INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No.09/24
FOR IMMEDIATE RELEASE
February 4, 2009

International Monetary Fund
Washington, D.C. 20431 USA

Statement by the IMF Mission to Romania

A mission from the International Monetary Fund (IMF), headed by Mr. Jeffrey Franks, visited Romania during January 27-February 4, 2009. In Bucharest today, at the conclusion of the visit, Mr. Franks made the following statement:

"Romania is now being increasingly affected by the global recession. While growth remained high in the first three quarters of 2008, output indicators deteriorated rapidly in the last months of the year. Exports began to tumble, credit availability tightened for firms and households, and domestic consumption and investment are poised to fall. Industrial output is dropping, and business and consumer confidence have deteriorated. Thus economic activity will be weak, and GDP growth may well turn negative in 2009, with a moderate recovery only toward the end of the year or early-2010. While it is true that uncertainties surrounding the forecast are high, we believe that the balance of risks is on the downside.

"International problems were the trigger for the downturn, but longstanding imbalances within the Romanian economy are aggravating its effects at home. Balance of payments and government deficits have heightened the vulnerability to external shocks, while slow action on structural reforms has left the economy less productive and less flexible in its ability to respond to the downturn. Public spending policies have aggravated the current economic difficulties. Government spending doubled between 2005 and 2008, and the public sector wage bill nearly tripled over these three years due to high wage increases combined with a large increase in government employment. Now, as the country enters a downturn, an easing of fiscal policy to cushion the downturn is unfortunately no longer possible. Spending is already too high and the government's ability to finance a large deficit has dried up.

"In this context, we see the following policy requirements:

- The mission strongly supports the government's declared objective of reducing the fiscal deficit to around 2 percent of GDP. However, the 2009 budget is based on optimistic assumptions for economic growth and tax collections, suggesting that further efforts will be required to reach that target.

- We support the National Bank of Romania's (NBR) intention to remain focused on achieving its inflation objective. The Bank's inflation target was missed yet again in 2008, in part due to the unexpectedly expansionary fiscal policy and the high commodity and world energy prices early in the year. Looking forward, the NBR should give priority to bringing inflation into the target band as soon as possible. The monetary authority has little room to ease monetary policy until a credible macroeconomic policy package is in place to stabilize the economy and reduce the fiscal deficit. And even then, the central bank should only move to gradual policy easing if balance of payments pressures abate.

- Safeguarding financial stability requires continued close monitoring of banks' risk management, capacity to absorb adverse shocks, and capital adequacy. As in other countries, institutions charged with the functioning of the financial system need to be fully prepared for contingencies, including in the context of recent EU efforts to step up preparedness for cross-border financial spillovers. The NBR should continue to act in order to ease liquidity imbalances in the banking system.

"Credible fiscal, monetary, and financial sector policies will significantly improve Romania's chances of weathering the current economic storm. However, risks will remain high. Firm government implementation of policies is essential to restore public confidence and economic growth. Structural reforms need to be re-started to make the economy more productive, and able to take advantage of opportunities in the eventual economic recovery. We look forward to continued cooperation with the Romanian authorities."