FOR AGENDA

SM/08/167
Supplement 1

June 12, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Romania—Staff Report for the 2008 Article IV Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with Romania (SM/08/167, 6/12/08), which is tentatively scheduled for discussion on **Wednesday, June 25, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Romania indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Miss Goretti, EUR (ext. 38243).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank forthwith; to the WTO Secretariat on Friday, June 20, 2008; and to the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by European Department

June 12, 2008

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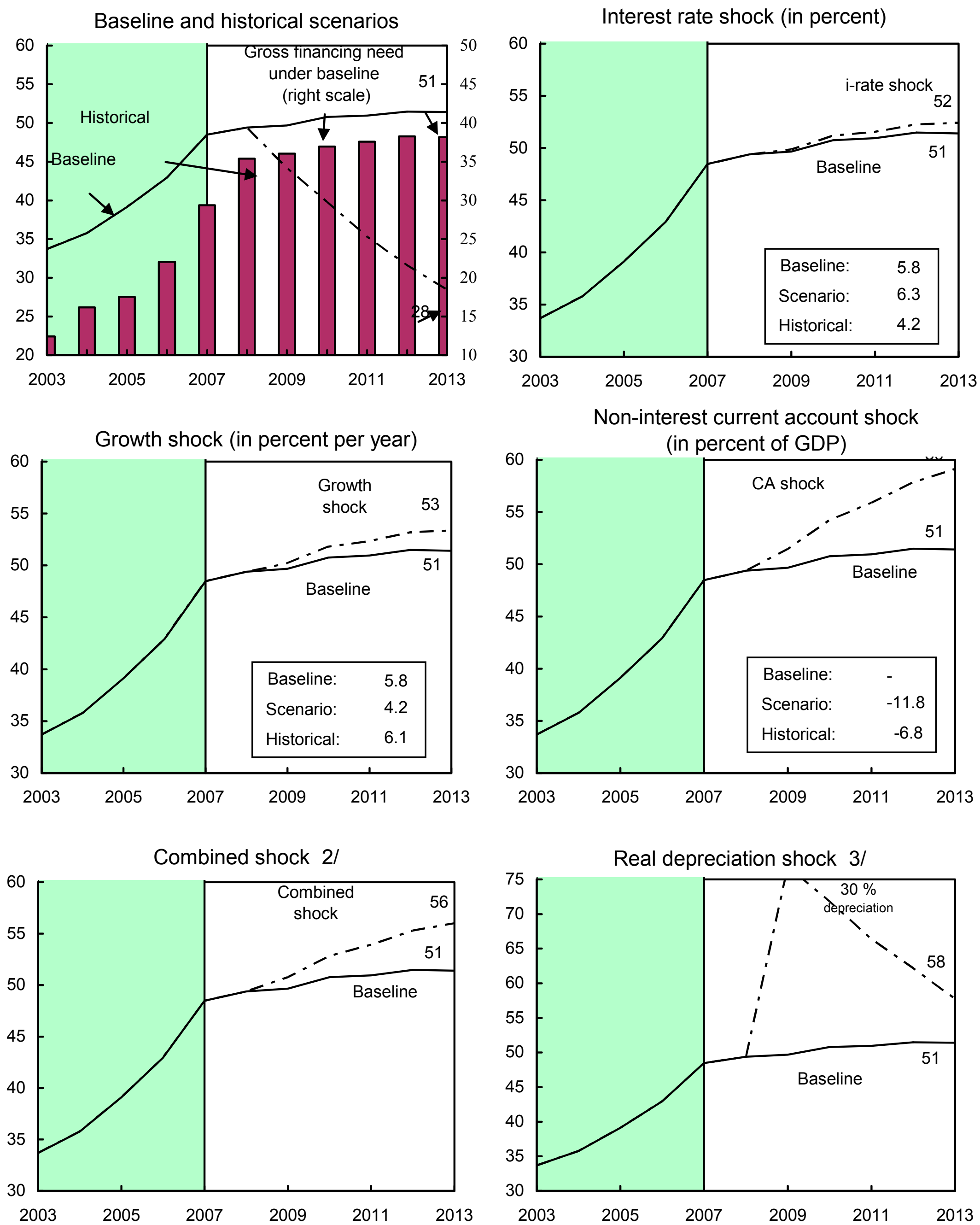
Appendix I. Debt Sustainability

Table 1. Romania: External Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Debt-stabilizing non-interest current account 6/
Baseline: External debt	33.7	35.8	39.1	42.9	48.5	**49.4**	**49.7**	**50.8**	**50.9**	**51.5**	**51.4**	**-8.4**
Change in external debt	0.4	2.1	3.3	3.8	5.5	0.9	0.3	1.1	0.2	0.5	-0.1	
Identified external debt-creating flows (4+8+9)	-1.4	-4.6	-7.0	-5.6	-0.2	6.0	6.4	5.8	5.2	4.6	3.9	
Current account deficit, excluding interest payments	4.5	7.1	7.7	9.3	12.8	12.2	11.7	10.7	9.9	9.2	8.6	
Deficit in balance of goods and services	7.4	9.1	10.5	12.0	14.4	14.5	13.9	12.9	12.1	11.4	10.8	
Exports	34.7	35.9	32.9	32.1	30.5	30.7	29.2	28.8	28.7	29.2	29.8	
Imports	42.1	45.0	43.4	44.1	44.9	45.2	43.1	41.8	40.8	40.6	40.6	
Net non-debt creating capital inflows (negative)	-4.6	-8.4	-7.5	-8.6	-5.9	-5.6	-5.2	-5.0	-4.7	-4.7	-4.7	
Automatic debt dynamics 1/	-1.3	-3.2	-7.2	-6.2	-7.1	-0.6	-0.1	0.1	0.0	0.0	-0.1	
Contribution from nominal interest rate	1.3	1.3	1.2	1.1	1.2	2.2	2.3	2.4	2.5	2.6	2.6	
Contribution from real GDP growth	-1.6	-2.5	-1.1	-2.5	-2.1	-2.8	-2.4	-2.4	-2.5	-2.6	-2.7	
Contribution from price and exchange rate changes 2/	-1.0	-2.1	-7.3	-4.8	-6.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.8	6.7	10.4	9.4	5.8	-5.0	-6.1	-4.7	-5.0	-4.0	-3.9	
External debt-to-exports ratio (in percent)	97.0	99.7	118.7	133.9	158.7	161.0	170.3	176.0	177.5	176.0	172.3	
Gross external financing need (in billions of euros) 4/	6.5	9.8	14.0	21.6	35.6	49.7	60.7	72.5	85.3	99.1	112.9	
in percent of GDP	12.4	16.2	17.6	22.1	29.4	35.4	36.0	37.0	37.6	38.3	38.2	
Scenario with key variables at their historical averages 5/						**49.4**	**44.2**	**39.8**	**35.3**	**31.6**	**28.4**	**-9.4**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.2	8.5	4.2	7.9	6.0	6.8	5.8	5.6	5.7	5.8	6.0	
GDP deflator in euros (change in percent)	3.1	6.6	25.4	14.1	16.9	8.5	13.3	10.3	9.6	7.8	7.7	
Nominal external interest rate (in percent)	4.4	4.4	4.2	3.5	3.5	5.3	5.6	5.7	5.8	5.8	5.8	
Growth of exports (euros terms, in percent)	6.7	19.4	19.9	19.8	18.0	16.3	14.0	15.2	15.2	16.3	16.5	
Growth of imports (euros terms, in percent)	11.5	23.4	26.1	24.9	26.3	16.6	14.3	12.9	13.1	13.7	14.1	
Current account balance, excluding interest payments	-4.5	-7.1	-7.7	-9.3	-12.8	-12.2	-11.7	-10.7	-9.9	-9.2	-8.6	
Net non-debt creating capital inflows	4.6	8.4	7.5	8.6	5.9	5.6	5.2	5.0	4.7	4.7	4.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in euro terms, g = real GDP growth rate, ε = nominal appreciation (increase in euro value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; euro deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, euro deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Romania: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individuual shocks to (i) interest rate and growth and (ii) non-interest current account are permanent one and one-half standard deviation shocks, respectively. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Seven-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2009.

Table 2. Country: Public Sector Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	25.7	18.8	15.8	12.4	12.1	**11.4**	**11.5**	**12.0**	**12.1**	**12.1**	**11.9**	**-0.9**
o/w foreign-currency denominated	13.1	10.1	8.8	7.2	6.6	6.0	6.4	6.4	6.7	6.9	7.1	
Change in public sector debt	-2.7	-6.9	-3.0	-3.5	-0.2	-0.7	0.1	0.5	0.1	0.0	-0.2	
Identified debt-creating flows (4+7+12)	-4.9	-6.0	-2.6	-3.7	0.0	-0.1	1.2	1.5	1.5	1.5	1.4	
Primary deficit	0.2	-0.2	-0.3	-0.2	1.7	1.4	2.2	2.2	2.2	2.2	2.1	
Revenue and grants	28.7	30.0	30.2	31.0	31.4	34.7	35.2	35.3	34.9	35.1	35.4	
Primary (noninterest) expenditure	28.9	29.8	29.9	30.8	33.1	36.0	37.4	37.4	37.2	37.3	37.5	
Automatic debt dynamics 2/	-4.8	-5.2	-1.1	-3.0	-1.6	-1.4	-0.9	-0.7	-0.7	-0.7	-0.7	
Contribution from interest rate/growth differential 3/	-4.6	-3.8	-1.7	-1.8	-1.2	-1.4	-0.9	-0.7	-0.7	-0.7	-0.7	
Of which contribution from real interest rate	-3.5	-2.1	-1.0	-0.8	-0.5	-0.7	-0.3	-0.1	-0.1	-0.1	-0.1	
Of which contribution from real GDP growth	-1.1	-1.7	-0.7	-1.0	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6	-0.7	
Contribution from exchange rate depreciation 4/	-0.2	-1.4	0.6	-1.3	-0.4	...	...	...	...	...	...	
Other identified debt-creating flows	-0.2	-0.6	-1.3	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.2	-0.6	-1.3	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	2.1	-0.9	-0.4	0.2	-0.2	-0.6	-1.2	-0.9	-1.4	-1.5	-1.6	
Public sector debt-to-revenue ratio 1/	89.8	62.6	52.4	39.8	38.6	32.9	32.6	34.2	34.8	34.6	33.8	
Gross financing need 6/	3.3	1.8	1.7	1.0	3.0	2.8	3.5	3.5	3.5	3.5	3.4	
in billions of U.S. dollars	2.0	1.4	1.7	1.3	4.9	5.7	8.7	10.3	12.0	13.8	15.4	
Scenario with key variables at their historical averages 7/						**11.4**	**8.7**	**6.7**	**4.4**	**2.5**	**0.8**	**-0.1**
Scenario with no policy change (constant primary balance) in 2008-2013						**11.4**	**10.6**	**10.6**	**9.9**	**9.2**	**8.5**	**-0.7**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.2	8.5	4.2	7.9	6.0	6.8	5.8	5.6	5.7	5.8	6.0	
Average nominal interest rate on public debt (in percent) 8/	9.3	6.2	6.5	6.0	6.4	7.1	8.1	7.8	5.5	5.3	5.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-14.6	-8.9	-5.7	-4.9	-4.4	-6.0	-2.4	-0.7	-0.7	-0.4	-0.3	
Nominal appreciation (increase in US dollar value of local currency, in percent)	1.9	14.2	-6.2	19.4	6.5	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	24.0	15.0	12.2	10.8	10.8	13.1	10.5	8.5	6.2	5.7	5.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	3.8	12.1	4.5	11.2	13.7	16.4	9.7	5.7	5.0	6.2	6.4	
Primary deficit	0.2	-0.2	-0.3	-0.2	1.7	1.4	2.2	2.2	2.2	2.2	2.1	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi$ (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

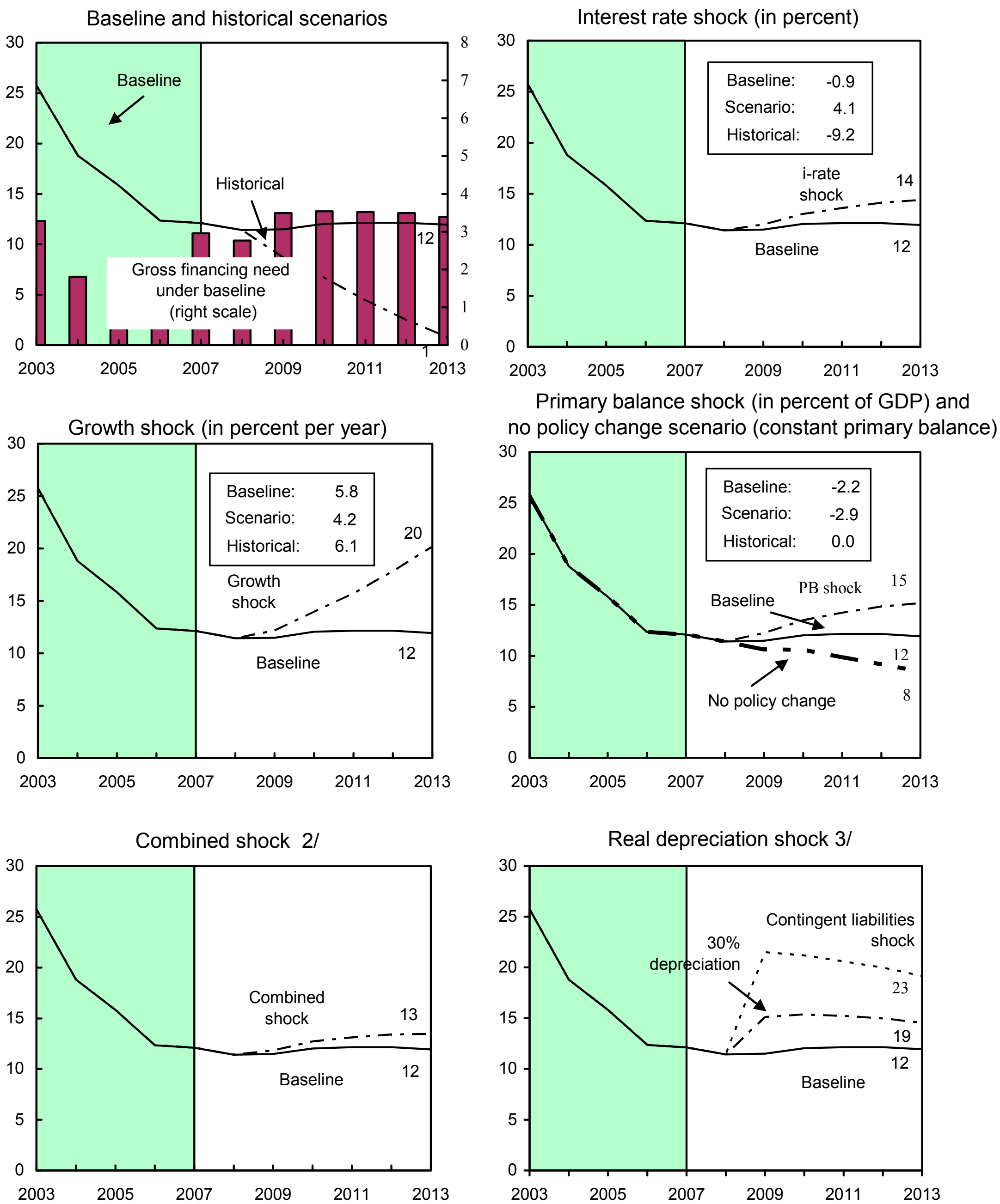
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Romania: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Seven-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX II. ROMANIA: FUND RELATIONS

As of April 30, 2008

Date and place of Article IV mission: April 10–22, 2008, in Bucharest. The concluding statement of the mission was posted at www.imf.org on May 2, 2008.

Country interlocutors: The Prime Minister; the Ministers of Finance, Economy and Labor; the Governor and Deputy Governors of the National Bank of Romania; and other senior officials. Members of Parliament, including from opposition parties. Representatives of banks, employers' associations, labor unions, the foreign investors' council, and think tanks. And representatives of international organizations, including the World Bank and the EBRD. Mr. Tanasescu (OED) attended most of the discussions.

IMF team: Messrs. Jaeger (head), Christou, and Lybek, Ms. Goretti (all EUR), Mr. Atoyan (PDR), Mr. Fernandez-Ansola (Senior Regional Resident Representative), and Ms. Paliu (Resident Economist).

Political developments: Since April 3, 2007, the National Liberal Party has been in a minority coalition government with the Democratic Alliance of Hungarians in Romania. The next parliamentary elections are scheduled for late-2008 or early-2009; presidential elections for late-2009.

Previous Article IV consultation: The previous consultation was concluded on May 23, 2007, and the reports were posted at www.imf.org on June 25, 2007.

Data: Romania subscribes to the SDDS; data provision has some shortcomings, but is broadly adequate for surveillance (Appendix IV).

Exchange rate arrangement: The currency of Romania is the Romanian leu. In August 2005, the National Bank of Romania shifted to an inflation-targeting regime, while maintaining a managed float with no pre-determined path for the exchange rate. Romania's exchange system is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions that are maintained solely for the preservation of national or international security and which have been notified to the Fund pursuant to Executive Board Decision No 144-(52/51).

I.	**Membership Status:** Joined 12/15/72;		Article VIII
II.	**General Resources Account:**	SDR million	% Quota
	Quota	1,030.20	100.00
	Fund holdings of currency	1,030.21	100.00
III.	**SDR Department:**	SDR million	% Allocation

Net cumulative allocation	75.95	100.00
Holdings	79.03	104.05

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	07/07/04	07/06/06	250.00	0.00
Stand-By	10/31/01	10/15/03	300.00	300.00
Stand-By	08/05/99	02/28/01	400.00	139.75
Stand-By	04/22/97	05/21/98	301.50	120.60
Stand-By	05/11/94	04/22/97	320.50	94.27
Stand-By	05/29/92	03/28/93	314.04	261.70
Stand-By	04/11/91	04/10/92	380.50	318.10

VI. Projected Payments to Fund (Expectations Basis)[1]
(SDR million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2008	2009	2010	2011	2012
Principal					
Charges/interest	0.21	0.00	0.00	0.00	0.00
Total	0.21	0.00	0.00	0.00	0.00

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Technical Assistance

The transition in Romania has been supported by substantial technical assistance from multilateral agencies and bilateral donors. The Fund has provided support in a number of areas with more than 40 technical assistance missions since 1990, although the authorities have had a mixed record with regard to implementation. Expert Fund assistance has focused on a number of key areas, including: fiscal reforms; modernization of the central bank and

[1] This schedule presents all currently scheduled payments to the IMF, including repayment expectations where applicable and repayment obligations otherwise. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

the banking system; creating a market-oriented legal structure; training; and improving the collection and reporting of statistics. The implementation of a comprehensive tax administration reform designed in line with the recommendations of several technical assistance missions of the Fund's Fiscal Affairs Department started in January 2003. A report on the observance of standards and codes (ROSC) on fiscal transparency was completed on November 6, 2002 (IMF Country Report No. 02/254). In 2003 an FSAP was completed, and an FSAP Update is tentatively scheduled for November 2008. Furthermore, technical assistance by the Fund's Monetary and Capital Markets Department on inflation targeting is ongoing.

X. Anti-Money Laundering and Combating the Financing of Terrorism framework

The legislative framework for anti-money laundering and combating the financing of terrorism (AML/CFT) has been recently updated to bring Romania in line with international standards and to fulfill the requirements set forth by the third EU directive on AML/CFT. Obligations have been introduced for reporting entities to ascertain beneficial ownership of client accounts and to carry out enhanced due diligence for high-risk customers, such as in the case of politically exposed persons. The supervisory framework has been extended to cover certain non-financial businesses and professions. The level of AML supervision of the banking sector has improved, and the NBR appears to be taking this issue seriously. The authorities have also started to undertake more inspections of the financial sector at large and on the non financial sector (including casinos, a sector that had been pointed out in the past as particularly vulnerable to money laundering risks). Romania recently underwent an AML/CFT mutual evaluation conducted by MONEYVAL, and the report is expected to be approved at the forthcoming MONEYVAL Plenary (July 2008). The authorities should ensure the effective implementation of the new AML/CFT provisions and continue to focus on supervision of the financial sector at large as well as of casinos and bureaus de change.

XI. Resident Representative

The Fund has had a resident representative in Bucharest since 1991. Mr. Juan Jose Fernandez-Ansola assumed the post of senior regional resident representative in September 2006.

APPENDIX III. ROMANIA: IMF-WORLD BANK RELATIONS

A. Partnership in Romania's Development Strategy

1. The World Bank has taken the lead in the policy dialogue on structural and institutional reforms aimed at Romania's successful EU integration and convergence. Reforms include private and financial sector development, institution building and governance. The World Bank has several sector investment operations, economic work such as the Municipal Finance Policy Note and the Public Expenditure and Institutions Review, and commitments through the International Finance Corporation (IFC). Policy areas where the Bank leads and which are not directly incorporated into the IMF country dialogue include strengthening the social safety nets, revitalizing the economy in rural areas, institution building and governance, and improving the business environment.

2. The Bank's analysis is shared with the IMF and is used as input to the fiscal framework, including structural reform measures which have important fiscal implications, such as energy sector reform and restructuring. There are further areas of formal joint responsibility such as the Financial Sector Assessment Program (FSAP).

3. Overall the IMF and World Bank staff maintain a close collaborative relationship in supporting the Government's reform program and are coordinating their policy advice to the Romanian authorities.

B. IMF-World Bank Collaboration in Specific Areas

4. **Financial Sector.** The Bank and the IMF jointly conducted a FSAP for Romania which was completed in June 2003. The FSAP provided a shared perspective on the development agenda of the country and on the prioritization and sequencing of reforms in the financial sector. An update on the FSAP is tentatively scheduled for November 2008.

5. **Municipal finance reform.** The Bank has led the dialogue on municipal finance reform by preparing a Policy Note on the legal and regulatory reforms for municipal finance, including a detailed assessment of the deficiencies of the legal and regulatory framework for municipal borrowing and municipal bond issuance.

6. **Energy sector.** The Bank has also led the dialogue on restructuring, reform and eventual privatization of enterprises in the electricity, district heating and gas industries and on the adoption of regulatory legislation in preparation for privatization to strategic investors. As part of this process the Bank is supporting, *inter alia*, energy tariff reforms and reforms in the electricity, district heat and gas sectors. These objectives are woven into the policy conditions of the Programmatic Adjustment Loan (PAL) program, along with conditions related to the privatization of electricity distribution enterprises. These conditions have been closely coordinated with the IMF. The dialogue with the Government is focused on such critical long-term issues as restructuring of power generation and the integration of the

Romanian power sector with the Southeast European Regional Electricity Market and with the EU's electricity market, and provides assistance on the associated regulatory and market operation issues. The Bank has also provided technical assistance to the Ministry of Industry to establish a system of pricing and taxation of gas consistent with attracting further investment into the industry. Policy dialogue in these and other areas, notably including the district heating sector, will be further facilitated by ongoing dialogue with the Government on the recently completed Energy and Infrastructure Strategy paper and its operational recommendations.

7. **Banking sector.** The Bank has taken the lead in dialogue and policy advice regarding regulation, restructuring, privatization and liquidation of banks. Under the Programmatic Structural Adjustment Loan 1 (PSAL 1), the Law on Bank Privatization was modified and transparent privatization procedures established. Liquidity and solvency requirements of the NBR were tightened and provisions introduced for improved compliance with prudential regulations and external audits conducted according to International Accounting Standards. Legal and institutional reforms were introduced for orderly disposition of non-performing assets. These policy changes underpinned liquidation of the most troubled bank (Bancorex) while Bank Agricola was restructured and eventually privatized as were two smaller state owned banks. This policy agenda has been continued under the PAL program and included privatization of the largest state bank BCR. The Bank is continuing the dialogue with the government on the need to move forward with further improvements of the legal and regulatory framework for the securities and insurance sectors. The Private and Public Sector Institution Building Loan (PPIBL) will provide funding for these activities.

C. World Bank Group Strategy and Lending Operations

8. The current Country Partnership Strategy (CPS) for Romania was presented to the World Bank's Board on May 16, 2006. It was designed to facilitate Romania's integration with the EU building on three pillars: (a) accelerating structural and institutional reforms to support sustainable growth; (b) addressing fiscal vulnerabilities and modernizing the public sector; and (c) targeting poverty reduction and promoting social inclusion. A flexible lending program of \$450 million to \$550 million per year was envisaged using a mix of investment lending and programmatic Development Policy Loans (DPL). Base case lending includes investment projects subject to pre-conditions of appropriate sector policy and an acceptable medium term sector expenditure framework. High case lending would be a combination of investment and development policy lending where the latter would require maintenance of an appropriate macroeconomic framework as per Bank guidelines and periodic review in consultation with the IMF.

9. Since the beginning of the CPS period several investment loans have been made. However, no further DPLs have been concluded and after the PAL 1 was completed, the PAL program was officially dropped in January 2007.

10. The World Bank has been active in Romania since 1991, and the portfolio is now the largest in the ECA Region in terms of number of projects and third largest in commitments. While the portfolio grew rapidly between 2004 and 2007, in the run-up to EU accession, no new projects are currently planned. The current IBRD and GEF portfolio consists of 23 projects with aggregate net commitments totaling $1.785 billion and a total undisbursed balance of $1.27 billion. Sector composition in terms of net commitments is dominated by environment and socially sustainable development (35 percent, 12 projects), and energy and infrastructure (39 percent, 5 projects), followed by the social sectors (14 percent, four projects).

11. Implementation of projects in the Bank's Romania portfolio has slowed in recent years. In FY06 and FY07 Romania's annual disbursement ratio fell below its 16 percent historical average and from a peak of 27 percent in FY03. Today, 86 percent of the portfolio's net commitments have been approved in the last four FYs, and three-fourths of them are less than three years old. Given that new loans typically do not start disbursing very much during the first two years following loan approval, this accounts for some of the portfolio disbursement slowdown, while other delays are attributable to implementation delays, policy changes or delays and financing gaps. The Bank and the Government are working together to address this issue.

12. IFC has dedicated substantial resources to assist the development of capital markets and infrastructure (utilities and telecommunication), and provide support for small and medium enterprises (SMEs). To date, IFC has committed over US$772 million of its own funds in 42 projects and has arranged over $241 million in syndications to support projects in the financial markets, information technology, food and beverage, general manufacturing, health care and infrastructure. In addition to investments, IFC has undertaken a number of advisory assignments aimed at supporting the privatization and restructuring of large state-owned enterprises, public utilities and the health sector.

Questions may be referred to Ivailo Izvorski (458-8807) or Penny Williams (458-5342)

APPENDIX IV. ROMANIA: STATISTICAL ISSUES

1. Data provided to the Fund have some shortcomings, but are broadly adequate for surveillance. The quality of the national accounts, price, fiscal, and balance of payments data still needs improvement. The authorities have made progress in improving economic and financial statistics with technical assistance, including from the Fund, over the past several years. Romania began participating in the GDDS in February 2001 and graduated to subscription to the SDDS in May 2005.

Real Sector

2. Quarterly and annual national accounts statistics are produced by the National Institute for Statistics (INS) using the *European System of Accounts 1995 (ESA95)*. Estimates are methodologically sound and are reported to the Fund on a timely basis for publication in the *International Financial Statistics (IFS)*. However, quarterly and annual national accounts are not harmonized on a regular basis and late revisions have sometimes been significant. Provisional and semi-final versions are disseminated in the Statistical Yearbook and other publications, as well as on the web (www.insse.ro).

3. The Consumer Price Index is subject to standard annual re-weighting, and is considered reliable. In January 2004, the INS changed the coverage of the Producer Price Index to include the domestic and export sectors.

4. There are still deficiencies in labor market statistics that hamper the assessment of developments in employment and wages, as well as their consistency and comparability with labor statistics from other countries in the region. In order to address these shortcomings, the INS (i) is addressing the reporting coverage of private sector wages, especially in the construction sector; (ii) has started including ad hoc bonuses in the public-sector wage series, although only as from 2007; (iii) is working on a new definition of employment consistent with ESA 95.

Public Finance

5. Annual GFS data are reported on an accrual basis derived from cash data using various adjustment methods. Tax revenues are adjusted using the time-adjusted cash method; expense data are adjusted using due-for-payments data; and, interest payments are calculated on an accrual basis. Beginning in 2002, the Special Fund for Development of the Energy System, the Special Fund for Public Roads, the Special Fund “Romanian Agriculture Development,” and the Special Fund “Romania” were included in the state budget, while the Special Fund for Insured Protection was eliminated from general government accounts. The

reported data excluded data on the Agency for Recovery Bank Assets.[1] EUR receives monthly budget data. The authorities introduced a new budget classification for the 2006 budget and have also produced the 2004-05 budget outturns on the basis of the new classification.

1. Consolidated data on central government operations are reported for inclusion in the *GFS Yearbook,* albeit with a significant lag. Consolidated general government data were reported for the first time for inclusion in the *2005 GFS Yearbook.*

Monetary and Financial

2. Monetary statistics need to be reconciled with government finance statistics. In line with *1993 SNA* and *MFSM*, accrued interest on deposits and loans, and securities other than shares should be incorporated in the corresponding outstanding amount of the financial instrument.

3. The National Bank of Romania (NBR) reports monetary and financial statistics on a regular and timely basis for publication in the *IFS*. Since December 2004, the NBR reports monetary data to STA using the Standardized Report Forms (SRFs). The data are being published in the *IFS Supplement*, beginning September 2006. Romania's data and metadata for financial soundness indicators are posted on the IMF's website (http://www.imf.org/external/np/sta/fsi/eng/cce/index.htm).

Balance of Payments

4. The NBR routinely reports balance of payments statistics to the Fund in a timely fashion. A 2003 STA mission undertook a detailed review of the NBR's compilation methodology for balance of payments and international investment position statistics, developed in consultation with Eurostat, and concluded that the proposed system is broadly appropriate. The STA mission supported implementation of this compilation system in 2004, along with a new FDI survey.

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[1] Formerly, the Agency for Bank Asset Recovery and the Authority for Privatization and Management of State Ownership.

ROMANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF MAY 23, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Mar.2008	Apr.2008	D and M	D and M	D and M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar. 2008	Apr. 2008	D and M	W and M	M
Reserve/Base Money	Mar. 2008	May 2008	D and M	W and M	M
Broad Money	Mar. 2008	May 2008	M	M	M
Central Bank Balance Sheet	Mar. 2008	May 2008	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2008	May 2008	M	M	M
Interest Rates[2]	Mar. 2008	Apr. 2008	M	M	M
Consumer Price Index	Mar. 2008	Apr. 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Dec. 2007	Feb. 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Jan. 2008	Feb. 2008	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2007	Feb. 2008	M	M	M
External Current Account Balance	Dec. 2007	Jan. 2008	M	M	Q
Exports and Imports of Goods and Services	Jun. 2007	Jan. 2008	M	M	M
GDP/GNP	Q4 2007	Mar. 2008	Q	Q	Q
Gross External Debt	Dec. 2007	Feb. 2008	M	M	Q
International Investment Position [7]	Q1 2008	May 2008	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.