

**FOR
AGENDA**

SM/08/167
Supplement 2

June 23, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Romania—Staff Report for the 2008 Article IV Consultation—Draft
Public Information Notice**

Attached for consideration by the Executive Directors is the background section of the draft Public Information Notice relating 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 Mr. Lybek, EUR (ext. 38656).

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 and WTO Secretariat forthwith; 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.

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INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/XX
FOR IMMEDIATE RELEASE
[June XX, 2008]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Romania

On June 25, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Romania.¹

Background

Underpinned by massive capital inflows, GDP growth has remained strong. In 2007, real GDP grew by 6 percent, but agriculture was adversely affected by a drought (non-agricultural output expanded at a robust 7.4 percent). Despite healthy export growth, the current-account deficit widened markedly from 10.4 percent of GDP in 2006 to 14.0 percent of GDP in 2007, reflecting booming domestic demand, strong credit growth, and procyclical fiscal and incomes policies.

The fiscal deficit (cash basis) in 2007 increased to 2¼ percent of GDP, sharply up from a deficit of ½ percent of GDP. The government has reduced its original fiscal deficit target for 2008 to close to 2 percent of GDP. Higher agricultural and energy prices as well as excess demand contributed to more than a doubling of headline inflation from May 2007 (3.8 percent, y-o-y) to May 2008 (8.5 percent, y-o-y). The exchange rate depreciated sharply after the turmoil in international financial markets started in August 2007, but has stabilized since February 2008. In response to inflation rising well above its target range, the National Bank of Romania (NBR) increased its policy rate several times from October (7.0 percent) to May (9.75 percent).

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Recent indicators suggest continued strong growth during the first half of 2008. The current account deficit, however, is expected to increase to 14½ percent in 2008.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Romania: Selected Economic and Social Indicators, 2005–09

	2005	2006	2007	2008 Proj.	2009 Proj.
Output, prices, and labor market	(Annual percentage change)				
Real GDP	4.2	7.9	6.0	6.8	5.8
Real GDP excluding agricultural sector	6.4	7.6	7.4	6.5	5.6
Real domestic demand (absorption)	8.8	14.5	16.4	9.3	9.9
Consumer price index (CPI, average)	9.0	6.6	4.8	8.2	6.6
Consumer price index (CPI, end of period)	8.6	4.9	6.6	7.9	6.2
Employment	-0.7	0.7	1.4	0.9	0.6
Nominal wages	17.0	18.9	22.6	20.5	16.9
Public sector wages	25.9	27.3	18.5	17.4	14.4
Private sector wages	14.8	16.6	23.7	21.4	17.6
Nominal unit labor cost	11.5	11.0	17.2	13.8	11.2
General government finances	(In percent of GDP)				
Revenue	30.2	31.0	31.4	34.7	35.2
Expenditure	31.0	31.6	33.7	36.8	38.2
Fiscal balance	-0.8	-0.6	-2.3	-2.1	-2.9
Structural fiscal balance 1/	-1.3	-1.8	-3.9	-3.4	-3.8
Gross public debt	15.8	12.4	12.1	11.4	11.5
Net financial worth	16.2	12.4	8.2	8.2	8.6
Money and credit	(Annual percentage change)				
Broad money (M3)	36.5	28.1	33.5	36.4	25.7
Domestic credit	43.7	52.0	64.5	32.8	24.9
Interest rates	(In percent)				
Euro, six-month LIBOR	2.2	3.1	4.3	4.2	4.0
Interbank rate	...	8.2	7.6	...	...
Lending rate	21.0	14.8	13.3	...	...
Real lending rate (CPI adjusted)	12.0	8.3	8.5	...	...
Balance of payments	(In percent of GDP)				
Current account balance	-8.9	-10.4	-14.0	-14.4	-14.0
Merchandise trade balance	-9.9	-12.0	-14.6	-14.9	-14.4
Capital and financial account balance	15.6	15.7	17.6	16.1	16.8
Foreign direct investment balance	6.6	8.9	5.9	5.6	5.0
Net international investment position	-29.2	-35.3	-42.1	-49.3	-53.5
Gross official reserves	18.4	18.6	16.2	14.2	13.7
Gross external debt	39.1	42.9	48.5	49.4	49.7
Exchange rates					
Lei per euro (end of period)	3.66	3.41	3.53	...	...
Lei per euro (average)	3.63	3.52	3.34	...	...
Real effective exchange rate					
CPI based (percentage change)	17.9	7.6	9.0	1.3	6.5
GDP deflator based (percentage change)	21.4	11.9	15.2	5.9	10.5
Social Indicators (reference year in parentheses)					
Per capita GNI (Atlas method, 2006): US \$4,850; Income distribution (GINI index, 2003): 31.1;					
Poverty rate (2005): 13 percent; Primary education completion rate (2005): 99.4 percent;					
Life expectancy at birth (2005): 71.7; Infant mortality per 1000 live births (2005): 16.					

Sources: Romanian authorities; Fund staff estimates and projections; and World Development Indicators database.

1/ Actual fiscal balance adjusted for the automatic effects of output gap and absorption gap on the fiscal position.
See IMF Country Report No. 07/390, Chapter III.