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NOTE

from:	Marius Spiridon, Financial Counsellor, Permanent Representation of Romania to the EU
date of receipt:	23 May 2013
to:	Mr Carsten PILLATH, Director-General, Council of the European Union
Subject:	Updated convergence program of Romania covering the period 2013-2016

Please find enclosed the updated convergence program of Romania, covering the period 2013-2016.

The program has been approved by the Romanian government in April, 2013.

(Complimentary close)

Marius Spiridon, Financial Counsellor

Encl.:

GOVERNMENT OF ROMANIA

CONVERGENCE PROGRAMME

2013-2016

- April 2013 -

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1. INTRODUCTION

The updated version of the 2013 - 2016 Convergence Program has been based on the EC Council Regulation 1466/1997 on strengthening the supervision of budgetary positions and the supervision and coordination of economic policies, as amended in EC Council Regulation 1055/2005 and EU Regulation 1175/2011 of the European Parliament and the Council.

The Convergence Program is in accordance with the *Code of Conduct regarding the specifications for the implementation of the Stability and Growth Pact* and the *Indicative Guidelines for the format and contents of the Stability and Convergence Programs* of September 3, 2012.

The submission of the Convergence Program by the Member States, and the assessment thereof by the European Commission, is one component of the "European Semester" that relates to the strengthening of economic, structural and budgetary policies. The European Semester is the Europe 2020 Strategy's main instrument, the preventative instrument of the Stability and Growth Pact (amended by the 6-regulation pack coming into effect on December 13 2011), the macroeconomic imbalance procedure, as well as the Euro Plus Pact.

The Convergence Program illustrates Romania's capacity to comply, in 2014, with the medium term budgetary objective (MTO) of a budgetary structural deficit below 1% of GDP, which is in line with the provisions included in the Treaty on Stability, Coordination and Governance of the Economic and Monetary Union. The continuation of the reform process, particularly the fiscal consolidation process, based on the preventive financing agreement concluded with the EU, IMF and the WB can bring coherence to the macroeconomic and financial policies, thus adding to the consolidation of investors' confidence and reducing spill-over effect from other markets. While no further austerity measures are considered, similar to those implemented in 2010, a prudential approach will be maintained on the expenditures side, expressly to consolidate the sustainable trend of the public finances.

In the medium run, the specific objective of the budgetary policy is to further adjust the budget deficit, with the planned targets situated at -2.4% of GDP in 2013 and 2% of GDP for the interval 2014-2016 (according to ESA).

The Convergence Program's macroeconomic framework takes into account the prospects of the international environment and the European economy as per the European Commission's forecasts. In addition, the macroeconomic scenario proposed for the interval 2013-2016 is convergent with the EC estimations in respect of the Romanian economy developments.

The commitment to adopt the euro is maintained for a date when will be attained the objective regarding the fulfillment the real and nominal convergence criteria.

2. ECONOMIC POLICY FRAMEWORK

2.1. BACKGROUND

In line with the Ruling Strategy and in consideration of the objectives included in the Europe 2020 Strategy and the Preventive Agreement with EU and IMF, the medium term economic strategy of the Romanian Government is oriented towards the promotion of competitiveness and employment, consolidation of the public finances and of the financial stability.

The Stability, Coordination and Governance Treaty within the economic and monetary union was signed, on March 2, 2012, by the heads of states or governments in all EU Member States, except for the United Kingdom and the Czech Republic. The purpose of this treaty is to maintain stability in the Euro zone.

Main provisions of the Treaty:

- Budgetary revenues and expenditures of the signatory Member States shall be in balance or showing a surplus. Member States may have temporary deficits only for the purpose of taking into account the budgetary impact of the economic cycle and, besides that impact, under exceptional economic circumstances or in times of severe economic downturn, as long as this does not put in danger the budgetary sustainability on a medium term.
- Structural deficit shall not exceed 0.5% of GDP and shall be in line with the medium term budgetary objective defined in the Stability and Growth Pact. The medium term budgetary objective may be higher than the above-mentioned level, meaning it can go up to 1% of GDP if public debt is significantly below the reference level of 60% and long term risks to the sustainability of public finance are considered to be low.
- The budgetary rule shall be introduced in legally binding national legislation, preferably in the Constitution. Member States shall develop automated correction mechanisms in case of significant deviations from the reference level or from the adjustment strategy.
- States which are subject to excessive deficit procedure under the Union's treaties shall introduce a mandatory budgetary and economic partnership program, which must include a detailed description of the structural reforms required in order to provide an efficient and sustainable correction of their excessive deficits[1].
- European Commission and the Council shall receive from Member States ex-ante reports about their plans in respect of public debt issuances.
- Non-Euro States which ratify the Treaty shall participate to the discussions in the Eurozone about the economic competitiveness, the changes to the global

[1] These programs shall be submitted to the European Commission and the Council.

architecture of the Eurozone and the fundamental rules which will apply to it in the future, and whenever necessary but at least once a year they will participate to discussions on specific aspects of the treaty implementation.

Romania plans to introduce the treaty's provisions in the national legislation through the fiscal and budgetary responsibility law 69/2010 which is now being revised.

2.2. MONETARY AND EXCHANGE RATE POLICY

In compliance with its statute[2], the primary objective of the National Bank of Romania is to ensure and maintain price stability. This is the best contribution monetary policy can make to sustainable economic growth. Starting August 2005, monetary policy has been implemented in the context of inflation targeting, against the background of a managed floating regime. This exchange rate regime is in line with using the inflation target as a nominal policy anchor and allows monetary policy to provide a flexible response to unexpected shocks that may hit the economy.

In line with its institutional features, the NBR monetary policy has been and will further be firmly geared towards attaining the inflation target set by the National Bank of Romania together with the Government and ensuring a lasting reduction in the longer-term inflation rate to levels compatible with the ECB's quantitative definition of price stability. Seen from this perspective, the shift to a flat multi-annual inflation target of 2.5 percent ±1 percentage point starting 2013, marking the end of the stage of gradually decreasing[3] annual inflation targets set and announced for two-year horizons – a typical feature since the adoption of this strategy –, is mandatory. At the same time, the switch to this flat inflation target is a beneficial, but also an ambitious change to this strategy, implying a monetary policy commitment to a single objective, deemed consistent with the medium-term price stability definition for the Romanian economy. The change was decided and announced by the central bank in late 2010 and was warranted primarily by the target's enhanced capability of anchoring and stabilizing inflation expectations – which is essential for reaching, over the medium to long term, an inflation rate compatible with the inflation criterion laid down in the Maastricht Treaty and subsequently with the ECB's quantitative definition of price stability –, on one hand, and by expectations on a near-completion in 2012 of the disinflation that had started in 2000 (without however ruling out the possibility of temporary inflation fluctuations in the periods ahead owing to potential/expected adverse supply-side shocks[4] and to the still high sensitivity[5] of the consumer price index to these shocks), on the other hand.

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[2] Law No. 312/2004.

[3] Annual inflation targets were lowered from 7.5 percent ±1 percentage point in 2005 to 3.0 percent ±1 percentage point in 2011; the annual inflation targets for 2010 and 2012 were left unchanged from a year earlier, i.e. 3.5 percent ±1 percentage point and 3 percent ±1 percentage point respectively.

[4] Most of them beyond the central bank's scope.

Confirming, in part at least, these expectations – given the widening of the negative output gap that had opened up in 2009-2010 and the maintenance of a prudent monetary policy stance[6] –, but also amid a favorable base effect stemming from the year-earlier developments in volatile food prices, the annual inflation rate dropped inside the lower half of the target band (3 percent ±1 percentage point) in the early months of 2012, hitting a 23-year low of 1.79 percent in May.

In the following month, however, the annual inflation rate returned to a sharp uptrend, coming in at 4.95 percent at end-2012 (above the upper bound of the variation band around the central target)[7]; it kept rising in January 2013, when it reached 5.97 percent, and remained in February at a relatively high level – 5.65 percent -, yet slightly lower compared with the previous month. The bout of inflation was exclusively the result of the transitory effects of supply-side shocks which occurred in mid-2012 (the large decline in domestic agricultural production as a result of persistently severe weather conditions and the higher global agri-food commodity prices, along with the relatively high volatility of the exchange rate of the RON, against the US dollar in particular, coming from the temporary resurfacing of global risk aversion that subsequently overlapped the uncertainty surrounding the domestic election context). In recent months, to these added the adverse impact of successive electricity price hikes and the upward adjustment of some excise duties in early 2013.

Against this background, despite a persistently wide negative output gap and stronger prospects of its extending over the medium term, the NBR put a halt in May 2012 on the policy rate-cutting cycle and preserved its status quo thereafter, while also leaving unchanged the minimum reserve requirement ratios on credit institutions' lei - and foreign currency -denominated liabilities. In 2012 H2, the central bank also resorted to tightening the control over liquidity in the banking system, with the result of short term interbank rates raising and generally persisting above the monetary policy rate until recently. The preservation of the prudence of the broad monetary conditions has been aimed at firmly anchoring medium-term inflation expectations so as to prevent second-round effects from the adverse supply-side shocks from materializing and countering the excessive RON exchange rate volatility episodes.

Over the period ahead, including the medium-term horizon, the major challenge to monetary policy will remain the solid anchoring of medium-term inflation expectations and a lasting fulfillment of the 2.5 percent ±1 percentage point target (consistent with the medium-term price stability definition for the Romanian economy), along with avoiding the impairment to the medium-term economic growth potential through additional

[5] Deriving largely from the CPI basket composition.

[6] The NBR left its policy rate unchanged at 6.25 percent until October 2011 and thereafter lowered it in only four consecutive steps of 0.25 of a percentage point each. These cuts were driven by the fast-paced disinflationary trend initiated in July 2011, as well as by the subsequent consolidating prospects of the annual inflation rate to remain inside the target band throughout the policy-relevant horizon.

[7] Nonetheless, the 12-month average inflation rate fell to a 23-year low of 3.33 percent in 2012.

contractionary effects exerted on economic activity. Given that the major sources of such a challenge are the prospects of still high inflation rates in 2013 H1 and the persistence of significant risks[8] to the projections on the return (in 2014 Q1) and subsequent consolidation of the annual inflation rate inside the flat target band[9], monetary policy will preserve its prudent stance in the period ahead. Therefore, over both the short and the longer term, the calibration of the monetary policy instruments, including the NBR's key interest rate, in the context of setting the adequate real broad monetary conditions, will be tailored primarily to the strength of disinflationary pressures coming from the negative output gap – which is seen widening in the short term and remaining significant thereafter – as well as to the behavior of medium-term inflation expectations and to the risks thereto. At the same time, a key role in substantiating the central bank's decisions will further play the likelihood of major risks to the medium-term inflation outlook materializing, on one hand, and the features of the monetary policy transmission mechanism and hence of lending to the private sector, on the other hand.

The viability and effectiveness of such a monetary policy configuration are however conditional upon ensuring faster and more in-depth implementation of structural reforms, as well as preserving the firm carrying out of fiscal consolidation measures, alongside stepping up efforts to attract EU funds, in line with the commitments assumed under the (ongoing and possibly future) arrangements with the EU, the IMF and the World Bank. These are of the essence in preventing an increase in the sovereign risk premium and hence in achieving the medium-term price stability, as a prerequisite for attaining lasting and sustainable economic growth.

[8] Major risks stem from the persistence of uncertainties surrounding (i) economic and financial developments in the euro area (affecting the RON exchange rate movements, external funding availability and costs, as well as the pace of domestic economic recovery), (ii) the scale of administered price adjustments, and (iii) medium-term developments in global agri-food commodity and energy prices.

[9] According to the latest NBR quarterly projection published in the February 2013 Inflation Report.

3. ECONOMIC OUTLOOK

3.1. GLOBAL ECONOMY / TECHNICAL ASSUMPTIONS

Weak economic activity at end-2012 is a low starting point for the current year. This, in conjunction with slower than expected economic growth, is adding to a moderate prognosis of GDP annual increase in 2013, of only 0.1% in EU and dropping by 0.3% in the Eurozone, according to the EC winter forecast. GDP's quarterly performance is somehow higher than suggested by annual figures, with the EU GDP expected to be, in Q4 2013, 1.0% higher compared to the last quarter of 2012, while in the Euro zone, the GDP is expected to grow by only 0.7%.

While economic outlook is still, for the main part, affected by negative trends, the risk has been shared in a more balanced way. Actual implementation of consolidation policies for the economic and monetary union, favoring the required adjustments, is crucial to remove the risk of a new aggravation of the sovereign debt crisis. In this context, in 2014, the public debt in the Euro zone is expected to stabilize. The economy will pick up in the beginning due to a higher foreign demand, with the internal consumption and investments expected to grow later during the year and become, before 2014, the main driver for the consolidation of GDP growth. The contrast between the better standing of financial markets and the modest 2013 macroeconomic outlook comes mainly from the balance sheet adjustment process, which continue to have a negative impact on the economic growth in the short run. As this process will advance, it will also consolidate the economic growth premises for 2014, which is estimated at 1.6% in EU and 1.4% in the Euro zone.

In addition, in its 2013 winter forecast, the European Commission revised downwards the projections of the 2012 fall, estimating for 2013 a global economic growth lower by 0.1 percentage points, i.e. 3.2 % and keeping the growth rate at 3.9% in 2014, as in the autumn forecast. Moreover, EC estimations included in the macroeconomic scenario take into account an increase of the global economy, EU not included, of 4.0% in 2013, with a moderate acceleration up to 4.5% in 2014.

Against the background of a stabilizing economy at global level, 2013 projections for non-EU states show the trade growing by approximately 4.5% in 2013 and 6% in 2014.

In line with the EC winter forecast, the oil price in dollars will slightly increase by 1.7% in 2013 compared to 2012 to reach 113.7$/barrel, but in 2014 it will drop by 6.4% to 106.4$/barrel.

On the other hand, projected prices for other raw material remain mostly unchanged compared to the autumn forecast, with, however, the price of metals slightly picking up in 2013.

3.2. CYCLICAL DEVELOPMENT AND CURRENT PERSPECTIVES

Current perspectives

2012 was affected, on one hand, by the severe drought with negative effects on the crops, and a low absorption of structural funds following the interruption of several programs and, on the other hand, by the Euro zone downturn cutting foreign demand. Under these circumstances, the GDP grew by 0.7%.

2012 GDP quarterly figures show ups and downs, with a 0.4% increase in Q1 and a 1.9% increase in Q2, followed by a drop of 0.5% in Q3and again a hike of 1.1 % in Q4, compared to the respective quarters of the previous year.

Domestic demand in 2012 was the main factor, of which the gross fixed capital formation increased by 4.9%, while the final consumption increased by 1.2%. Privation consumption expenditures went up by 1.1% and the government consumption expenditures by 1.7%. After two years of important increase, exports of goods and services went down by 3.0%, while imports of goods and services dropped by 0.9%, in real terms. As a consequence, net export helped the decrease of the gross domestic product with 0.8 percent.

On the supply side, the service sector was the growth driver, with gross value added increased by 4.8%. Gross value added in agriculture went down by 21.6% compared to 2011, while it dropped by 1% in industry sector and by 0.3% in constructions sector.

Given the foreign economic context and the economic and financial performance in the Euro zone, the forecast scenario takes into account a GDP increase by 1.6% in 2013. Information is still pessimistic about the economies of other countries of the European Union, showing a continuation of the economic crises and an economic slowdown, which can indirectly impair the economic growth in Romania.

Domestic demand will continue to be the growth driver in 2013. Gross fixed capital formation is expected to perform at a 3.5% rate. Private consumption expenditures will go up by 1.9%, following the increase of the population's disposable income. Government consumption, which includes individual and collective consumption, will increase by 1.6%, while preserving budgetary constraints and continuing structural reforms to reach the budget deficit target.

Exports of goods and services are expected to grow moderately, by 1.0%, in particular due to a cut of EU Member States demand, while imports of goods and services will grow by 2.6%.

On the domestic supply side, for 2013 an increase in the gross value added is expected in all sectors. In agriculture, gross value added is expected to see the highest growth rate, i.e. 8.4%, after the sharp contraction in 2012. Gross value added in the constructions sector is projected to go up by 3.1%, more than the economic growth rate. Services are also expected to have a positive contribution to the increase of the gross domestic product, due to gross value added raising by 1.1%, with the industry sector continuing to grow, but at a slower pace of 0.8%.

In 2012, both the exports and imports of goods dropped by 0.5% compared to the previous year. The resulting trade deficit (FOB-FOB) was only 7.4 billion Euros. Over 90% of the exported goods are coming from the industry sector with high value added.

The current account of the balance of payments saw a decreasing deficit by 13.2%, down to 5.2 billion Euros, accounting for 3.9% of GDP. The current account deficit was covered 33.9% from FDI, which reached 1.7 billion Euros, down by 6.7% compared to 2011.

In the first two months of 2013, the exports increased by 8.1% compared to the same period of 2012, with imports increasing by only 1.3%. Under these circumstances, the FOB-FOB trade deficit dropped by 72.7% compared to the registered one in the first two months of 2012.

The current account of the balance of payments had a surplus of 327million Euros, compared to the 657 million Euros deficit seen in the first two months of 2012. This performance of the current account was in principal the result of the registered surplus of the service balance in amount of 152 million Euros and of an increase in the surplus of current transfers balance by 187 million Euros. Foreign direct investments amounted to 163 million Euros compared to 192 million Euros in the first two months of 2012.

Considering the economic performance of Romania's main foreign trade partners, which makes foreign demand to be relatively moderate, we estimate that exports of goods in 2013 will go up by 3.7%, while imports of goods will increase by 4.5%. In this context, the share to GDP of FOB-FOB trade deficit will increase by 0.2 percentage points compared to 2012 (5.8% as against 5.6%). Intra-Community exports as well as exports outside the Community will increase by 3.5% and 4.2% respectively, while imports will raise by 5.0% and 3.1%, respectively.

The current account deficit of the external balance of payments is expected to remain within sustainable limits, at 3.9% of GDP, and is to be fully covered from autonomous non-interest sources.

At end-2012, the annual inflation rate reached 4.95%, which is by 1.81 percentage points above the level seen in 2011. In terms of annual average, the inflation was under the previous year's average by 2.46 percentage points, reaching the level of 3.3%, which was due to the positive performance of consumer prices in the first year half.

The advance of consumer prices was the result of aggregated shocks on the supply side, of which the most important was the increase in food prices, generated by a lower farming output, both domestic and international, due to adverse weather conditions.

As a consequence, the highest price hike compared to end-2011 was seen in food products category, with prices increasing by 6.21%, which is by 1.26 percentage points above the inflation level.

An additional shock came from the administered prices, with important increases in prices for electricity (+13.02%), water, sewerage, sanitation (+6.8%) and gas (+5.23%).

However, due to a persisting demand deficit, the increase of non-food prices and service tariffs was below the total inflation at year end.

The depreciation of the domestic currency by 1.3 percentage points had a negative impact on the consumer prices, with imported goods and prices of all goods and services connected to the European currency having an additional contribution to the inflation performance.

According to most recent data published by NIS, consumer prices in went up by 1.72% in March 2013 compared to December 2012, due to non-food price increase of 2.4%. Annual inflation in March 2013 reached 5.25%, higher by 2.85 percentage points compared to March 2012.

Inflation is expected to remain low in 2013, and reach 3.5% end-of-year, with an annual average of 4.3%. Aggregated demand is expected to remain at modest levels and have a positive impact on the inflation in 2013, along with a better agricultural year.

However, the EUR/RON exchange rate, if above the previous year's average, may put pressure by pushing up the prices for imported goods and the prices of goods and services which are linked to the European currency.

Employment, according to national accounts[10], went up by 1.9 per cent in 2012 compared to 2011, with both the number of employees and the number of self-employed increasing by 1.9%. The number of employees went up in most economic sectors, with a few exceptions such as the service sector (real estate transactions, financial intermediation, public administration and defense).

In 2013, due to an acceleration of economic growth, employment is expected to increase by 0.5%, with employees raising by 0.7%.

ILO unemployment rate was 7.0 per cent in 2012. Employment rate among the population aged 20 to 64 was 63.8%, only by 6.2 percentage points far from the 70% target set in Europe 2020 Strategy.

Cyclical developments

In terms of methodology, we need to point out that the method used by the National Commission for Prognosis estimates the potential employment by taking as basis the population at working age and applying the activity rate of the working age population (the trend of which is calculated using the Hodrick-Prescott filter), with the unemployment rate trend determined by using the same filter.

[10] The persons (employees and self-employed) involved in a production activity according to the European System of Accounts (ESA), namely resident and non-resident persons working in resident production units.

In 2012 – 2016, potential GDP levels are lower than before the crisis, with their composition revealing the positive contribution of all factors.

Table no. 1

FACTORS CONTRIBUTION TO POTENTIAL GROWTH					
			Contributions - % -		
	GDP	**Capital**	**Labor**	**TFP**	**Output Gap**
2012	**1.7**	1.7	0.1	-0.1	-2.1
2013	**2.1**	1.7	0.3	0.1	-2.6
2014	**2.7**	1.8	0.6	0.3	-3.0
2015	**2.9**	1.6	0.7	0.6	-3.2
2016	**2.9**	1.5	0.8	0.6	-3.0

Source: NCP

One can notice that capital continues to have an important contribution to the economic growth potential, simultaneously with an increased contribution of the other factors.

The output gap is still negative and its trend is to go down in the medium term, in line with the proposed macroeconomic policy mix.

3.3. MEDIUM TERM SCENARIO

Considering the growth potential in 2014-2016 we expect the Romanian economy to take on at a higher pace, closer to its potential, with the possibility to see the gross domestic product in average by 2.7% annually. This scenario relies on an improvement in all sectors, in particular the industry branches with a high export potential, and constructions sector which may take advantage of the infrastructure needs in all areas.

Table no. 2

MACROECONOMIC PROJECTIONS					
	2012	**2013**	**2014**	**2015**	**2016**
			Percentage Changes %		
Real GDP	0.7	1.6	2.2	2.8	3.0
Private consumption expenditures	1.1	1.9	2.1	2.1	2.0
Public consumption expenditures	1.7	1.6	1.4	1.3	1.4
Gross Fixed Capital Formation	4.9	3.5	6.0	6.7	7.3
Exports of goods and services	-3.0	1.0	3.1	5.1	6.3
Imports of goods and services	-0.9	2.6	4.9	5.7	6.6

Source: NCP

With an estimated annual average of 3.2 per cent, the domestic demand will be the driver of performance. The gross fixed capital formation will speed up as the priority infrastructure projects will be better financed, at an average annual pace of 6.7%. Private consumption expenditures will go up, in average, by 2.1% due to an increase of available income and a higher confidence in the economic climate, while the government consumption expenditures, including individual and collective government consumption, will grow in average by about 1.4%, thus triggering a smaller share to GDP of those expenditures and improving the efficiency of budget expenditures. Exports and imports of goods and services will grow, in real terms, by an annual average of 4.8% and 5.7%, respectively, with a negative impact of net exports on the gross domestic product which will raise at a slower pace.

Economic growth in this interval will be helped, on the domestic supply side, in principal by the constructions and services sectors, with the gross value added raising in average by 5.4% and 2.5%, respectively, every year. Performance in industry will speed up, at an average annual rate of 2.4%. After an increase of 8.4 per cent in 2013 as a basic effect – the sharp decrease in 2012 – the agriculture is expected to grow, in the following years, by 1.3%.

Considering the global economy performance in the upcoming period, for the interval 2014-2016 average annual increases are estimated for exported goods (6.5%) and imported goods (7.6%). Therefore, the share to GDP of the FOB-FOB trade deficit will see an ascending trend and reach 7.1% in 2016. Intra-Community exports are expected to reach an average annual pace of 6.4% while intra-Community imports are estimated at 7.8%. Exports and imports outside the Community are expected to go up in average by 6.9% and 7.2%, respectively.

The current account deficit will remain within a range between 5.4 – 6.9 billion Euros, with a share to GDP reaching 3.9% in 2013 and 4.1% in 2016, being fully covered, for the whole interval, from autonomous non-interest sources.

Inflation trend will continue to descend in 2014-2016, including both annual and average inflation rates. The process of cutting inflation will be supported by a firm conduct of the monetary policy and the other components of the economic policy mix (tax and revenues policies). Estimations are based on normal years for the agriculture and a low volatility of the international oil price.

In addition, a gradual reduction of excise duty increase, along with a prudential wage policy and continued structural reforms will help keeping disinflation on a sustainable path. Thus, the inflation rate is to fall down to 2.3% in 2016, with an annual average of 2.5%. Moreover, the fact of continuing the disinflation process will help discourage more the inflationary expectations. Another efficient way of anchoring the inflationary expectations is the domestic currency picking up, in real terms, compared to Euro. This will be possible if we take into consideration the perspective of a more accelerate increase of productivity in the Romanian economy, compared to the country's main foreign partners. The exchange rate impact will be modest and it will be to support the disinflation process. Hence, a slight nominal appreciation of the RON against the Euro was taken into account.

Employment, according to national accounts, will go up in 2014 – 2016, in particular as a result of the higher number of employees. Labor productivity will improve due to a more rapid increase of the gross domestic product compared to the increase of the employment. Compensation per employee will go up, but the share of employees' compensation (D1) in the gross value added will go down from around 41.9% in 2013 to 41.5% in 2016.

ILO unemployment rate will go down to 6.6%, simultaneously with employment rate among the population aged 20 to 64 increasing to 65%.

3.4. SECTORAL BALANCES

In 2012, the current account of the balance of payments saw a deficit decreasing by 13.2% compared to 2011, reaching to a share in GDP of 3.9%. The current account deficit was 33.9% financed by foreign direct investments, which were lower by 6.7% compared to 2010 when they amounted to 1815 million Euros. However, the current account deficit was fully covered from autonomous non-interest sources, in particular of the nature of portfolio investments which amounted to 3785 million Euros.

In the first two months of 2013 the current account of the balance of payments had a surplus of 327 million Euros, compared to a 657million Euros deficit in the same interval of 2012. This was due to the service balance shift to a surplus and increase of the current transfers balance surplus.

In 2013 the current account deficit of the foreign balance of payments is expected to stay in a sustainable interval, so as to remain at 3.9% of GDP, and it will be 100% covered from non-interest bearing autonomous sources.

In the medium run, the current account deficit will remain at a level between 6.4 – 6.9 billion Euros, with a share to GDP of 4.3% in 2014 and 4.1% in 2016. The share of external deficit to GDP, capital account included, will reach about 2.6% in 2014-2016, due to a higher contribution of the capital account. FDI are expected to go up from 3.1 billion Euros to 4.3 billion Euros in 2014 – 2016.

4. GENERAL GOVERNMENT BALANCE AND DEBT BALANCE

4.1. STRATEGIC POLICIES

Romania wishes to continue the fiscal consolidation process, but this time based on a new budgetary vision, in which the revenues increase pace is higher than the expenditure increasing pace, which will be acquired by a new fiscal consolidation package.

Policy mix will be based on:

1. Tax base extension and implementation of the solidarity principle.
2. A tighter budgetary discipline by cutting waste of funds in the expenditures of the headquarters and by paying arrears of the health sector, transport infrastructure and local administration.
3. Public investment reform by a substantial increase of funds allocated for co financing European-funded projects and allocation or own resources to prioritize, in 2013, investments with a high rate of execution and which may be completed by 2014.
4. Improvement of multi-annual budget planning for 2014-2016.
5. Transparency in using public money and use of best budget reporting practices.

4.2. BUDGETARY POLICY IN 2012 AND 2013[11]

2012 Budgetary policy

The fiscal consolidation process continued in 2012, with the budget deficit going down by over 40% compared to 2011, i.e. from 4.3% of GDP to 2.5%.

Table no. 3

CASH BUDGET DEFICIT				
		2011	**2012**	**2012 compared to 2011**
Deficit	**million RON**	-23,898.6	-14,773.9	9,124.6
	% of GDP	-4.3	-2.5	1.8

Source: MoPF

The general government revenues, in 2012, amounted to a total of 193.1 billion RON, accounting to 32.9% of GDP and an achievement rate of 97.1% compared to annual estimates.

[11] If no otherwise required, the numbers in this section are according to cash method.

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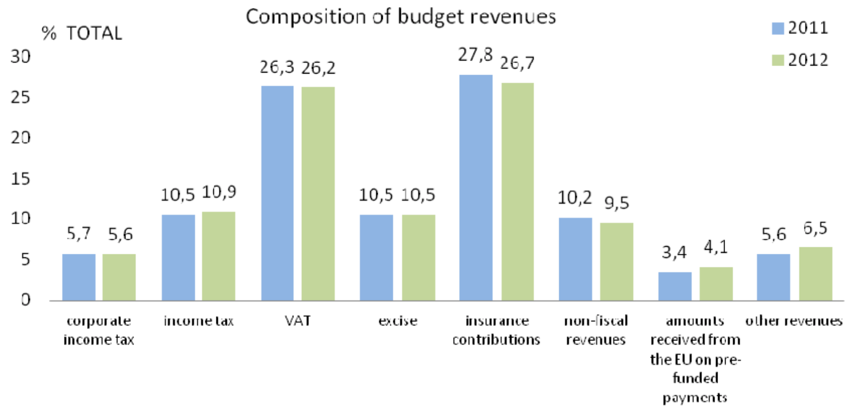
With regard to the annual collection plan, the main budget revenues performed as follows: **corporate income tax 98.8%; income tax 98.5%; VAT 97.6%; excise duties 98.4%; insurance contributions 101.1%**; and **non-fiscal revenues 98.8%**.

A less good performance compared to the annual estimates were seen for the **EU reimbursements,** with an achievement rate of only 71.7%.

Budget collections were influenced by economic developments and the adopted fiscal policies decisions, such as the increase of minimum wage, the increase of wages in the public sector, revision of calculation base for health contributions payable by pensioners, revision of excise duties rates and the temporary interruption of EU disbursements following deficiencies of previous years.

Chart no. 1



Source: MoPF

Compared to previous year, **the general government revenues** saw a positive performance in 2012, with a nominal increase of 6.2% and their share to GDP raised by 0.2 pp from 32.7% in 2011 to 32.9% in 2012.

The nominal increase in revenues compared to 2011 was mainly triggered by the collections in corporate income tax (+5.3%), the wage and personal income tax (+9.9%), VAT (+ 5.4%), excise duties (+6%), insurance contributions (+2%), other taxes and fees on goods and services and remittances and EU reimbursements according to payments made under specific projects (+22.4%).

A performance under the 2011 level of collections was seen in principal in the case of capital income (-15.1%) and non-fiscal revenues (-1.3%).

Collections from **income tax** raised as a result of an increase in the number of employees and of the gross average wage income, as well as the change in the calculation base of pensioner health insurance contributions.

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Collections from **excise duties** raised by 6% following an increase in the excise duty rates for diesel oil, cigarettes and the higher exchange rate.

Collections from **other taxes and fees on goods and services** went significantly up in 2012 compared to the previous year, after the quarterly contribution for covering various expenditures in the health sector started to be transferred in 2012.

Collections from **charges on the use of assets, licenses for using assets or running various activities** went up 46.4% compared to the previous year, following the collection in 2012 of 921.6 million RON in license fees for the use of radio frequencies, according to Government Decision 605/2012.

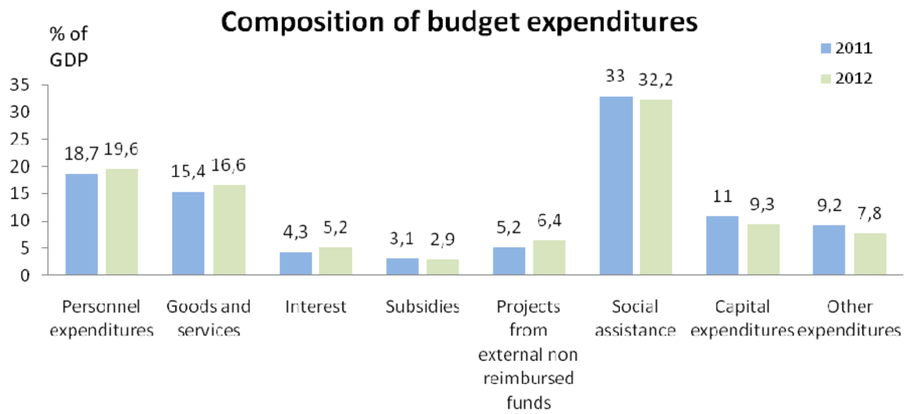
Collections from **insurance contributions** went up 2% following the increase of the number of employees, the gross average salary income and the minimum wage.

Reimbursements from EU amounted to 8 billion RON, i.e. and increase by 30.6% and a share to GDP of 4.1%.

General government expenditures in 2012 amounted to **207.9 billion RON** in total, which accounts for 35.4% of GDP with an achievement rate of 97.8% compared to estimates.

With regard to the targets set in the annual plan, the main categories of budget expenditures performed as follows: **staff expenditures 99.5%; goods and services 100.3%; interest expenditures 100.2%; subsidies 108.6%; social assistance 99.4%; expenditures on loan-funded programs 86.5%.**

Chart no. 2



Source: MoPF

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Compared to the same interval of the previous year, **the general government expenditures** saw a nominal increase of 1%, however they went down by 1.6 pp as share to GDP, from 37% in 2011 to 35.4% in 2012.

In 2012, **subsidies** went down by 4.4%; **social assistance** by 1.4% and **expenditures under loan-funded programs** by 23.6%.

The general government expenditures went up 6.2% in 2012 compared to the previous year, after the salaries in the public sector were increased by 8 per cent in July and following the enforcement of various court rulings granting salary entitlements.

Employment restrictions and some bonuses restrictions in the public sector were maintained in 2012.

Expenditures with goods and services went up in nominal terms by 8.4% compared to the previous year, while their share to GDP raised by 0.2pp. The increase was seen mainly in local administrations and in the health budget, following payments for medical services and pharmaceuticals.

Interest expenditures went up by 20.6% compared to the previous year, due to higher budget deficits accumulated from previous years and loans contracted to cover those deficits, which meant an additional effort for the payment of principal and interest.

Investment expenditures including capital expenditures and expenditures under the development programs financed from domestic and foreign sources amounted in 2012 to 35.5 billion RON, accounting for 6% as GDP share.

2013 Budget Policy

Economic growth in 2013 was estimated in a conservative way at 1.6%, to reduce the risk of a negative budget revision in case of any turmoil on the foreign markets.

The fiscal policy is targeting a structural deficit of 1.5 of GDP in 2013, compared to 4.2% of GDP in 2011 and 2.4% of GDP in 2012.

After 2012, the accent in the fiscal policy has been moved on targeting the structural balance, and this will allow the fiscal policy to play the role of a stabilizer for the entire economic cycle, which is possible by the implementation of the institutional framework required by the recent Fiscal Treaty – an important instrument strengthening the fiscal discipline and making policies.

Measures stimulating growth:

- Increase population revenues by: indexation of pension benefits by 4%; start paying the 7.4% wage increase in the public sector; increase minimum salary to 750 RON on February 1 2013 and further to 800 RON as of July 1 2013.
- Improve investment efficiency by directing the funds mainly to co-finance EU-funded projects;

- Create jobs: a net increase of 55 thousand jobs has been included in the 2013 budget draft.
- Pay arrears: resources are made available in the private sector and confidence will be restored with respect to market mechanisms, as the measure will help boost liquidity in the economy.
- Continue to release state aid for investments in the economy:
  - → State aid scheme to stimulate economic growth by helping investments;
  - → State aid scheme for a sustainable economic development. It applies to large companies and SMEs which make investments;
  - → State aid scheme for investments which promote regional development by using new technologies and creating jobs;

Measures to be implemented on the revenues side:

The new fiscal package which is the foundation of the budgetary construction brings a plus of 2.9 billion RON, of which 1.8 billion RON were allocated to increase investment expenditures and 1.1 billion RON were used to cut the 2013 budget deficit.

Main measures:

- The amortization expenses for passenger vehicles will be deducted only up to 18,000 RON/year, on an individual basis;
- The taxation base for the revenues from farming activities will be revised, by introducing revenue thresholds;
- The special charge for the transport of electricity and gas will be introduced (1RON/MW);
- Contribution (tax) on additional revenues from deregulation of natural gas prices;

Main measures to be implemented on the expenditures side:

Table no. 4

	Nominal increase in 2013 compared to 2012 – billion RON -	Clarifications
Total expenditures, of which:	14.8	
Staff expenditures, of which: - restoration of wages after the 25% cut;	5.4	In 2013 wages are maintained at the level of December 2012, which includes the 7.4% increase which covers the full restoration of the 25% cut. Employment policy in the private sector is still restrictive, in the sense that until the administrative reorganization is completed the “one in seven” rule is still in force subsequently every vacated position can be occupied.

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- second installment of the payments allowed in court rulings	0.9	The 2013 staff expenditures of the general government includes the 0.9 billion RON to cover the second tranche of **10% of the courts rulings issued in favor of the public sector employees,** representing salary entitlements. Hence, the maximum number of positions in the public sector to be financed in 2013 will be 1,187,000. The employees of the public sector will not receive meal tickets, holiday bonuses of gift bonuses.
Goods and services	2.8	This increase covers the arrears of the health sector following the implementation of the EU Payments Directive aimed at fighting delays in commercial transactions.
Social assistance	2.9	Pension point to be increased by 4%.
Cofinancing	4.0	This increase comes from the need to support investment projects which are funded with EU funds, which otherwise would have been covered from own budgetary sources which requires an additional budget effort given the constraints in the economy.

Source: MoPF

Special attention was paid to provide financial, procedural and contractual conditions for prioritized infrastructure projects in the sense of starting and finalizing as soon as possible the major investments which have an immediate economic and social impact and could solve severe problems which influence in a significant way people's living quality and the capacity of companies to run business in Romania.

- ✓ 2013 investment expenditures amount to 36.9 billion RON, i.e. 5.9 % of GDP, but in 2014-2016 they account for 6.5-7.8 % of GDP compared to 6.5-6.0 % of GDP in 2010-2012;
- ✓ 2013 investment expenditures account for 16.6% of total budget expenditures and follow the efficiency criterion; in 2016 these expenditures will reach 21.8%.

4.3. MEDIUM TERM BUDGETARY OUTLOOK

The broad purpose is to reach MTO in 2014, with a structural deficit below 1% of GDP, after the removal of the excessive deficit procedure expected in 2013 (ESA deficit below 3% of GDP). If the investment clause is approved and given the aforementioned budgetary outlook, Romania would express the intention to set up the investment clause, allowing an increase of the structural deficit up to 0.3% of GDP, representing the national co-financing of investment projects financed from European funds.

The Government's fiscal consolidation elements in the medium run are:

For revenues:

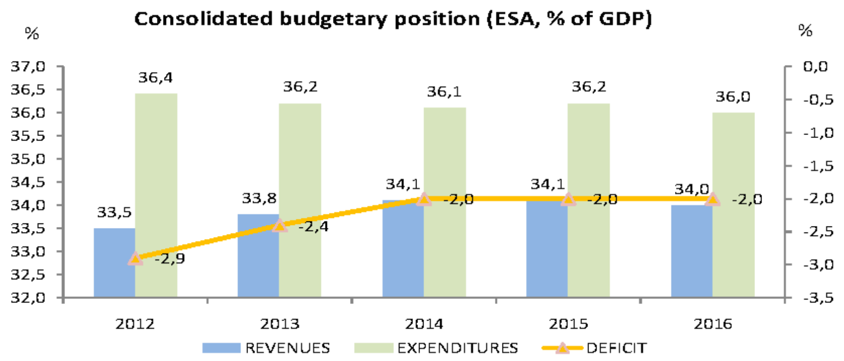
- Extend the taxation base;
- Simplify the taxation system;
- Boost revenues collection;
- Cut tax evasion.

For expenditures:

- Provide a sustainable level of expenditures with wages and pension of the public sector;
- Channel available resources to public investments in infrastructure, agriculture and rural development, energy and advances technologies;
- Speed up EU funds absorption to reach a rate of absorption ranging between 50% and 80% in December 31 2015;
- Reshape public procurement on the basis of opportunity, prioritization and efficiency criteria;
- Implement multi-annual program budgeting which will trigger important budget savings and a higher predictability and efficiency in spending public money;
- Introduce performance-based contracts across public institutions and SOEs (ministries, government agencies, local governments and SOEs).

4.4. CONSOLIDATED BUDGET POSITION (ESA, %GDP)[12]

Chart no. 3



Source: MoPF

[12] The formula between revenues-expenditures =balance may show differences resulting from round-ups to one decimal.

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4.5. MEDIUM TERM TAX MANAGEMENT

The National Agency for Tax Administration continues to intensify efforts and actions to fight tax evasion and secure the financial resources for a sustainable development. In 2012, an economically difficult year, NATA increased collections by 0.4 pp of GDP, at a growth pace 6.5% higher compared to the previous year. Permanent efforts reflected in an increased degree of voluntary compliance in reporting of 2.9% (reaching 90.4%), payment compliance by 1.9% while the general expenditures for 1 collected RON dropped by 2.9%.

Two important measures stand in front of the agency in 2013, which were assumed including with the IMF, namely:

> Reorganize the agency's network by introducing the regional level; and

> Approve the agency's modernization plan (which is developed in partnership with the World Bank).

<u>Medium Term Objectives:</u>

Measures preventing tax evasion

- Intensify monitoring of high risk areas;
- Customs Authority to take on a number of investigations of crimes in the customs area, in line with Naples II Convention;
- Provide taxpayers with a consistent treatment, linked to their voluntary compliance;
- Develop IT applications for tax audits;
- Improve and update the database of identified cases;
- Implement enforcement measures, in particular seizures, in a more dynamic way.

Measures fighting tax evasion

- Run audits of high net wealth individuals and real estate transactions;
- Fight the practice of undeclared work and under-declared social contributions;
- Fight VAT frauds, in particular intra-Community fraud (improve the activity of the tax anti-fraud task force);
- Implement the e-commerce audits;
- Identify taxpayers which run a business without being registered;
- Start a compliance risk register;
- Strengthen customs controls.

Improve collection efficiency; boost voluntary compliance

- Reduce existing arrears and prevent new arrears;

- Introduce electronic garnishment of third parties – have the system up and running across the country;
- Introduce standards for the activity of enforcement compartments;
- Encourage on-line filing and payments;
- Control and improve the quality of taxpayer services; build-up a service quality policy;
- Introduce quality standards for services which are provided and optimize business processes;
- Introduce electronic tax files;
- Organize electronic auctions of seized assets;
- Continue to implement a stable system of installment agreements for taxpayers facing temporary shortages of funds;
- Improve capitalization of assets resulting from enforcement procedures, insolvency procedures and introduce joint liability;
- Provide the Rapid Printing Unit with a centralized report of amounts subject to garnishment procedures.

Improve efficiency of own expenditures

- Reorganize the activity of local delivery units at regional levels (by creating the eight regional directorates);
- Establish the anti-fraud task force;
- Reorganize the staff to prioritize sectors facing staff shortages (audit, customs control, IT, legal, taxpayers assistance).

4.6. EU ACCESSION IMPACT ON PUBLIC FINANCE

EU allocations – multiannual financial framework

Grant absorption is one of the government's top priorities. Substantial funds allocated by EU (approximately 34.6 billion Euros) under the current multiannual financial framework (MFF) must be used at their best as this is a key resource for a short, medium and long term development of the Romanian economy and the Romanian society, at the same time a core element of budget sustainability in terms of investment strategies given the fact that those funds are not reimbursable.

4.6.1 ROMANIA'S NET FINANCIAL POSITION IN RESPECT OF EU BUDGET (2007-2012)

States use an instrument called "Net financial balance" to calculate their positions under the Community budget. As of its very first year after accession, Romania has been a net beneficiary, running a positive balance as in the below Table.

A still low absorption rate in respect of the cohesion policy requires additional funds from the Romanian authorities, an effort which becomes crucial in 2013.

Table no. 5

ROMANIA'S NET FINANCIAL BALANCE 2007-2012								
Row	Description	Achieved 2007	Achieved 2008	Achieved 2009	Achieved 2010	Achieved 2011	Achieved 2012	Achieved 2007-2012
1	**I. AMOUNTS FROM EU BUDGET** (A+B)	**1,578.17**	**2,615.51**	**2,895.47**	**2,258.17**	**2,583.57**	**3,388.84**	**15,319.73**
2	***A. Pre-accession funds***	**812.26**	**747.68**	**618.74**	**273.17**	**132.61**	**43.90**	**2,628.35**
3	***B. Post-accession funds***, *of which:*	**765.92**	**1,867.84**	**2,276.73**	**1,985.00**	**2,450.96**	**3,344.94**	**12,691.38**
4	***i)*** Advance payments	752.28	1,381.54	974.29	316.17	67.70	62.32	3,554.30
5	***ii)*** Reimbursements (including EAGF)	13.63	486.30	1,302.44	1,668.83	2,383.26	3,282.62	9,137.08
6	**B1. Structural and Cohesion Funds(SCF),** of which:	**421.38**	**648.45**	**917.84**	**505.54**	**708.36**	**1,170.92**	**4,372.49**
7	**a)** Advance payments from SCF	421.38	648.45	777.23	278.75	0.00	0.00	2,125.81
8	**b)** Reimbursed by SCF	0.00	0.00	140.61	226.80	708.36	1,170.92	2,246.68
Row	Description	Achieved 2007	Achieved 2008	Achieved 2009	Achieved 2010	Achieved 2011	Achieved 2012	Achieved 2007-2012
10	**a)** Advance payments (EAFRD+EFF)	15.13	578.75	0.00	7.12	0.00	0.00	600.99
11	**b)** Reimbursed (EARFD+EFF)	0.00	0.00	565.93	753.36	883.05	1,090.05	3,292.39
12	**B3. EAGF**	**6.89**	**461.87**	**575.93**	**663.78**	**768.95**	**991.27**	3,468.70
13	**B4. Other (post-accession),** of which:	**322.51**	**178.77**	**217.03**	**55.19**	**90.61**	**92.70**	**956.81**
14	***a)*** Advance payments	315.77	154.34	197.05	30.31	67.70	62.32	827.50
15	***b)*** Reimbursements	6.74	24.42	19.97	24.88	22.91	30.38	129.31
16	**II. PAID TO EU** (C+D)	**1,150.89**	**1,268.93**	**1,364.43**	**1,158.91**	**1,296.24**	**1,426.69**	**7,666.09**
17	**C. Contribution to EU Budget**	**1,129.13**	**1,246.78**	**1,315.49**	**1,109.25**	**1,234.26**	**1,405.57**	**7,440.47**
18	**D. Other contributions**	**21.77**	**22.15**	**48.94**	**49.66**	**61.98**	**21.12**	**225.61**
19	**III. Balance of flows = I - II**	**427.28**	**1,346.58**	**1,531.04**	**1,099.26**	**1,287.33**	**1,962.15**	**7,653.65**

Source: MoPF

4.6.2 EU ALLOCATIONS MULTIANNUAL FINANCIAL FRAMEWORK

2013 is the last year of the MFF. The next MFF will cover 7 years again (2014–2020).

Negotiations are underway, and we have obtained so far the European Council's consent (CONS)[13]. While the Member States' allocations will be known only after negotiations are completed, preliminary estimates in line with the approval issued for Romania on February 8, our country received the higher percentage increase of allocated funds, compared to the previous budget exercise (i.e. 18%), which amount now to 39,342 million Euros distributed across the main policies.

The below table shows a comparison of Romania's allocations under the new 2007-2013 financial framework compared to the previous one (2014-2020).

Table no. 6

ESTIMATED EU ALLOCATIONS UNDER THE MUTIANNUAL FINANCIAL FRAMEWORK		
	million Euros	
Instrument	**2014-2020MFF**	**2007-2013MFF**
Structural and Cohesion Funds	21,826	19,668
European Agricultural Fund for Rural Development	7,123	8,124
European Fishery Fund	n/a	231
European Fund for Guarantees in Agriculture	10,393	6,580
Total	**39,342**	**34,603**

Source: MoPF

4.6.3 MEASURES TO BOOST ABSORPTION OF STRUCTURAL AND COHESION FUNDS

1. Review, as a matter of urgency, and reallocate all funds available under European-funded programs to projects included on the reserve lists;
2. Reintroduce the strategic role of the Regional Development Council;
3. Implement local/county/regional strategies by prioritizing projects for which local governments are responsible in order to reach a more balanced regional development;
4. Promote legislation to cut red tape, clearly set responsibilities and tasks of all institutions involved in the management and control of EU funds, introduce a single framework for accessing such funds and for reimbursements, shorter time limits for reimbursements and conclusion of addenda to financing contracts, accelerate public procurements from EU funds by introducing the maximum priority concept in respect of publication of tender documents in the electronic system of public procurements (SEAP), introduce measures preventing financial corrections;
5. Ministry of European Funds measures (some of them are underway, other will be

[13] Member States reached a political agreement for the 2014-2020 MFF, after the CONS reunion held on 7-8 February 2013In line with article 312 par. 2 of the EU Treaty, CONS will request the European Parliament to approve the regulation for establishing the new 2014-2020 MFF. According to EP, CONS negotiations may start right after the adoption on March 13 2013, of the resolution regarding the 2014-2020 MFF which will also be the negotiation mandates for this institution.

launched soon): revise payment procedure and expenditure certification procedure, issue, in a joint effort with the liner ministers, guidelines and orders which are directly applicable to MAs and IBs, the guideline regarding various best practices and identified errors within the public procurement sector will be finalized soon, in cooperation with DG Markt and DG Regio;

6. Continue to use the IFIs expertise (IEB, WB, EBRD);
7. Strengthen the administrative capacity of structures involved in the OPs management, with the Government to approve in Q1 of 2013 a plan to strengthen the administrative capacity (including time limits and performance indicators). The plan is to be submitted to EC, at a later stage;
8. In the long run, innovative formulas and alternatives are sought to help spend money in a more efficient way.

4.6.4 MEASURES TO BOOST ABSORPTION UNDER EAFRD

1. Revise NRDP to shift funds from low absorption measures to high and visible absorption measures.
2. Improve support to non-farming investments up to 85% under measures aimed at creating and developing small businesses and encouraging tourism activities.
3. Introduce the measure regarding the payment in favor of livestock welfare.
4. Use “over-contracting” which regulates the possibility to use in advance the amounts disbursed under the NRDP implementation process.
5. Introduce a draft piece of legislation to allow beneficiaries conclude addenda to financing contracts to budget funds meant to cover exchange rate variations.
6. Revise NRDP by introducing an additional instrument to the existing guarantee arrangements - subsidization of interest in respect of loans contracted by beneficiaries of private investments co-financed by EAFRD.
7. Optimize working procedures of NRDP Managing Authority, Paying Agency for Rural Development and Fishery, and Paying Agency for Payments and Interventions in Agriculture.
8. The Ministry of Agriculture and Rural Development is currently having discussions with the commercial banks to facilitate the access to loans of NRDP beneficiaries.

4.7. STRUCTURAL BALANCE AND FISCAL POSITION

The budget deficit and the cyclical deficit, as well as the potential gross domestic products were calculated (using the Cobb Douglas type production function) based on OECD and the European Commission methodologies, as described by van den Noord (2000) and Girouard (2005).

According to the above-mentioned methodology, the structural components of the budget are obtained by extracting the cyclical component from the current budget component, using the below formula:

$$CAB_t = B_t - B_t^C = B_t - \sum_j B_{t\ j}^C$$

The cyclical component of each category of revenues and expenditures ($B_{t\ j}^C$) is calculated by using the output gap and the estimated elasticity against GDP (α_j^{PIB}). The formula used to calculate the cyclical component is as follows:

$$B_{t\ j}^C = B_{t\ j} \times \alpha_j^{PIB} \times output\_gap_t$$

The results are illustrated in the below table:

Table no. 7

	2012	2013	2014	2015	2016
1. Real GDP growth (%)	0.7	1.6	2.2	2.8	3.0
2. Current Balance	-2.9	-2.4	-2.0	-2.0	-2.0
3. Net interest payments	1.8	1.9	1.9	1.8	1.7
4. Temporary and *one-off* measures	0.5	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)	1.7	2.1	2.7	2.9	2.9
6. Output Gap	-2.1	-2.6	-3.0	-3.2	-3.0
7. Cyclical component of the budget	-0.7	-0.9	-1.0	-1.0	-1.0
8. Adjusted Cyclical Balance	-2.2	-1.5	-1.0	-1.0	-1.0
9. Adjusted primary balance	-0.4	0.4	0.9	0.8	0.7
10. Structural Balance (8-4)	-2.7	-1.5	-1.0	-1.0	-1.0

Source: NCP, MoPF

After the 2008 pro-cyclical and expansionist policy, with a structural deficit increased to 8.3% of GDP, the deficit has started to decline in 2009. Structural deficit is estimated below 1 per cent of GDP in 2014-2016, allowing Romania to reach its medium term objective with a budget deficit stabilized at 2% of GDP, while the increase of the gross domestic product actually forecast will be, in average, 2.7%, and the increase of the potential gross domestic product, 2.8%.

5. EVOLUTION AND LEVEL OF DEBT[14]

5.1. PUBLIC DEBT AND DEBT MANAGEMENT STRATEGY

The Government Debt at end-2012, according to EU methodology, was 37.8% of GDP, well below the 60% ceiling established in the Maastricht Treaty. Hence, while in the end of 2011 the government debt accounted for 34.7% of GDP, at the end of 2012, against the background of the financing needs secured through the year and the developments on both domestic and foreign financial markets impacted by the EU sovereign debt crisis considered, this indicator went up to 37.8% of GDP, of which domestic debt accounts for 18.6% of GDP, while the foreign debt amounted to 19.2% of GDP.

In 2013-2016, the budget deficit will be covered, in a relatively balanced manner, from both domestic and foreign sources, in line with the objectives laid down in the 2013-2015 Government Debt Management Strategy 2011-2013, which are as follows:

i. Cover the government's financing needs and payment obligations, while minimizing medium and long term costs;

ii. Limit financial risks of the government public debt portfolio, especially by extending the average remaining maturity: and t;

iii. Develop a domestic market for government securities.

The strategy for financing the budget deficit from domestic sources and refinancing the government public debt in the interval under discussion will focus primarily on government securities issued on the domestic market, namely T-Bills and Benchmark Bonds in domestic and foreign currency with medium and long term maturities depending on market conditions and opportunities. The Ministry of Public Finance will issue 1-year T-Bills and 15-year or even longer benchmark bonds based on investor demand and 3 and 4 years bonds denominated in Euros. With the purpose of optimizing the government securities portfolio, the benchmark bonds issued in the previous years will be reopened up to an amount that will allow an increase of liquidity on the secondary market.

As regards external financing sources, these will come from Eurobonds which will be issued on the foreign capital markets as part of the Medium Term Notes Programme (MTN), and in addition by loans contracted with official lenders (IFIs and government agencies). MTN has become the main tool for accessing foreign financing on a medium and long term, in EUR as well as USD. MTN will continue and the government intends to increase its amount. Access to international capital markets in USD or other foreign currencies will be possible when the financial conditions will prove attractive compared to instruments denominated in Euros.

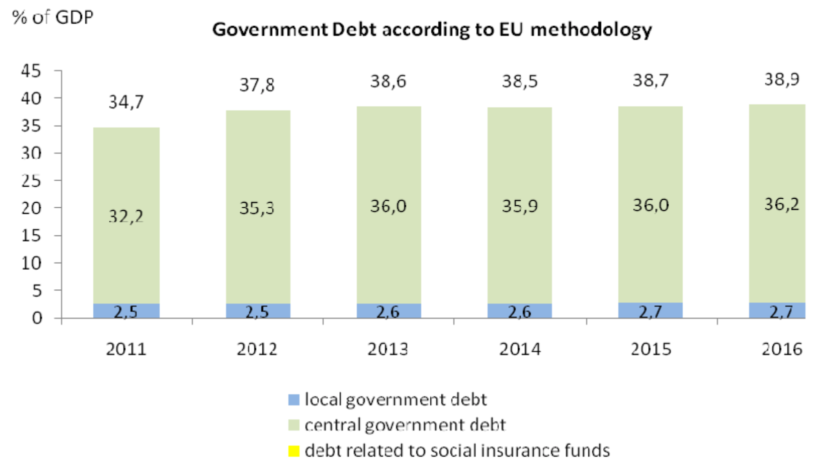
[14] All indicators in this section are in line with EU methodology.

Taking advantage of the opportunity window opened on the foreign capital market at mid-February 2013, MoPF launched an USD-denominated Eurobond issuance under MTN Program, in amount of 1.5 billion USD, with 10 years maturity and a 4.375% coupon. This is the lowest coupon ever for an USD-denominated Eurobond issued by Romania, which is an improvement from the 6.75% coupon obtained in January 2012.

The funds needed to refinance the government public debt will be provided on the markets were these debts were issued and part of it will be provided by the MoPF financial buffer in foreign currency. Starting in 2010, as a measure to improve debt management and avoid seasonal pressure in raising the funds needed to finance the budget deficit and refinance the debt, MoPF decided to establish a financial buffer in foreign currency equivalent to around 4 months of financing needs.

Thus, in 2013 – 2016, against the background on an average economic growth of around 2.4% of GDP and the deficits below 2.4% of GDP calculated according to the EU methodology, we estimate that the government gross debt ratio will not exceed the level of 39% of GDP, as illustrated by the chart below:

Chart no. 4



Source: MoPF

If we take into account liquid financial assets[15], the net government debt (gross government debt min us liquid financial assets) over the interval under review will not exceed 33%.

[15] AF1, AF2, AF3 (consolidated at market value), AF5 (if listed on the stock exchnage; including mutual funds shares).

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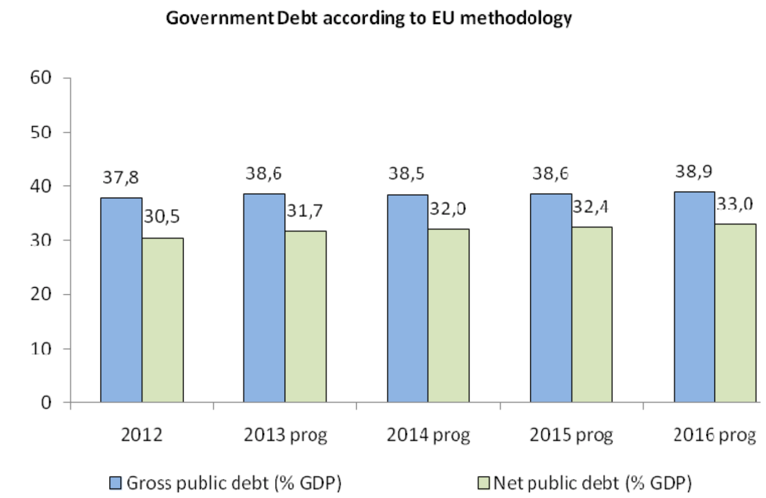
Chart no. 5



Source: MoPF

The factors contributing to the change of the government debt share to GDP in 2013-2016, including the stock-flow adjustments, are presented in Annex 4.

Public debt sensitivity[16]

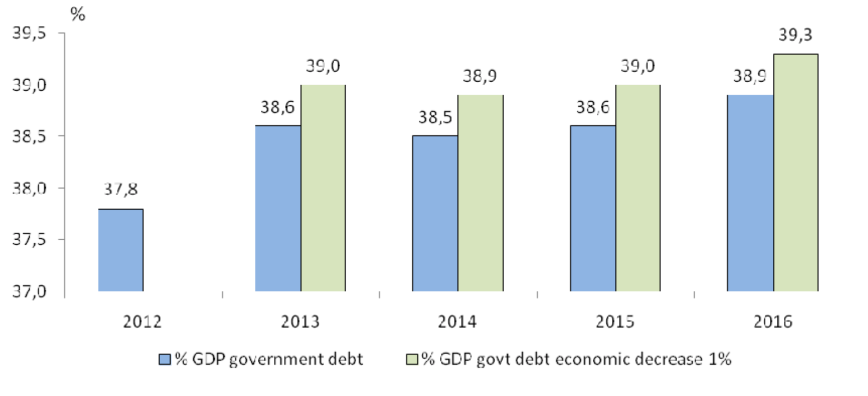
In this section we analyze the influence of economic growth slowdown on the GDP share of the government debt, the influence of the domestic currency depreciation against the Euro and of higher interest rates on the interest payments in respect of the government debt

1. The analysis of the economic growth's influence on the government debt balance in the basic scenario is conducted according to the projections included in the medium term macroeconomic framework, while the alternative scenario is built on the assumption of an economic growth lower by around 1% compared to the basic scenario.

[16] All indicators in this section are in line with EU methodology.

Chart no. 6

INFLUENCE OF SLOWING GROWTH ON THE GOVERNMENT DEBT



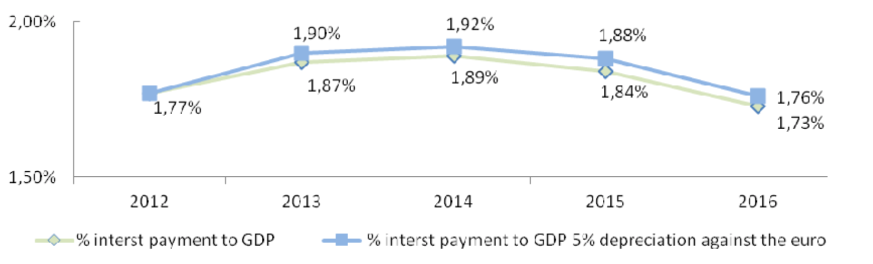
Source: MoPF

As is the above chart, the influence of an economic growth slowdown below expectations by 1% of GDP has a negative impact, which is relatively constant, on the indebtedness level raising by 0.4 % of GDP annually.

2. a) Impact of domestic currency depreciation on the interest payments in the basic scenario and the alternative scenario built assuming a 5% depreciation of the domestic currency against the Euro, the main foreign currency of denomination in the foreign government debt portfolio.

Chart no. 7

INFLUENCE OF DOMESTIC CURRENCY DEPRECIATION ON PAYMENT INTERESTS



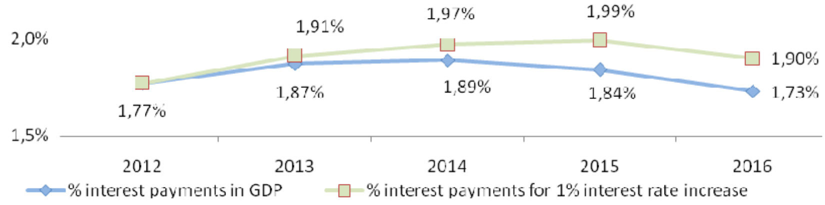
Source: MoPF

The above chart shows that the depreciation of the domestic currency against the Euro has a negative impact on interest payments, which grow by a rough 0.03% of GDP per year.

b) The influence of a higher interest rate on interest payments in the basic scenario and the alternative scenario built assuming an increase of interests rates for government securities and floating rates (Euribor and LIBOR) by 1% compared to the basic scenario.

Chart no. 8

INFLUENCE OF HIGHER INTEREST RATES ON INTEREST PAYMENTS



Source: MoPF

The above chart shows a negative interest rate impact on interest payments, which raise by up to 0.17% of GDP per year.

6. LONG TERM SUSTAINABILITY OF PUBLIC FINANCE

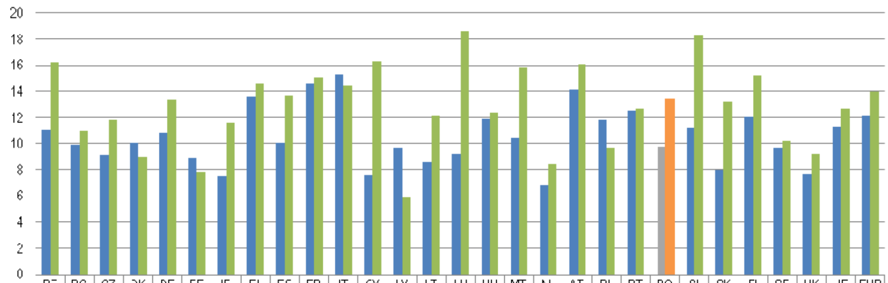
The 2012 Public Finance Sustainability Report approaches the viability of public finance in the EU Member States, taking into account the financial, economic and fiscal impact of the crisis which started in 2008 and the population ageing according to the Population Ageing Report.

In the case of Romania, the Report finds no sustainability-related risks on the short term, with a low risk on the medium term and a moderate risk on the long term, although population ageing costs are above the European average. Risks may go up if the primary structural balance goes back to the levels seen in 1998-2012. According to the European Commission, long term sustainability measures relate to the improvement of the primary structural balance by 3.7% of GDP to close the fiscal gap. Public debt is expected to be significantly below the reference level of 60% of GDP, but consolidation measures should be considered to limit the increase of costs related to the population ageing process (pensions in particular).

One should note the positive assessment compared to the 2009 Report when risks for Romania were seen as high in respect of long term sustainability, following the budgetary impact of expenditures generated by the population ageing process, which were far above the EU average.

The government debt (33.4% of GDP in 2011) is expected to grow to 34.8% in 2014, with the primary structural balance improving significantly from a deficit of 2.3% of GDP in 2011 to a surplus of around 1% of GDP in 2014.

Chart no. 9 – Pension expenditures in 2060 compared to 2010 (% of GDP)



	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	JE	EUR
2010	11,1	9,9	9,1	10,1	10,8	8,9	7,5	13,6	10,1	14,6	15,3	7,6	9,7	8,6	9,2	11,9	10,4	6,8	14,1	11,8	12,5	9,8	11,2	8,0	12,0	9,6	7,7	11,3	12,2
2060	16,2	11,0	11,8	9,0	13,4	7,8	11,6	14,6	13,7	15,1	14,4	16,3	5,9	12,1	18,6	12,4	15,9	8,5	16,1	9,6	12,7	13,5	18,3	13,2	15,2	10,2	9,2	12,7	14,0

Source: 2012 Sustainability Report

At EU level, the projected growth of budget expenditures was revised downward compared to the 2009 Ageing Report. In 18 of the 27 MS, the total variation of budgetary costs saw a descending trend in the interval between the two Reports. This reflects, to a high extent, the structural reforms in the pensions and health sectors implemented as of 2009.

For Romania, the projected increase of population ageing-related expenditures according to the latest sustainability report is **5.4 pp of GDP** for the interval 2010-2060 (above the European average of 2.9 pp of GDP). As a breakdown on main expenditure components:

- 3.7 pp of GDP is the increase of pension expenditures (European average is 1.4 pp)
- 2.1 pp of GDP is the icnrease of healthcare and long term care expenditures (European average is 2.0 pp).

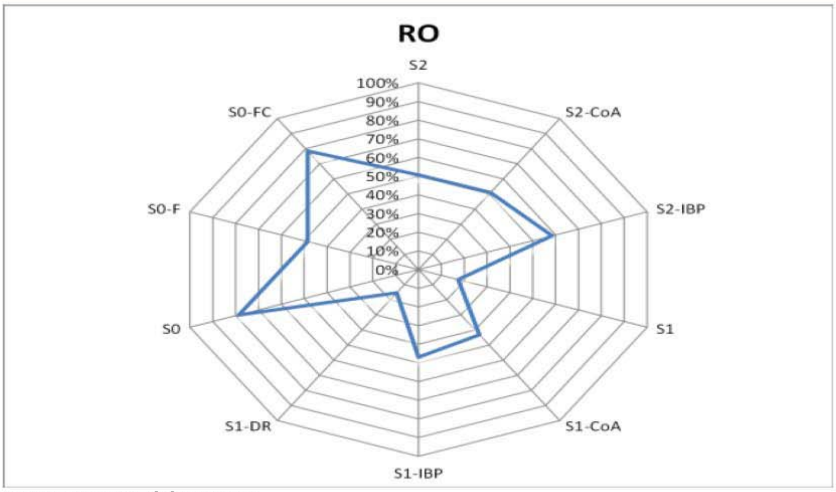
The ageing-related expenditure increase above the European average relates to: (i) an accelerated ageing process; (ii) indexation exclusively with the 2030 inflation; (iii) relatively low retirement age (63 for women; 65 for men).

In order to close the fiscal gap (S2 indicator) long term policies are required to strengthen sustainability, which are equivalent to an adjustment of the primary balance of 3.7% of GDP. This is an effort above the European average (de 2.6 %) which reflects the high ageing-related expenditures (+3.6 pp, of which 2.4 pp pensions), only partially offset by a favourable initial budgetary position (+0.1 pp).

The risk scenario (which assumes an accelerated increase of healthcare and long term care expenditures) indicates a good resilience of the 3 sustainability indicators.

Chart no. 10

DRIVERS OF FISCAL SUSTAINABILITY



Source: 2012 Sustainability Report

Legend:
COA: ageing cost component,
IBP: Initial budgetary position component,
DR: debt requirement component,
F: fiscal subindex,
FC: financial-competitiveness subindex.

In the above chart, the scale for each variable indicates the sustainability risk. The higher the values, the higher the risk.

Indicator S0 reflects the role of fiscal and financial competitiveness in creating a potential risk and its values are below the critical threshold for both the fiscal sub-index (0.1 compared to 0.34) and the financial competitiveness sub-index (0.43 compared to 0.46).

Indicator S1 – which is linked to the structural effort required to observe the 60% of GDP ceiling set for the public debt – is negative reflecting a low value of the public debt to GDP.

Indicator S2 indicates the immediate and permanent adjustment to match the temporal cosntraint, including ageing-related costs.

Compared to the 2009 sustainability report, **the progress is significant:** in 2009, S2 was 9.1% of GDP (4.2% of GDP was the initial budgetary position and 4.9% of GDP the cost of population ageing process). The difference of 5.4 pp from the 2012 level comes from the improvement of the initial budgetary position (-4.1 pp), and the lower ageing-related expenditures (-1.3 pp).

ANNEXES

Annex no. 1a – Macroeconomic projections

	ESA Code	2012	2012	2013	2014	2015	2016
		LEVEL [1] BILLION RON	CHANGES %				
1. Real GDP	B1*g	560.5	0.7	1.6	2.2	2.8	3.0
2. Nominal GDP	B1*g	587.5	5.5	6.1	6.0	5.4	5.5
REAL GDP COMPONENTS							
3. Private consumption expenditures	P3	356.4	1.1	1.9	2.1	2.1	2.0
4. Public consumption expenditures	P3	85.2	1.7	1.6	1.4	1.3	1.4
5. Gross Fixed Capital Formation	P51	151.7	4.9	3.5	6.0	6.7	7.3
6. Change in stocks and net acquisitions of goods (% of GDP)	P52+ P53						
7. Exports of goods and services	P6	216.2	-3.0	1.0	3.1	5.1	6.3
8. Imports of goods and services	P7	250.3	-0.9	2.6	4.9	5.7	6.6
CONTRIBUTIONS TO GDP GROWTH							
14. Final domestic demand			2.2	2.4	3.2	3.4	3.5
15. Change in stocks and net acquisitions of goods	P52+ P53		-0.7	0.0	0.0	0.0	0.0
16. Net exports	B11		-0.8	-0.8	-1.0	-0.6	-0.5

1) The actual level of GDP and its components are included in the previous year's prices

Annex no. 1b – Evolution of prices

	2012	2013	2014	2015	2016
			CHANGE %		
1. GDP deflator	4.8	4.4	3.7	2.6	2.4
2. Private consumption deflator	2.9	4.6	3.3	2.2	2.1
3. Harmonized index of consumer prices	3.4	4.0	3.0	2.2	2.0
4. Public consumption deflator	8.3	2.1	2.4	1.9	2.0
5. Investments deflator	3.4	3.6	3.0	2.0	2.2
6. Exports deflator (goods and services)	8.7	3.7	0.7	0.2	1.6
7. Imports deflator (goods and services)	6.0	2.9	0.6	0.1	1.6

Annex no. 1c – Labor market performance

	ESA CODE	2012	2012	2013	2014	2015	2016
		LEVEL THOUSAND PERSONS			CHANGE %		
1. Employment [1]		9,229	1.9	0.5	0.8	0.7	0.8
2. Employment, thousand hours worked [2]		16,929,674	-0.2	0.5	0.7	0.6	0.6
3. Unemployment rate -% [3]		701,2	7.0	6.9	6.8	6.6	6.5
4. Labor productivity[4]			-1.2	1.1	1.3	2.0	2.2
5. Hourly labor productivity [5]			0.9	1.1	1.5	2.2	2.4
6. Compensation of employees – million RON	D1	214,871	7.2	6.3	6.0	5.2	5.2
7. Compensation per employee - RON		34,497	5.2	5.6	5.0	4.4	4.4

[1] *Employment, the definition of the domestic concept in the national accounts*
[2] *The definition in the national accounts*
[3] *Definition approximated with Eurostat (Labor Force Survey – AMIGO)*
[4] *Real GDP per employed person*
[5] *Real GDP per hour worked*

Annex no. 1d – Sectoral Balances

% of GDP	ESA CODE	2012	2013	2014	2015	2016
1. Net balance, compared to rest of the world	B.9	-2.7	-2.2	-2.6	-2.6	-2.6
of which:						
- goods and services		-5.2	-5.4	-6.0	-6.2	-6.5
-balance of incomes and transfers		1.3	1.5	1.7	2.0	2.3
- capital account		1.2	1.7	1.7	1.6	1.6
2. Net balance of the private sector	B.9	0.2	0.2	-0.6	-0.6	-0.6
3. Net balance of government sector	EDP B.9	-2.9	-2.4	-2.0	-2.0	-2.0
4. Statistical discrepancy						

Annex no. 2 – General Government Projections

	ESA CODE	2012 LEVEL BILLION RONRON	2012 % OF GDP	2013	2014	2015	2016
Net Balance (EDP B9), by sub-sectors							
1. Consolidated Budget	S.13	-16,822.4	-2.9	-2.4	-2.0	-2.0	-2.0
2. Central Administration	S.131	-13,965.7	-2.4	-2.8	-2.2	-2.1	-2.0
3. State Administration	S.132						
4. Local Administration	S.133	-2,545.2	-0.4	-0.3	-0.2	-0.2	-0.1
5. Social Security Funds	S.134	-311.6	-0.1	0.7	0.3	0.2	0.1
Consolidated Budget (S13)							
6. Total collections	TR	196801.0	33.5	33.8	34.1	34.1	34.0
7. Total expenditures	TE[1)]	213623.4	36.4	36.2	36.1	36.2	36.0
8. Net Balance	EDP B.9	-16,822.4	-2.9	-2.4	-2.0	-2.0	-2.0
9. Interest	EDP D.41	10,396.8	1.8	1.9	1.9	1.8	1.7
10. Primary Balance[2)]		-6,425.6	-1.1	-0.5	-0.1	-0.2	-0.3
11. Temporary and one-off measures [3)]		3,021.0	0.5				
Selected Revenues Components							
12. Total taxes (12=12a+12b+12c)		112966.7	19.2	19.7	19.6	19.9	20.3
12a. Tax on output and imports	D.2	77,101.4	13.1	13.2	13.1	13.1	13.1
12b. Current tax on revenues, wealth, etc.	D.5	35865.3	6.1	6.5	6.5	6.6	6.6
12c. Tax on capital	D.91						
13. Social contributions	D.61	51,971.4	8.8	8.7	8.8	8.8	8.7
14. Income from property	D.4	4,573.7	0.8	0.8	0.8	0.9	0.9
15. Other[4)]		27,289.2	4.6	4.6	4.8	4.6	4.1
16=6. Total Revenues	TR	196801.0	33.5	33.8	34.1	34.1	34.0
p.m.: fiscal burden (D.2+D.5+D.61+D.91-D.995) [5)]							
Selected Expenditure Components							
17. Remuneration of employees + intermediary consumption	D.1+P.2	80,521.5	13.7	13.8	13.8	13.6	13.3
17a. Remuneration of employees	D.1	45,893.3	7.8	8.2	8.2	8.0	7.7
17b. Intermediary Consumption	P.2	34,628.2	5.9	5.6	5.6	5.6	5.6
18. Social Contributions (18=18a+18b)		74,360.0	12.7	12.2	12.2	12.0	11.8
of which, unemployment[6)]							
18a. Social Contributions in kind	D.6311, D.6312, D.63131	7,828.8	1.3	1.2	1.2	1.2	1.2
18b. Social Contributions, other	D62	66,531.2	11.3	11.0	11.0	10.8	10.6
19=9. Interest	EDP D.41	10,396.8	1.8	1.9	1.9	1.8	1.7

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	ESA CODE	2012 LEVEL BILLION RONRON	2012 % OF GDP	2013	2014	2015	2016
20. Subsidies	D.3	2,190.2	0.4	0.4	0.4	0.4	0.4
21. Gross Fixed Capital Formation	P.51	27,107.9	4.6	5.0	5.2	5.3	5.6
22. Capital Transfers	D.9	8,040.3	1.4	1.3	1.2	1.2	1.3
23. Other [7]		11006.7	1.9	1.6	1.5	1.8	1.9
23=7. Total Expenditures	TE1	213623.4	36.4	36.2	36.1	36.2	36.0

1) Adjusted to the swap net flow, i.e. TR-TE=EDP B9

2) Primary balance calculated as (EDP B9, point 8) plus (EDP D.41, point 9)

3) The plus sign means the deficit reduction after implementation of one-off measures

4) P.11+P.12+P.131+D.39+D.7+D.9 (different from D.91)

5) Including those collected by EU and including the adjustment to taxes and social contributions remained uncollected (D.995)

6) Includes the cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment aid

7) D.29+D4 (different from D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8

Annex no. 3 – Central Administration Expenditures, by functions

% OF GDP	COFOG CODE	2011	2016
1. General Public Services	1	4.8	n/a
2. Defense	2	0.9	n/a
3. Public Order and Safety	3	2.2	n/a
4. Economic Relations	4	6.7	n/a
5. Environment Protection	5	0.9	n/a
6. Residential and Community Services	6	1.2	n/a
7. Health	7	3.4	n/a
8. Recreation, Culture and Religion	8	1.1	n/a
9. Education	9	4.1	n/a
10. Social Protection	10	14.1	n/a
11. Total expenditures (= 7=23 in Table 2)	TE	39.4	n/a

Annex no. 4 – Government Debt Performance

% OF GDP	ESA CODE	2012	2013	2014	2015	2016
1. Gross Government Debt [1]		37.8	38.6	38.5	38.6	38.9
2. Government Debt Change		3.1	0.8	-0.1	0.1	0.3
Contribution to gross debt change						
3. Primary Balance[2]		-1.1	-0.5	-0.1	-0.2	-0.3
4. Interest [3]	EDP D.41	1.8	1.9	1.9	1.8	1.7
5. Stock-Flow Adjustment		0.2	-1.6	-2.1	-1.9	-1.7
Of which:						
- Differences between paid interest and accrual[4]		0.00	-0.04	-0.04	-0.04	-0.03
- Net accrual of financial assets[5]		1.8	0.0	0.0	0.0	0.0
of which :						
- from privatization		0.05	0.0	0.0	0.0	0.0
- Effects of assessment and others [6]		-1.6	-1.6	-2.1	-1.9	-1.7
p.m. implicit interest rate over debt [7]		5.4	5.2	5.2	5.0	4.7
Other relevant variables						
6. Liquid financial assets[8]		7.3	6.9	6.5	6.2	5.9
7. Net financial debt (7=1-6)		30.5	31.7	32.0	32.4	33.0
8. Debt amortization (existing obligations) starting with the end of the previous year [9]		9.2	9.1	4.9	4.6	2.5
9. Percentage of the foreign currency denominated debt		59.9	56.9	53.4	50.8	49.0
10. Average maturity [10]		4.1	4.2	-	-	-

[1] *Defined according to Regulation 3605/93 (not an ESA concept)*

[2] *According to position 10 in Table 2*

[3] *According to position 9 in Table 2*

[4] *The differences in respect of interest expenditures, other expenditures and revenues may be distinguished when relevant or when the debt-to-GDP ratio is above the benchmark*

[5] *Liquid assets (foreign currency), government bonds, active in third countries, enterprises controlled by the state and the difference between listed assets and non-listed assets may be distinguished when relevant or when the debt-to-GDP ratio is above the benchmark*

[6] *The changes resulting from exchange rate variations and the operations on the secondary market may be distinguished when relevant or when the debt-to-GDP ratio is above the benchmark*

[7] *The associated proxy version is the ration between annual interest payments and the average debt stock from the previous year*

[8] *AF1, AF2, AF3 (consolidated at market value), AF5 (if listed on the stock exchange, including mutual funds' shares)*

[9] *Indicator calculated based on the debt balance at December 31, 2012.*

[10] *Remained average maturity (years).*

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Annex no. 5 – Cyclical Developments

% OF GDP	ESA CODE	2012	2013	2014	2015	2016
1. Real GDP Growth (%)		0.7	1.6	2.2	2.8	3.0
2. Net Consolidated Balance	EDP B.9	-2.9	-2.4	-2.0	-2.0	-2.0
3. Interest	EDP D.41	1.8	1.9	1.9	1.8	1.7
4. Temporary and *one-off* measures [1)]		0.5	0.0	0.0	0.0	0.0
5. Potential GDP Growth (%)		1.7	2.1	2.7	2.9	2.9
Contribution:						
- Labour		0.1	0.3	0.6	0.7	0.8
- Capital		1.7	1.7	1.8	1.6	1.5
- Total Factor Productivity		-0.1	0.1	0.3	0.6	0.6
6. Output Gap		-2.1	-2.6	-3.0	-3.2	-3.0
7. Cyclical Component		-0.7	-0.9	-1.0	-1.0	-1.0
8. Adjusted Cyclical Balance (2-7)		-2.2	-1.5	-1.0	-1.0	-1.0
9. Adjusted Cyclical Primary Balance (8+3)		-0.4	0.4	0.9	0.8	0.7
10. Structural Balance (8-4)		-2.7	-1.5	-1.0	-1.0	-1.0

[1)] *A plus sign means the one-off measures aimed at reducing the deficit*

Annex no. 6 – Variations compared to the previous programme version

	ESA CODE	2012	2013	2014	2015	2016
GDP Growth (%)						
Previous Edition		1.7	3.1	3.6	3.9	
Updated Edition		0.7	1.6	2.5	2.8	3.0
Variation		-1.0	-1.5	-1.1	-1.1	
Budget Balance (% of GDP)						
Previous Edition	EDP B.9	-2.8	-2.2	-1.2	-0.9	
Updated Edition	EDP B.9	-2.9	-2.4	-2.0	-2.0	-2.0
Variation		-0.1	-0.2	-0.8	-1.1	
Gross Public Debt (% of GDP)						
Previous Edition		34.2	33.7	32.8	31.8	
Updated Edition		37.8	38.6	38.5	38.6	38.9
Variation		3.6	4.9	5.7	6.8	

Annex no. 7 – Long Term Sustainability of Public Finance

% OF GDP	2007	2010	2020	2030	2040	2050	2060
Total Expenditures							
Of which: Age-related expenditures		17.6	16.9	18.2	19.9	21.7	22.9
- Pensions	6.4	9.8	9.2	10.2	11.6	12.8	13.5
Social security							
Full Service and Early Pensions	5.2	8.1	7.8	8.8	10.1	11.2	12.0
Other Pensions (disability, descendants)	0.8	1.8	1.4	1.5	1.5	1.5	1.5
Occupational Pensions (if connected to the central administration)							
- Healthcare		3.7	3.7	3.9	4.2	4.5	4.6
- Long Term Care (previously counted in "Healthcare")		0.6	0.7	0.8	1.0	1.1	1.4
- Education	3.6	3.5	3.3	3.2	3.1	3.3	3.4
Other age-related expenditures							
Interest Expenditures							
Total Revenues							
Of which income from property							
Of which: from pension contributions (or social contributions, as the case may be)		7.2	8.1	9.7	11.1	12.5	13.8
Assets of retirement reserves funds		1.0	6.0	11.4	8.8	5.7	4.0
Of which consolidated assets of public pension funds (assets other than the central administration's liabilities)							
Systemic Pensions Reforms [1]							
Social Contributions allocated to mandatory private pension system [2]		0.3	1.0	1.1	1.3	1.5	1.7
Pension expenditures of the mandatory private pension system [3]			0.1	0.5	1.2	1.5	1.1
Assumptions							
		- average rates -					
Increase of labor productivity		2.5	1.9	2.3	2.3	1.9	1.5
Real GDP Growth		-1.1	1.2	1.1	1.1	1.1	1.1
							- % -
Participation Rate – Men (aged 20 to 64)		77.0	78.1	75.6	76.4	72.9	73.8
Participation Rate - Women (aged 20 to 64)		59.9	59.4	57.3	55.6	56.2	56.4
Total Participation Rate (aged 20 to 64)		68.4	68.8	66.5	64.5	64.1	65.2
Unemployment Rate – ILO		7.3	6.6	6.7	6.7	6.7	6.7
Share of population at 65 and over 65 in total population		14.9	17.6	20.2	25.7	31.1	34.8

Average rates refer to the mentioned interval.

1) Systemic Pension Reforms refer to pension reforms introducing a multi-pillar system, including a mandatory pillar with a total own fund

2) Social contributions or other revenues to the mandatory pillar with a total own fund, for covering the pension obligations attracted in accordance with the systemic reform; ***In 2012, 0.5% in GDP represents Pillar 2 diverted***

3) Expenditures with pensions or other social benefits paid by the mandatory pillar with total own fund, in respect of pension obligations attracted in accordance with the systemic reform