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September 19, 2022

**Statement by Ms. Vumendlini and Mr. Garang on Romania
(Preliminary)
Executive Board Meeting
September 21, 2022**

We thank staff for the detailed set of reports and Mr. Hilbers and Mr. Voinea for their helpful Buff statement.

We broadly concur with the thrust of staff’s appraisal and policy recommendations.

While Romania’s economy has rebounded from the pandemic-induced shocks and exhibited resilience against extreme external shocks, it continues to face strong headwinds emanating from the raging war in Ukraine. Consequently, growth remains subject to downside risks, including the rising inflation, and external vulnerabilities. Particularly, inflationary pressures, lower investment, threat of EU-wide gas cutoff, and dampening effects of high inflation on consumption, remain causes for concern and could weigh on the medium-term growth. Going forward, the authorities will be well served through safeguarding prudent macroeconomic policies, while tackling underlying risks and streamlining structural reforms to lift the medium-term growth. We offer the following additional points for emphasis.

Sustaining a firm fiscal consolidation remains warranted to build buffers and ensure public debt sustainability. We concur with staff on the need to address rising public debt and higher financing costs through a mix of policy measures. In this context, strong revenue collections, centered around efforts to broaden the tax base, remove tax exemptions and loopholes, improve tax administration, and enhance VAT efficiency. Furthermore, we welcome the authorities’ plan to keep the 2022 budget deficit at target level. While we note the importance of shielding the most vulnerable from high energy costs through well targeted and temporary support, we encourage authorities to phase out the current energy price cap and bolster spending efficiency. *That said, we would welcome staff’s comments on the rationale behind the recurrent challenges to absorb EU Funds.* This is an issue that has come up in the past reports, indicating that strengthening public investment management is vital to absorb large EU Funds.

The monetary policy stance should remain supportive to guide inflation and inflation expectations toward a target band. To this end, National Bank of Romania's (NBM) commitment to ensure greater exchange rate flexibility and to tighten the monetary policy stance to manage potential inflationary pressures and external vulnerabilities, remain laudable. We also agree with measures to preserve banking system's soundness and maintaining credit flow to the economy. Relatedly, we commend the authorities for their efforts geared toward upgrading the AML/CFT framework and welcome the ongoing MoneyVal Assessment, with implications to safeguard the financial sector from any potential external risks.

Executing key structural reforms remains fundamental to boost medium-term growth. In this context, we concur with the staff about the need to undertake measures in key areas, including by digitalizing and greening the economy, modernizing the anticorruption framework, addressing inequality across regions and social groups, and investing in human capital, which will go a long way to augment potential growth. We welcome the fact that real convergence has occurred, as the insightful Buff statement notes, with Romania emerging a success story of European integration, while the authorities remain steadfast in addressing pockets of regional disparities. Broadly, strengthening public investment institutions and ensuring effective absorption of EU funds to improve infrastructure, competitiveness, and productivity cannot be overstated.

With these remarks, we wish the Romanian authorities success in their reform endeavors.