DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

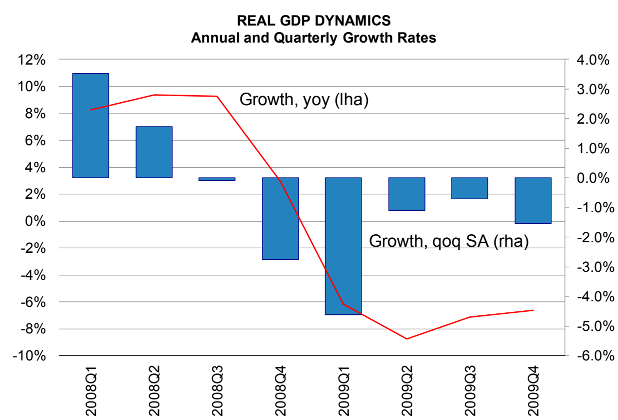
BUFF/10/18

February 18, 2010

Statement by the Staff Representative on Romania
Executive Board Meeting
February 19, 2010

This statement reports on economic and policy developments since the staff report was issued on February 5, 2010. The information does not alter the thrust of the staff appraisal.

1. **Real output continued to decline in the last quarter of 2009.** According to the flash estimate, real GDP shrank by 1.5 percent q-o-q (seasonally adjusted) and 6.6 percent y-o-y, bringing the full-year decline to 7.2 percent, roughly in line with staff projections. Short term indicators confirm an incipient recovery in manufacturing, construction and exports, but consumer spending indicators (e.g. retail sales and services) are still declining.



2. **Headline inflation accelerated in January due to one-off factors.** Annual inflation picked up from 4.7 percent in December to 5.2 percent in January, largely on account of increases in excise taxes on tobacco and fuels. These factors were already anticipated in staff projections, the forecast for end-year inflation remains unchanged. Core inflation continued to decelerate on the back of weak domestic demand.

3. **The authorities continue to make progress on key reforms.** Pension reform legislation was approved by the cabinet last week and sent to Parliament for debate and approval (end-June structural benchmark). The draft law addresses significant weaknesses of the current system by improving long-term financial sustainability, while adequately safeguarding the average replacement rate for pensioners.

4. **The authorities are closely monitoring developments in the region.** At this stage, there is little sign of significant spillover effects from dynamics in Greece. The authorities remain comfortable with the level of liquidity and capitalization of local subsidiaries of Greek banks, and do not perceive any increase in financial stress due to recent developments.