequacy ratio of the banking sector stayed high at 13.4 percent at end-September 2011. Although bank lending to the private corporate sector has picked up, credit growth has been weak in real terms, reflecting weak growth.

Continued fiscal consolidation has improved Romania's credibility. In 2011, Romania is on track to reach its general government budget deficit target of 4.4 percent of GDP (in cash terms) and below 5 percent of GDP in accrual (ESA) terms. In the first nine months, total revenue was slightly lower than expected. However, substantial savings on the expenditure side meant that the overall budget deficit was lower than planned.

[1] It was the first formal review of the Program by the EC (providing up to EUR 1.4 billion of financial assistance) and the third review of Romania's Stand-By Arrangement with the IMF (providing up to around EUR 3.5 billion of financial assistance). Subject to completion of this review by the IMF's Executive Board, the fourth tranche of SDR 430 million (around EUR 490 million) will become available. The Executive Board meeting is tentatively scheduled for mid-December. The authorities will continue to treat both arrangements as precautionary, i.e., not drawing on the available resources.

In 2012, the government is firmly committed to reducing the general government budget deficit to below 3 percent of GDP in accrual (ESA) terms. Reflecting the need for prudence, the authorities have decided to target a 1.9 percent of GDP cash deficit for 2012. Once executed, expenditures of the National Development and Infrastructure Program (PNDI) are fully included, the IMF target will be a cash deficit of 2.1 percent of GDP. Meeting these ambitious fiscal targets will require continued expenditure restraint, with no public wage and pension increases unless economic conditions permit later in the year. Some savings will also materialize from streamlining social benefits, reducing losses in public enterprises, and an impending decision to lower the national contribution to EU funded projects to 5 percent.

State-owned enterprises are in urgent need of accelerated reforms to make them more efficient, so that they support rather than being a drag on growth. These reforms include the sale of minority or majority stakes in some companies and the introduction of professional private management. Strategies are being put in place to reduce arrears and put the state-owned enterprises on a sound financial footing.

The next review of the program is scheduled for late January – early February 2012.

For more information on the Stand-By Arrangement with the IMF, please see the following links:

Romania and the IMF: http://www.imf.org/external/country/ROU/index.htm

Key documents are also available in Romanian: http://www.fmi.ro/

For more details on Romania and on the EC's Balance of Payments assistance, please see the following links:

http://ec.europa.eu/economy_finance/eu/countries/romania_en.htm

http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/romania/romania_en.htm