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GRAY/17/1277

May 18, 2017

**Statement by Mr. Hiroshima and Mr. Tsuden on Romania
(Preliminary)
Executive Board Meeting
May 22, 2017**

We welcome that Romania's economy has continued steady growth with reduced unemployment and low inflation. However, challenges remain, including expanding fiscal deficit, still high non-performing loans, and remaining corruption problems. We encourage authorities to tackle these challenges to achieve sustainable and robust economic growth. As we agree with the thrust of the staff appraisal in the Article IV consultation paper, we will limit our comments to the following points:

Fiscal Policy

We agree with the staff that the authorities should gradually conduct fiscal consolidation. We welcome that the authorities commit to comply with the EU fiscal rules. However, there are risks of considerable deterioration of the fiscal balance in near-future owing due to the implementation of the unified wage law and increasing pension expenditure. Therefore, we agree with the staff that the authorities should focus on protecting revenues, moderating the increase of the expenditure, and enhancing the effectiveness of the public sector. *In this regard, could the staff elaborate on the authorities' planned measures to adhere to the European fiscal rules and their possible effects on economy?*

Monetary Policy

The central bank should be vigilant about the development in inflation. We take note that the staff recommend the central bank to consider tightening the monetary conditions, because the staff project inflation will exceed the upper end of the central bank's target band by mid-2018. On the other hand, we understand the authorities' concern that still-low headline inflation makes it challenging to communicate the need for tightening. *In this regard, we would like to hear the staff's views on why inflation rate has been subdued despite a continued relatively high wage increase or ULC increase, though it might be*

happening only in manufacturing sector according to Figure 3. Is the corporate profit margin squeezed because of the combination of high wage growth and low inflation?

Structural Policy

We encourage the authorities to improve the efficiency of public investment, support private investment and continue the fight against corruption. The progress in the fight against corruption would increase the government revenue and stimulate private investments. Regarding the efficiency, strengthening the corporate governance of SOEs would have wide positive effect on the economy.