

## **EUROPEAN COMMISSION**

## **MEMO**

Brussels, 14 August 2012

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

Staff teams from the International Monetary Fund (IMF), European Commission (EC), and World Bank visited Bucharest during July 31 to August 14 for the sixth review of Romania's economic program. Policy implementation remains broadly on track, despite challenging conditions.

Staff-level agreement has been reached with the authorities on measures that will be discussed by the Executive Board of the IMF in a meeting that is tentatively scheduled for late September. The results of the review will also be presented to the Economic and Financial Committee of the EU in September. Unwavering political support is needed to ensure implementation of the program measures.

Real growth is projected at around 1 percent in 2012 and 2½ percent in 2013. The subdued economic activity is mainly due to heightened political uncertainty and the slowdown in the euro area. Inflation is expected to remain within the target band set by the National Bank of Romania. Banks remain vulnerable to adverse developments in the euro area but maintain reassuring capital buffers, while loan-loss provisions are adequate.

The June fiscal deficit target was met and the ambitious objective for the year as a whole (below 3 percent of GDP in accrual terms) is achievable but will require continued spending restraint. However, the arrears targets for the general government were missed by a small margin and measures will be taken shortly to reduce these arrears. For 2013, the authorities will face difficult trade-offs in achieving a further consolidation of at least 0.5 percent of GDP. Strong political determination will be needed to discontinue nonperforming public investment projects and optimize public sector staffing. When revising the draft health care law, it is critical to restore financial sustainability and give strong incentives to health care institutions to increase their efficiency.

Political determination is needed to ensure that overdue structural reforms—necessary to achieve higher and inclusive growth—will be put in place. Energy legislation has been promulgated, and the law on the energy sector regulator will come into effect soon. Roadmaps for liberalizing energy prices need to be implemented and the authorities are working on providing adequate protection for vulnerable energy users. The government will also speed up the introduction of professional management in and privatization of state-owned enterprises, in order to improve their efficiency.



The objectives of Romania's IMF, EU and WB supported program are to ensure macroeconomic and financial stability as well as to put Romania's economy on a sustainable growth path with sound public finances and job creation, while protecting the poor and most vulnerable. The program includes a Stand-By Arrangement from the IMF of about  $€3\frac{1}{2}$  billion (SDR 3,090.6 million), Balance of Payment Support from the EU of €1.4 billion, and various loans from the WB. The support from the IMF, the EU as well as from the DPL-DDO from the WB (€1 billion) are precautionary, meaning that the authorities have stated that they currently do not intend to draw on these resources, which are available as long as the conditionality is observed.

The IMF team also held discussions for the 2012 Article IV consultation, the regular evaluation of the economy under Article IV of the Fund's Articles of Agreement. A concluding statement summarizing staff findings has also been published.

## For more information on Romania's Stand-By Arrangement, please see the following links:

Romania and the IMF: <a href="http://www.imf.org/external/country/ROU/index.htm">http://www.imf.org/external/country/ROU/index.htm</a>.

Key documents are also available in Romanian: <a href="http://www.fmi.ro/">http://www.fmi.ro/</a>

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

For more information about the World Bank Group, please visit: www.worldbank.org

For information about the World Bank and Romania, please visit: www.worldbank.org/ro