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ROMANIA

FISCAL TRANSPARENCY EVALUATION

March 2015

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Fiscal Affairs Department

ROMANIA

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Brian Olden, Peter Murphy, Tim Irwin, and Sami Yläoutinen

October 2014

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Glossary

AMD	Accounting Methodology Department
COFOG2	Classification of the Functions of Governments
FAD	Fiscal Affairs Department
FC	Fiscal Council
FRL	Fiscal Responsibility Law
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
FY	Fiscal Year
ESA95	European System of Accounts
GFSM	Government Finance Statistics Manual
IPSAS	International Public Sector Accounting Standards
MoPF	Ministry of Public Finance
NBR	National Bank of Romania
NIS	National Institute of Statistics
NPC	National Prognosis Commission
NT	National Treasury
PPP	Public-Private Partnership
PC	Public Corporations
PFL	Public Finance Law
PI	Public Institutions

Preface

A mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund visited Bucharest from February 6–25, 2014 to undertake a Fiscal Transparency Evaluation (FTE) against the new Fiscal Transparency Code (FTC). The mission team consisted of Brian Olden (Head), Tim Irwin, Peter Murphy, and Sami Yläoutinen (all FAD staff).

The objective of the Fiscal Transparency Evaluation was to evaluate Romania's fiscal reporting, forecasting, and budgeting, and fiscal risks analysis and management practices against the standards set by the IMF's newly revised draft Fiscal Transparency Code. In conducting the evaluation, the mission met with the Minister Delegate for Budget, Mr. Voinea, the Secretary of State for Budget, Mr. Gherghina, and other senior officials of the Ministry of Public Finance.

The mission also met with representatives of the Ministries of Regional Development and Public Administration, Health, and Labor. In addition, meetings were held with the National Bank of Romania, the National Prognosis Commission, the Senate Budget and Finance Committee, the National Institute of Statistics, and the Fiscal Council.

The mission wishes to extend its appreciation to the Romanian authorities, especially to Ms. Ioana Burla and colleagues at the Ministry of Public Finance, for coordinating an extensive agenda of meetings and for their excellent cooperation. The IMF Resident Representative in Bucharest, Mr. Guillermo Tolosa and his staff, and Ms. Georgia Babici in particular provided excellent input to the work of the mission. The mission would also like to thank the interpreters, Ms. Valentina Rotaru and Mr. Cornelius Stefanescu, for their extremely valuable contributions.

EXECUTIVE SUMMARY

Since 2010, a comprehensive program of public financial management reform in Romania has led to significant improvements in fiscal transparency. These reforms include:

- improvements in the coverage, quality, and frequency of general government fiscal statistics;
- an updated legislative framework, including the adoption of a Fiscal Responsibility Law (FRL) which included the adoption of comprehensive fiscal rules aimed at ensuring fiscal sustainability over the medium to long-term;
- the establishment of an independent fiscal council in 2010 to assess and provide analysis and opinions on the design and implementation of fiscal policy; and
- the introduction of a comprehensive medium-term fiscal and budgetary strategy as the basis for preparation of the annual budget.

Thanks in part to these recent reforms, Romania performs well against the Fiscal Transparency Code in many areas, as shown in Table 0.1. The government is rated as good or advanced in 15 of the 36 dimensions while on 15 dimensions it is rated as basic. A further five are regarded as not met, while one dimension was not assessed – Public-Private Partnerships (PPPs) – given the absence of signed PPPs at the time of the evaluation. The main findings of the fiscal transparency evaluation against the three main pillars of the fiscal transparency code are:

- *Fiscal Reporting:* Romania is rated as good or advanced in 8 out of 11 dimensions, including the coverage and classification of fiscal reports and the integrity of fiscal statistics. However, the availability of large volumes of information on general government operations is undermined by the fragmented nature of that data, and the absence of a comprehensive set of consolidated government financial statements produced in accordance with international standards. In addition, Romania's large public corporations sector, with expenditure of around 10 percent of GDP, remains outside any consolidated fiscal report.
- *Fiscal Forecasting and Budgeting:* Romania's macroeconomic forecasting, medium-term budget framework, fiscal legislation and objectives, and fiscal council are all rated as good or advanced against the Code. The other 7 areas, such as the coverage of the budget, management of public investments, development of citizens' budgets, and procedures for approval of supplementary budgets, while substantially improved in recent years, meet the basic practice under the Code. In many of these latter areas, relatively minor reforms would improve performance to the good or advanced level. However, the introduction of a performance orientation to the budget process is a medium-term objective.
- *Fiscal Risk:* Romania is evaluated as advanced or good in identifying and reporting government guarantees and the risks associated with sub-national governments. It scores less well in reporting on other specific risks, such as financial sector exposure and environmental risks.

This report makes seven recommendations to address these issues and materially improve the level of information available to decision-makers and the public. They are to:

i. reduce fragmentation of existing fiscal reporting and expand the institutional coverage to include the wider public sector;

ii. improve the timeliness, quality, and integrity of fiscal reports and financial statements through publishing reconciliations between cash and accrual based reports, enforcing strict timelines for publication of financial statements, and ensuring that external audits of government accounts are assessed on the basis of compliance with international standards;

iii. allow adequate time for scrutiny of all budgetary expenditure by parliament by ensuring that existing deadlines for budget submission are strictly observed, that parliamentary approval procedures are considerably streamlined, and that the practice of using government ordinances to push through budget legislation is discontinued;

iv. increase the transparency of macroeconomic and fiscal forecasts through the inclusion of more detailed macroeconomic forecasts both in key budget documents and publishing reconciliations of material changes to successive medium-term fiscal forecasts;

v. increase the transparency of budget documentation by providing multi-annual costs of public investments and details of government performance against its medium-term fiscal objectives, and allowing greater time for independent scrutiny of draft budget documentation;

vi. extend reporting of fiscal risks in budget documentation to include analysis of the sensitivity of the fiscal position to changes in macroeconomic assumptions, the volume of information reported on outstanding guarantees and PPPs, fiscal risks emanating from the financial sector; and

vii. increase coverage of Long-Term Fiscal Projections to include all main fiscal aggregates.

Table 0.1. Romania: Summary Assessment against Fiscal Transparency Code

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	1. Fiscal Reporting	2. Fiscal Forecasting and Budgeting	3. Fiscal Risk Analysis And Management
HIGH IMPORTANCE	1.1 Coverage of Institutions	1.2 Macroeconomic Forecast	1.1 Macroeconomic Risks
	1.2 Coverage of Stocks	1.4 Investment projects	1.3 Long-Term Fiscal Sustainability
	2.2 Timeliness of Annual Financial Statements	2.2 Timeliness of Budget Documents	2.6 Financial-Sector Exposure
	4.2 External Audit	4.1 Independent Evaluation	
		4.3 Forecast Reconciliation	
MEDIUM IMPORTANCE	3.2 Internal Consistency	1.1 Budget Unity	1.2 Specific Fiscal Risks
	3.3 Statistical Integrity	1.3 Medium-Term Budget	2.2 Tax Expenditures
		3.1 Fiscal Policy Objectives	2.3 Asset and Liability Management
		2.3 Performance Information	2.5 Public-Private Partnerships
		3.3 Public Participation	2.8 Environmental Risks
		4.2 Supplementary Budget	3.1 Sub-national Governments
			3.2 Public Corporations
LOW IMPORTANCE	1.3 Coverage of Flows	2.1 Fiscal Legislation	2.1 Budgetary Contingencies
	2.1 Frequency of In-year Fiscal Reports		2.4 Guarantees
	3.1 Classification		2.7 Natural Resources
	3.3 Historical Consistency		
	4.3 Comparability		

LEGEND	LEVEL OF PRACTICE			
	Not Met	Basic	Good	Advanced

I. FISCAL REPORTING

1. This chapter assesses the quality of Romania's fiscal reporting practices against those set out in the IMF's *Fiscal Transparency Code*. In doing so, it separately considers the following dimensions of fiscal disclosure:

i. coverage of institutions, stocks, and flows;

ii. frequency and timeliness of reporting;

iii. quality and consistency of fiscal reporting; and

iv. the reliability of fiscal reports.

2. A summary list of the key published government fiscal reports and their attributes is shown below in Table 1.1. This chapter discusses in detail the strengths and weaknesses of the fiscal reporting framework.

3. Romania produces monthly cash-based budget execution reports and annual partial accrual-based fiscal statistics covering the general government sector. The National Treasury (NT) captures all cash receipts and payment transactions by public institutions (PIs) and produces summary in-year cash based budget execution reports for the general government within 10 days of the end of each month. Sub-sector and general government fiscal statistics are compiled on an annual basis in accordance with the European System of Accounts (ESA95) methodology. These partial accrual reports are currently based on the information available from the accrual and cash records, combined with information on financial assets and liabilities held by the Central Bank.

4. Consolidated quarterly accrual-based financial reports are prepared for PIs and an annual operating statement and balance sheet is compiled by the Ministry of Public Finance (MoPF)/NT for the general government sector.[1] PIs are required to produce financial statements on a full accrual basis, using a uniform budget classification and chart of accounts framework. National accounting norms and methodologies have been developed and disseminated by the Accounting Methodology Department (AMD) of the MoPF. These norms follow some International Public Sector Accounting Standards (IPSAS) principles but, as yet, are not fully consistent with IPSAS. Primary cash and accrual financial statements do not fully reconcile, and many are not presented in a recognizable transparent format. In addition, accounting policies and notes are limited, public corporations balances are not fully incorporated, and the valuation basis of some assets and liabilities is unclear or absent (including the size of the governments future pension liabilities). Commencing FY2014, the Forexebug system will start to automate these processes and facilitate improved reconciliation, consolidation, and accelerated processing of these reports.

[1] Romania's fiscal year (FY) is the same as the calendar year, commencing January 1 and ending December 31.

Table 1.1. Romania: List of Published Fiscal Reports

REPORT	COVERAGE		ACCOUNTING				PUBLICATION	
	Institutions	Flows	Stocks	Basis	Class	Non-tax Rev	Freq	Date
IN-YEAR FISCAL REPORTS								
Quarterly Public Institutions (PI) Financial Reports	PIs	Revenues and Expend.	Assets/ Liabilities	Accrual	National	Gross	Qtrly	Variable by PI
Summary Monthly Budget Execution Reports	General Gov't	Receipts and Payments	Cash	Cash	National	Gross	Mon	Within 10 days
Quarterly Public Corporations Financial Reports	PCs	Revenues and Expend.	Assets/ Liabilities	Accrual	Internat. Financial Reporting Standards	Gross	Qtrly	Within 30 days
YEAR-END REPORTS								
Annual Budget Execution Reports	General Gov't	Receipts and Payments	Cash	Cash	National	Gross	Ann	Within 180 days
Government Balance Sheet and related reports	General Gov't	NA	Assets/ Liabilities	Accrual	National	NA	Ann	Within 180 days
Fiscal Statistics	General Gov't	Revenues and Expend.	Fin Assets/ Liabilities	Part Acc	ESA 95	Gross	Ann	Interim: Within 90 days Final: Within 270 days
MACRO-FISCAL FORECAST AND BUDGET								
Macro-fiscal Forecasts and Budget Strategy	General Gov't	Receipts, Payments and financing	Fin Assets/ Liabilities	Cash	National	Gross	Interim and final	July 31
Macro-fiscal Forecast and Budget	General Gov't	Receipts, Payments, and Financing	Fin Assets/ Liabilities	Cash	National	Gross	Interim and final	Oct 15

Source: MoPF, GG includes central and local government, extra budgetary units/autonomous organizations, social security, and public corporations reclassified as general government.

1.1. Coverage

Coverage of institutions (Good)

Table 1.2. Romania: Public Sector Institutions and Finances FY2012
(Percent of GDP)

	Number of Entities	Revenue	Expenditure	Balance
		1	2	3=1-2
I. General Government	**9,753**	**32.9**	**35.8**	**-3.0**
State Government	**586**	**16.5**	**15.9**	**0.6**
Budgetary Central Government	52	14.5	11.9	2.7
State Treasury Budget	1	0.1	0.1	0.0
Foreign Aid Fund	1	0.0	0.1	-0.1
EU Grants	1	0.1	0.1	0.0
EBUs/Non-market PCs	529	1.5	2.7	-1.1
National Roads Fund	1	0.2	1.2	-1.0
Property Fund	1	0.0	0.0	0.0
Social Security Funds	**11**	**9.1**	**10.8**	**-1.7**
Social Security Budget	1	6.0	7.1	-1.1
Unemployment Budget	1	0.2	0.2	0.0
Health Fund	9	2.9	3.4	-0.6
Sub-national Government	**9,156**	**7.3**	**9.1**	**-1.9**
II. Public Corporations	**1,265**	**10.2**	**9.9**	**0.3**
Central Govt Controlled	352	7.6	7.4	0.2
Local Government Controlled	910	1.4	1.5	0.0
Central Bank	1	0.7	0.6	0.1
Financial Corporations	2	0.4	0.4	0.0
III. Public Sector (I + II)	**11,018**	**43.1**	**45.7**	**-2.7**

Sources: MoPF; IMF staff estimates.

5. **Romania's most comprehensive fiscal reports cover all of general government, as defined by ESA95 standards.** Based on data provided by the MoPF and the National Institute for Statistics (NIS) for 2012 there are 9,753 entities in the general government sector (Table 1.2) including:

- *53 state budget institutions,* comprising 52 government ministries, budgetary organizations, and legislative, judiciary, and executive bodies who receive all of their funding from the state budget and one Treasury. These institutions' expenditure accounts for 12.0 percent of GDP;

- *533 central government budgetary organizations* comprising semi-autonomous and autonomous units. These entities are partially or wholly financed by transfers from the budget, foreign aid donors, and by payments from the beneficiaries of their services. They include 448 extra-budgetary units, 81 non-market public corporations (PCs), 1 EU grant fund, 1 foreign aid fund, one road fund, and a property restitution fund (related to claims arising from properties confiscated under the former communist regime). Their expenditure accounts for 4.0 percent of GDP;

- *11 social security funds* comprising the three main health, pension, and unemployment funds, and eight regional training centers financed from the unemployment fund. These social security funds depend on contributions, transfers from the government budget, and donations, and their expenditure accounts for 10.8 percent of GDP; and
- *9,156 sub-national government entities* comprising 42 counties which are further subdivided into municipalities, communes, and other service delivery agencies such as schools and 123 non-market public corporations. The sub-national government PIs are funded by assigned tax revenues, transfers from the central government, EU structural funds, local taxes and fees, and their expenditure accounts for 9.2 percent of GDP.

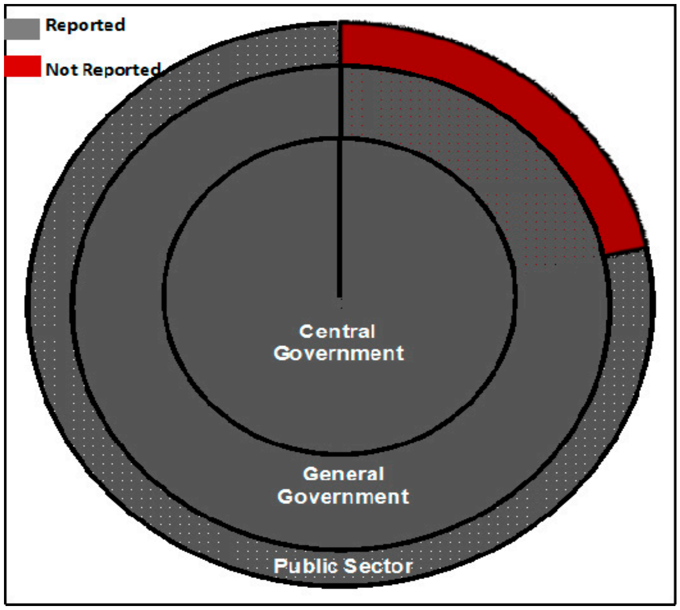
6. However, market nonfinancial and financial public corporations are not included in any consolidated fiscal report. The net expenditure of these *1,265* public corporations, comprising 1,262 nonfinancial public corporations and 3 financial public corporations, including the Central Bank[2] accounts for 21.6 percent of consolidated public sector expenditure and 9.9 percent of GDP in 2012 (Figure 1.1). Financial returns are submitted to the MoPF for the most active and material market based nonfinancial PCs, however consolidated fiscal reports do not incorporate this information. Similarly, consolidated reports do not cover financial corporations or the National Bank of Romania (NBR). Expanding the institutional coverage of Romania's financial reports from the general government to encompass the wider public sector would slightly lower the reported deficit in 2012, from 3.0 to 2.7 percent of GDP (Table 1.2).

7. Owing to discrepancies in the registers of public corporations maintained by the NIS, MoPF, and Treasury, the scale of public financial activity outside consolidated fiscal reports may be even larger. 1,850 public corporations were listed in the government trade register, including both active and inactive entities. However, the financial reports of only 1,262 of these have, in accordance with Article 51.3 of PC Ordinance 109/2011, been reported to the MoPF.[3] The discrepancy between institutional records is primarily due to the lengthy legal process necessary to remove a public corporation from the trade register following cessation of operations.

[2] Information compiled from a variety of sources (trade register, tax departments, company returns) and registers maintained by the NIS and various MoPF units, suggest that the total number of PCs may be as high as 2,104. However, this includes both active and inactive PCs and the reliability of this information is uncertain. The size of the additional entities is relatively immaterial.

[3] The active status of these 1,262 corporations is confirmed by the MoPF by cross-checking against their corporate income tax returns.

Figure 1.1. Romania: Public Sector Expenditure by Sector
(Percent of Expenditure)



Sources: MoPF and staff estimates.

1.1.1. Coverage of Stocks (Good)

8. **Romania's annual fiscal statistics include a financial balance sheet of the general government's debt and financial assets holdings consistent with the Eurostat ESA95 methodology.** These statistics are published on the MoPF website in a range of periodic debt reports. However, these reported balance sheets do not cover the estimated 100 percent of GDP in nonfinancial assets[4] and 29 percent of GDP in public sector pension liabilities[5] of the general government sector. Moreover, these statistics also do not reflect the 61.7 percent of GDP in assets and 51.9 percent of GDP in liabilities of the public corporations sector. Table 1.3 provides an illustration of what a Comprehensive Public Sector Balance Sheet would contain using data based on an aggregation of: (i) the published general government balance sheet; and (ii) additional MoPF asset and liability data for the largest public corporations, with elimination of key balances in respect of public corporations and the Central Bank.

[4] This may not fully reflect the full value of government holdings of nonfinancial assets, which, although subject to periodic revaluations (in principle every three years), may not fully take into account all price changes.

[5] The pension liability is measured as the present discounted value of the increase in public debt between 2013-50 required to meet the government's unfunded pension obligations. See IMF Fiscal Monitor, October 2013.

Table 1.3. Romania: Public Sector Balance Sheet, 2012
(Percent of GDP)

	General Government	Public Corporations: Nonfinancial, Central	Public Corporations: Nonfinancial, Local	Public Corporations: Financial	Central Bank	Total Public Corp.	Public Sector
Total Assets	**140.2**	**22.0**	**4.9**	**4.6**	**30.2**	**61.7**	**201.9**
Nonfinancial Assets	**100.2**	**22.4**	**3.6**	**0.2**	**0.3**	26.4	**126.6**
Fixed assets	97.8	21.7	3.5	0.2	0.3	25.6	123.4
Inventories	2.4	0.7	0.1	0.0	0.0	0.8	3.2
Financial Assets	**40.0**	**-0.4**	**1.3**	**4.4**	**29.9**	**35.3**	**75.3**
Investments	0.0	0.9	0.0	1.6	0.0	2.5	2.5
SOE Investments	5.3	-5.3	0.0	0.0	0.0	-5.3	0.0
Lending	1.1	0.0	0.0	2.5	29.7	32.1	33.2
Debtors	26.3	3.3	1.0	0.0	0.1	4.5	30.8
Other	0.2	0.0	0.0	0.0	0.1	0.1	0.3
Cash	7.2	0.7	0.2	0.4	0.0	1.4	8.6
Liabilities	**57.4**	**16.2**	**4.6**	**4.1**	**27.0**	**51.9**	**109.4**
Long term loans	39.0	6.5	3.6	4.1	22.7	36.8	75.8
Other Liabilities	1.5	0.0	0.0	0.0	4.3	4.3	5.7
Creditors	16.9	9.8	1.0	0.0	0.0	10.9	27.8
Net Worth	**82.8**	**5.8**	**0.2**	**0.5**	**3.2**	**9.7**	**92.5**
Other Eliminations		-5.8	-0.2	-0.5	-3.2	-9.7	-9.7
Pension liabilities							-29.1
Adjusted Net Worth							**63.4**

Sources: MoPF data and IMF staff calculations.

1/ Intersectoral adjustments arise from unreconciled asset/liability balances between consolidated balance sheets and sectoral aggregates.

9. **Table 1.3 illustrates the impact of incorporating these missing assets and liabilities into a more comprehensive balance sheet for the public sector as a whole.** It shows that Romania's has:

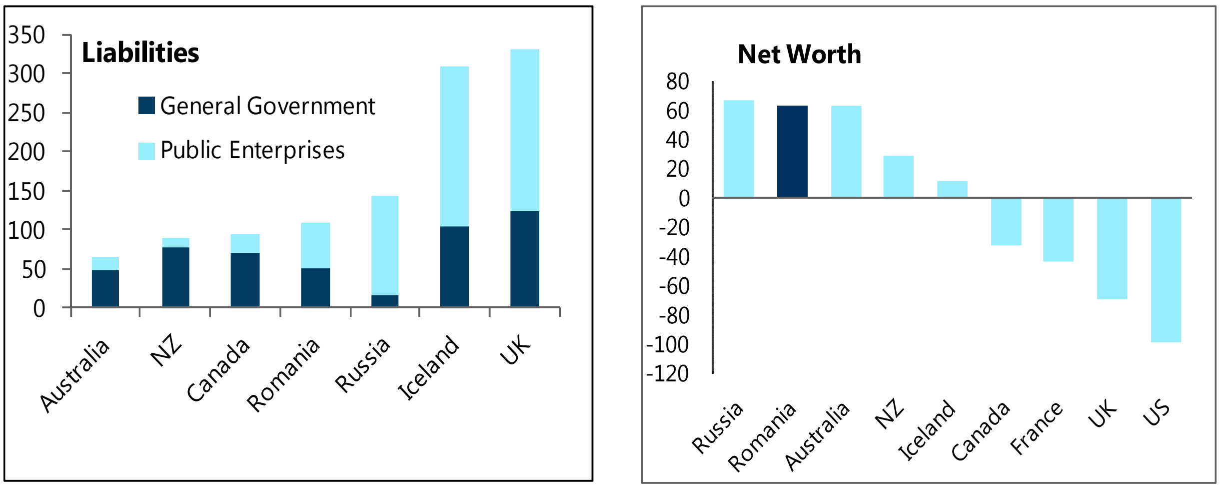
- gross public sector liabilities of 109.4 percent of GDP, which is over twice as large as the gross liabilities of the general government sector. Central Bank operations represent some 30 percent of GDP of this increased volume and unfunded pension liabilities account for a further 29 percent of GDP;
- gross public sector assets of 201.9 percent of GDP[6]; and
- overall positive public sector net worth of 63.4 percent of GDP.

[6] These figures do not include estimates of the value for Romania's sub-soil mineral assets which may be considerable.

10. Romania's public corporations have sizable liabilities but these are not excessive by international standards (Figure 1.2). The positive contributions of public corporations to the overall net worth of the public sector, over and above the significant positive contribution of the general government sector means that Romania's net worth is relatively high as a percentage of GDP (Figure 1.2).

Figure 1.2. Romania: Public Sector Liabilities and Net Worth, 2012

(Percent of GDP)



Source: Staff estimates, national budget.

1.1.2. Coverage of Flows (Basic)

11. Eurostat (ESA95) fiscal reporting arrangements provide the framework for the reporting of accrued expenditure and financing flows for fiscal statistics. Based on an agreed protocol[7] the NIS, MoPF, the NBR, and the National Prognosis Commission (NPC) work together to compile a set of interim and final annual statistical returns using Eurostat methodology. The NIS coordinates this process and generates fiscal deficit and balance sheets, for the general government sector, on an accrual basis.

12. The NT produces aggregated cash-based budget execution reports on a monthly basis for all PIs, institutions, and sub-sectors covered by general government. The aggregated report provides details of the composition of all cash receipts and payments made by each sub-sector (central government, local government, and social security) and group of institutions, as shown in Table 1.3. The report also eliminates transfers (RON 44.4 billion gross in FY2012) between general government subsectors. In parallel, PIs produce accrual based budget execution reports which form part of their quarterly submissions to the MoPF.

[7] Protocol February 3, 2013 formalizing cooperation arrangements between NIS, MoPF, NBR, and NPC.

13. Information from the aggregated PI accrual and NT cash reports is used by the MoPF for the generation of the interim and final accrual based ESA95 deficit and debt fiscal statistics. Adjustments (accounts payable and receivable and other changes to financial asset and liabilities) derived from the accrual accounts are made to the cash working balances to calculate the net borrowing/net lending result and this is reconciled with the change in general government consolidated debt. No provision is made for the accumulation of pension liabilities. PIs are, however, required to provide for valuation changes of financial and nonfinancial assets in their accrual accounts.

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of in-year reports (Advanced)

14. Cash-based budget execution reports for general government are produced on a monthly basis and published on the MoPF website within 10 days or less of the end of each month. The reports are also accompanied by a narrative and analytical reports on a quarterly, semi-annual, and annual basis. These reports, together with adjustment information from the accrual reporting system (i.e., accounts payable, receivables, and other financial assets and liabilities), are used to compile the quarterly ESA95 fiscal statistics returns to Eurostat which are published within 30 days of the end of each quarter. Expenditure arrears reports for general government and its sub-sectors are also produced on a monthly basis and are published on the MoPF website within 30 days.[8]

1.2.2. Timeliness of annual financial statements (Basic)

15. Individual PIs prepare accrual-based annual financial statements typically within six months of financial year-end, but their audit is not completed until 12 months after the financial year. Between FY2008 and FY2011, all PIs submitted their accrual-based annual financial statements to the MoPF for transmission to the Court of Accounts by the end of July of the following year. However, in FY2012 this was delayed by one month to August 2013. The MoPF also prepares and publishes annual budget execution reports for the general government sector (excluding non-market PCs) within six months of the year-end and this is submitted to the Parliament. These statements are audited by the Court of Accounts although no formal audit certificate is produced. The Court of Accounts produces and publishes a report on PI year-end financial statements by December of the following year. The largest PIs are audited annually with others being audited according to a three-year audit cycle.

[8] There is a large amount of fiscal data that is published, either in the Official Gazette of Romania (Monitorul Oficial al Romaniei) or on various government websites and in particular the websites of the MoPF (e.g., the MoPF Website and the newly created Budget Website).

1.3. Quality of Fiscal Reports

1.3.1. Classification (Advanced)

16. Fiscal statistics comply with ESA95 economic and functional classification methodology, and a program budget classification is implemented in most government entities. The administrative classification reflects the existing structure of the budgetary units, including recent reclassification of public corporations to separate them into market and non-market entities. A revised uniform budget classification/chart of accounts is being implemented as part of the revisions to the Trezor system which will be employed by all PIs included in the general government sector. This new system provides for greater disaggregation of the economic classification for fiscal reporting, the implementation of COFOG 2,[9] and the compilation of an improved range of PI and consolidated fiscal reports.[10] Differences between GFSM2001 and the government classification systems are minor. A program classification which covers over 90 percent of government expenditure has also been implemented across key government entities.

1.3.2. Internal consistency (Advanced)

17. Annual government finance statistics returns for the general government sector (as required by Eurostat) provide the full range of consistency checks called for under the Code. The government calculates consistency checks that explain the adjustments between:

- net borrowing/lending and financing, which show discrepancies of less than 1.0 percent of GDP on average (Table 1.4); and
- debt issuance and the change in the outstanding government debt stock, which show no discrepancies.

[9] Classification of the Functions of Government 2 (COFOG2) provides a classification of expenditure by function and sub-function.

[10] Improved PI fiscal reports are currently being piloted while consolidated reports are expected to be implemented for FY2015.

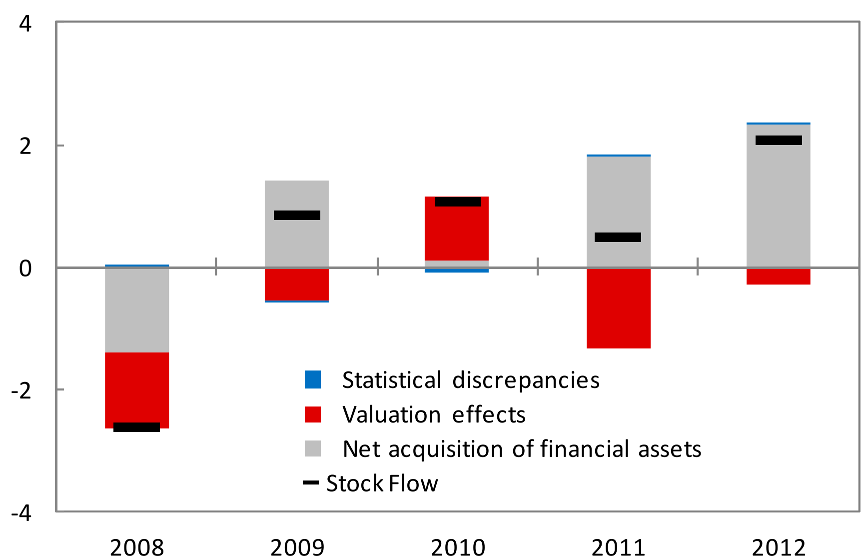
Table 1.4. Romania: Net Borrowing/Lending and Financing Reconciliations
(Percent of GDP)

Debt Stock and Net New Issuance	2012	Balance and Financing	2012
Debt holding b/f	**32.9**		
Change in debt holdings		**Balance - Deficit**	**-3.0**
- Currency and Deposits	-0.2	Net acquisition of financial assets	-2.3
- Securities	5.3	Revaluation and Volume Adjustments	0.3
- Short term Loans	-0.4	Net	-5.0
- Long term Loans	0.4	Statistical Discrepancy	0.0
Debt holdings c/f	**38.0**		
Net increase in debt	**5.0**	**Change in Financing**	**5.0**

Sources: MoPF and staff estimates.

18. Romania's stock-flow adjustments have been moderate and are mainly due to the acquisition of financial assets and debt valuation effects. The stock-flow adjustment is the difference between the change in government debt and the deficit and is composed of three elements: acquisition of financial assets, debt valuation adjustments, and statistical discrepancies. Figure 1.3 shows that Romania had adjustments over the last five years of between 0.5 percent and 2.5 percent of GDP mainly due to the acquisition of financial asset and changes in debt valuation. This compares to an EU average of 1.0 percent of GDP.

Figure 1.3. Romania: Gross Debt Stock-Flow Adjustment
(Percent of GDP)



Source: Eurostat data submitted by MoPF.

1.3.3. Historical consistency (Basic)

19. Material revisions to historical fiscal data arising from sectoral classification changes and changes in the GDP series have been made, but not all revisions are reported in published statistics reports. Changes to the classification to include non-market public corporations in the general government sector are reported in the MoPF's register of PCs and in Eurostat reports. No explanation or bridging table showing the differences between old and new time series is published. In 2012, the effect of those revisions on the reported ESA95 deficit was equivalent to 0.2 percent of GDP.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical integrity (Good)

20. The NIS is a specific government funded body headed by a President who is appointed by the Prime Minister. The Institute was established under Ordinance 9/1992 as amended by Ordinance 957/2005. These provide for representative advisory councils that may provide methodological guidance to the President, but which are not authorized to intervene in the production of statistics. Professional staff are typically qualified graduates, although not necessarily statisticians, recruited under general civil service competitions with, depending on seniority, a number of years of experience. Funds have been made available from the EU to support capacity development of the NIS in recent years.

21. The production of fiscal statistics is undertaken under the protocol agreed between the NIS, MoPF, NBR, and NPC (see footnote 7). The protocol regulates the cooperation arrangements between the key stakeholders, for compilation of Government Finance Statistics, in accordance with the EU and international regulations and standards. The protocol also specifies the specific data input and reconciliation requirements for each stakeholder in accordance with ESA95 methodology. The NIS acts as coordinator and EDP statistics reporting authority for Romania.

22. Eurostat provides periodic monitoring and advice in respect of government finance statistics output. The process of compilation of finance statistics is monitored by Eurostat and subject to periodic review missions. This has enabled the authorities to steadily improve the integrity of the government statistics output.

1.4.2. External audit (Basic)

23. The President and Vice-Presidents of the Court of Accounts are appointed by the Parliament for a period of nine years. Law 94 of September 1992, reissued in Gazette 282 of 2009, provides extensive powers to the Court for independent assessment of the reliability of the government's annual financial statements (PIs) and other fiscal reports (MoPF).

24. The Court of Accounts audits a summary Budget Execution statement and an annual balance sheet that are presented to Parliament. The Court of Accounts also undertakes audits of

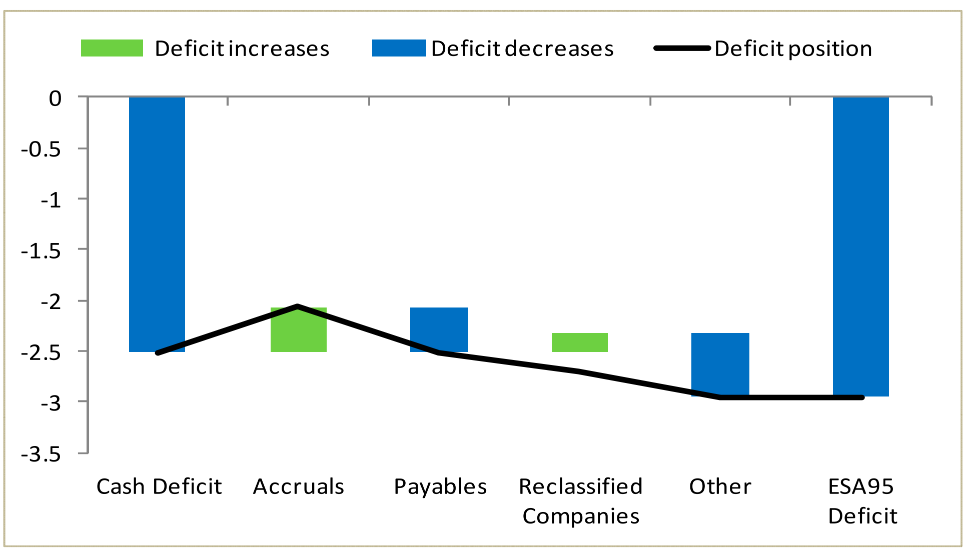
PIs and expresses and publishes an opinion on their reliability. For FY2012, the Court audited over 2,600 entities (approximately 30 percent of the total) including all the primary credit holders. This work encompasses audit of PI financial statements (62 percent), performance (11 percent), and internal controls (27 percent) issues. The Court qualified the accounts of all but 73 of the (2,600) PIs audited in FY2012. The Court of Accounts notes the primary reason for the high level of qualification was the underlying weakness in internal control processes rather than material differences between financial statements and supporting records. However, such weaknesses do create uncertainty regarding the integrity of the financial statements of PIs and the consolidated statements produced from these PI accounts.

1.4.3 Comparability of fiscal data (Good)

25. Monthly and annual budget execution reports and fiscal statistics are prepared and published on the MoPF and Treasury websites on the same basis as the budget. The outturn between the budget execution reports and the fiscal statistics prepared for the Eurostat returns is comparable and is reconciled with the cash budget execution data and with fiscal statistics as shown in Figure 1.4., but not with accrual accounts. Government budget balance and the ESA95 general government deficit which requires adjustments equivalent to 0.47 percent of GDP for 2012.

Figure 1.4. Romania: Cash Versus ESA Deficit Adjustments, 2008-12

(Percent of GDP)



Sources: MoPF and staff estimates.

1.5. Conclusions

26. The government's fiscal reporting meets either good or advanced practice in most areas, but there are several areas where reporting practices could be further improved. In particular:

- Financial reports do not incorporate market financial or nonfinancial public corporations which amount to approximately 10 percent of GDP.
- In-year general government budget execution reports are published on a monthly basis within a month, but audited financial accounts take up to 12 months from the end of the financial year to be published.
- The reliability of aggregate balance sheet data is open to question, given the adverse opinion proffered on the majority of individual public institutions (85 percent) by the auditor and the absence of full reconciliation between cash and accrual based financial reports.
- While fiscal statistics cover 100 percent of general government entities, including all financial assets and liabilities, cash flows and accrued revenues and expenses based on ESA95 standards, they do not include nonfinancial assets, net worth, and other economic flows.

Table 1.5. Romania: Summary Evaluation of Fiscal Reporting

	Principle	Assessment	Importance	Rec.
1.1.1	**Coverage of Institutions**	**Good:** Fiscal reports consolidate all general government units and are published.	**High:** Public corporations with expenditure of around 10 percent of GDP are not covered by consolidated fiscal reports.	**1(a)** **1(b)** **1(c)**
1.1.2	**Coverage of Stocks**	**Good:** Fiscal reports cover all general government financial assets and liabilities.	**High:** PC assets 26.4 percent of GDP and 52 percent of GDP liabilities are not reported in the financial statements.	**1(b)** **1(c)**
1.1.3	**Coverage of Flows**	**Good:** Fiscal reports cover 100 percent of cash and accrued revenues and expenditures for general government.	**Low:** Need to also address coverage of other economic flows to be assessed as meeting advanced practices.	
1.2.1	**Frequency of In-year Fiscal Reports**	**Advanced:** Cash-based budget execution reports are published on a monthly basis.	**Low:** Advanced practice satisfied**,** monthly fiscal reports are published within 30 days.	
1.2.2	**Timeliness of Annual Financial Statements**	**Basic:** Financial statements for public institutions and a summary balance sheet and execution report are published and audited within 12 months of the end of the financial year.	**High:** Further improvements in timeliness are required to meet good (within 9 months) or advanced (within 6 months).	**2(b)**
1.3.1	**Classification**	**Advanced:** Fiscal reports include administrative, economic, functional, and program classifications in line with international standards.	**Low:** Program classification needs to be extended to a further 10 percent of expenditure..	
1.3.2	**Internal Consistency**	**Advanced:** Fiscal reports reconcile cash balance, net lending, financing, and change in public debt for general government.	**Medium:** Internal reconciliation between cash and accrual systems needs to be published.	**2(a)**
1.3.3	**Historical Consistency**	**Basic:** Material revisions to historical fiscal statistics are reported.	**Low:** No. Revisions should be published.	**2(a)**
1.4.1	**Statistical Integrity**	**Good:** Statistics are prepared by a semi-autonomous government agency. Statistical integrity is supported by the Statistical Law, institutional arrangements, a stakeholder protocol and Eurostat reporting requirements.	**Medium:** Full independence of statistical agency required for advanced score.	
1.4.2	**External Audit**	**Basic:** Government financial reports are audited for their reliability by an independent supreme audit institution but were heavily qualified in FY2012.	**High:** External audit reports of over 85 percent of public institutions received qualifications based on internal control failures.	**2(b)** **2(c)**
1.4.3	**Comparability**	**Advanced:** Fiscal reports are prepared and published on the same basis as the budget for the general government sector.	**Low:** Budget, outturn, and fiscal summary reports are comparable.	

II. FISCAL FORECASTING AND BUDGETING

27. This chapter assesses the quality of Romania's current fiscal forecasting and budgeting practices relative to standards set by the IMF *Fiscal Transparency Code*. In doing so, it looked at four key dimensions of fiscal forecasting and budgeting:

i. the comprehensiveness of the budget and associated documentation;

ii. the orderliness of the budget process;

iii. the policy orientation of budget documentation; and

iv. the credibility of the fiscal forecasts and budget proposals.

28. The changes brought about by the adoption of the FRL in 2010 have had a positive impact on the transparency of fiscal forecasting and budgeting process. In particular, the FRL has:

- established a set of principles for fiscal policy and a number of numerical fiscal objectives (see FRL Chapters II and VI);
- created an independent fiscal council (see FRL Chapter X);
- made the MTBF more binding (see FRL Chapters II and VI); and
- fixed the calendar for macro-fiscal forecasting and budget preparation (see FRL Chapter VI).

29. The FRL also specifies the required content of fiscal and budget documentation. Table 2.1 lists the main documents assessed as part of this evaluation which include:

- Fiscal and Budgetary Strategy;
- a half-year report on the economic and budgetary situation;
- government's budget submission to the legislature; and
- report on the Macroeconomic Situation and Forecasts.

Table 2.1. Romania: Macro-Fiscal Forecasting and Budget Documents

Document	Content	Timing
Convergence Program Update	As a part of the EU multilateral coordination and surveillance of economic policies, provides macro-fiscal plans for the upcoming four years.	*April*
Fiscal and Budgetary Strategy (Strategia fiscal-bugetară)	Includes Government's fiscal strategy for the next three years, including a macroeconomic forecast, fiscal policy targets and forecasts, and a statement of responsibility.	*End of July*
Framework Letter, incl. Note on the Expenditure Ceilings	Includes instructions to the primary spending units on the formulation of their budget requests, including non-binding expenditure ceilings for the upcoming three years.	*End of July*
A half-year report on the economic and budgetary situation *(Raport privind situatia economica si bugetara pe primele sase luni)*	Includes a review of the macroeconomic framework and the latest data on macroeconomic indicators and an assessment of the impact on the fiscal targets of any changes in the macroeconomic framework and presentation of necessary measures to be taken to correct such impacts.	*End of July*
Report on the Macroeconomic Situation and Forecasts (Raport privind situația macroeconomica şi proiecția acesteia)	A supporting document to the Government's budget submission which provides an updated macro-fiscal forecast for the budget year and the following three years.	*November 15*
Pre-election Economic and Fiscal Situation and Outlook Report	Includes the estimated revenues, expenditures, and budgetary balance for the current financial year, detailed by economic classification as well as a forecast of macroeconomic indicators and other economic assumptions.	*60 days before parliamentary elections*

2.1 Comprehensiveness of Budget Documentation

2.1.1 Budget unity (Basic)

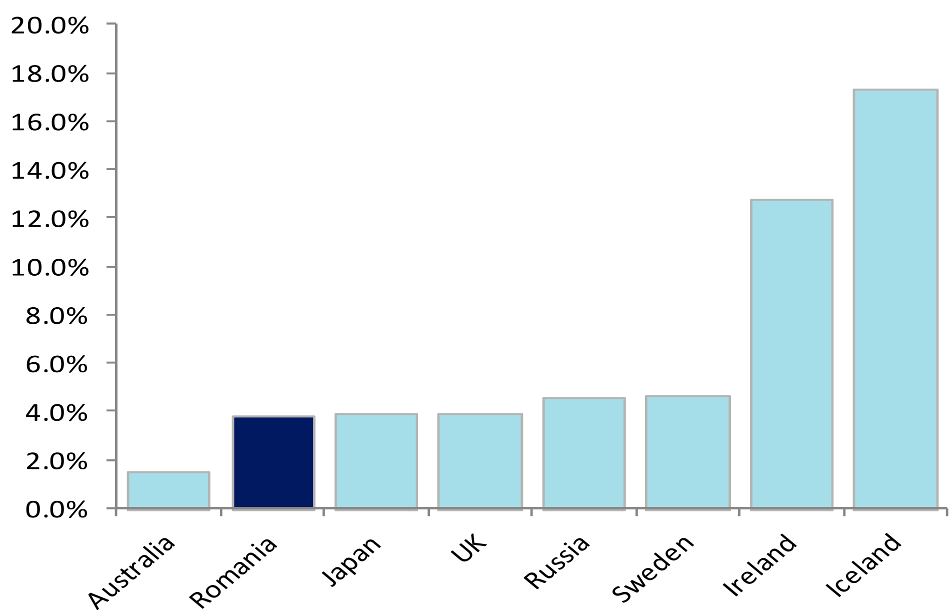
30. The vast majority of central government revenues, expenditures, and financing are presented on a gross basis in budget documentation and authorized by the legislature. The expenditures of all 65 "primary credit holders" (line ministries and first level spending units) are presented and approved in the annual budget. The Health and Social Security Funds are not included in the state budget but are presented and approved by parliament in parallel. The health budget is approved as an appendix to the annual state budget (356/2013 for the 2014 budget), while the social security fund and unemployment budget are approved by the annual State social insurance budget law (340/2013 for the 2014 budget).

31. However, the revenues and associated expenditure of some self-financed agencies are omitted from the annual budget documentation. These revenues were retained and spent by:

- the Treasury (0.5 percent of total central government expenditure);
- Road Fund (1.0 percent of total central government expenditure); and
- Extra-budgetary funds (1.9 percent of total central government expenditure).

The retained revenues are primarily used to finance the day to day operations of the individual entities—e.g., Treasury operations are largely self-financed through fees charged on transactions from budget and non-budget public and private sector bodies.[11] While the self-financed expenditure of these entities is not included in the budget voted by parliament, it is included in the consolidated general government revenue and expenditure estimates presented in the Fiscal and Budgetary Strategy. At 3.5 percent of total central government revenues in 2012, the level of retained revenues, is relatively low by international standards (see Figure 2.1) and has been declining in recent years (Figure 2.2).

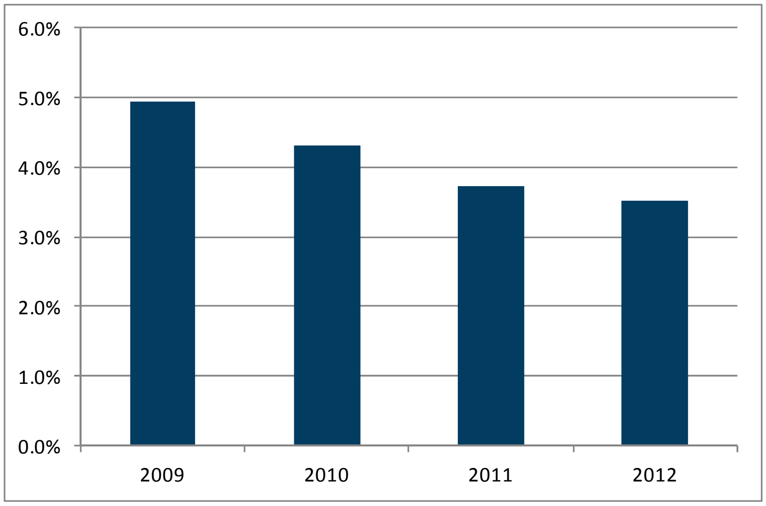
Figure 2.1. Romania: Comparison of Retained Revenues, 2012



Sources: IMF and country budget documents.

[11] All public and private sector entities dealing with the Treasury are required to have an account with the Treasury through which payments for goods and services received are paid. The Treasury charges fees for transactions connected with these accounts.

Figure 2.2. Romania: Retained Revenues of Central Government Agencies, 2009-12
(Percent of Total Revenue)



Sources: MoPF; IMF staff calculations.

2.1.2 Macroeconomic forecasts (Good)

32. **Macro-fiscal forecast updates are produced regularly in accordance with the timetable established by the FRL.** The macroeconomic forecasts are produced by the NPC, which operates under the MoPF, while the MoPF is responsible for the fiscal forecast.[12] Two or three forecast updates, and a review of latest economic developments, are published each year, in connection with the following documents:

- the forecast is presented in its most comprehensive form in the Convergence Program Update submitted to the European Commission each April, which includes a detailed discussion of macroeconomic and fiscal prospects for the upcoming four years. The presentation of the macro-forecasts included in the national budget documentation satisfies the requirements of the FRL (Article 19), and focuses on key macroeconomic variables. The information provided about the components and underlying drivers of the key variables is less detailed. The NPC releases a set of forecast tables on its website but without any narrative.

- the Fiscal and Budgetary Strategy, produced by the end of July each year, includes information on the macroeconomic situation and forecasts for the current budget year and three further years for the main GDP components, labor markets, foreign trade, and current account and inflation (Article 18 of the FRL). The forecast included in the Fiscal and Budgetary Strategy is generally consistent with the annual Convergence Program Update.

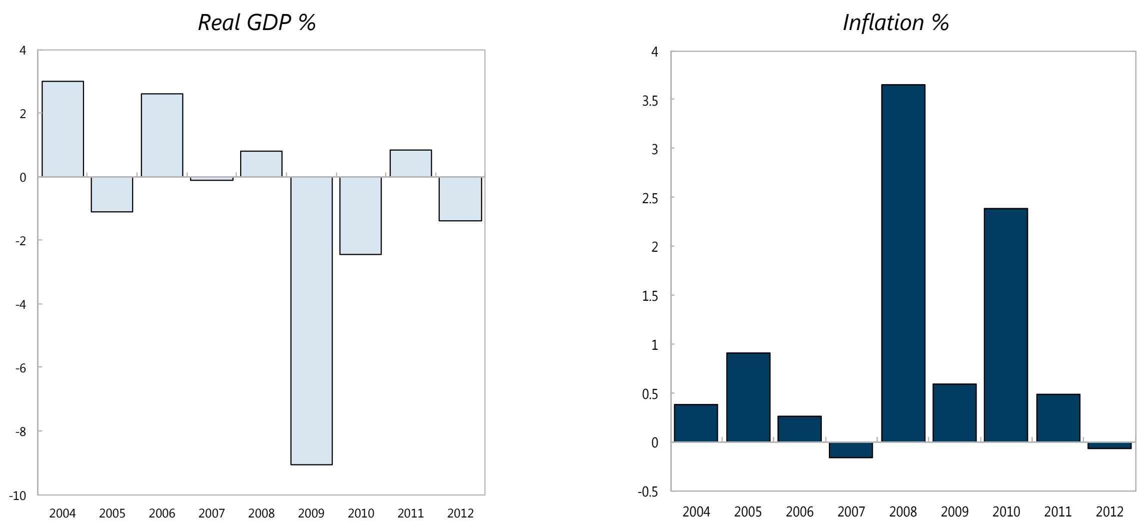
[12] Ordinance No. 22/2007 includes the provisions regarding the functioning of the NPC. Further responsibilities are outlined in the Law 270/2013 which amends the PFL.

- a half-yearly report on the economic and budgetary situation, produced by the end of July (Article 29 of the FRL). This document includes a review of the macroeconomic framework, the latest data on macroeconomic indicators, and a narrative on the impact of the latest developments to the previous forecast. It does not, however, include a comprehensive macroeconomic forecast update.

- a "Report on the Macroeconomic Situation" which provides macro-fiscal forecast updates for the budget year and the following three years broadly speaking to the same variables as the Fiscal and Budgetary Strategy as a supporting document to the Government's budget submission (the PFL, Article 35(2)).

33. While annual real GDP forecast have been relatively credible in most years, the same cannot be said for inflation. With the exception of the peak of the crisis in 2009, Romania's annual GDP forecast errors have been fairly small and symmetrical.[13] Annual inflation forecasts, on the other hand, have been large and clearly optimistic (see Figure 2.3).

Figure 2.3. Romania: Macroeconomic Forecast Errors in Annual Budgets, 2004-12

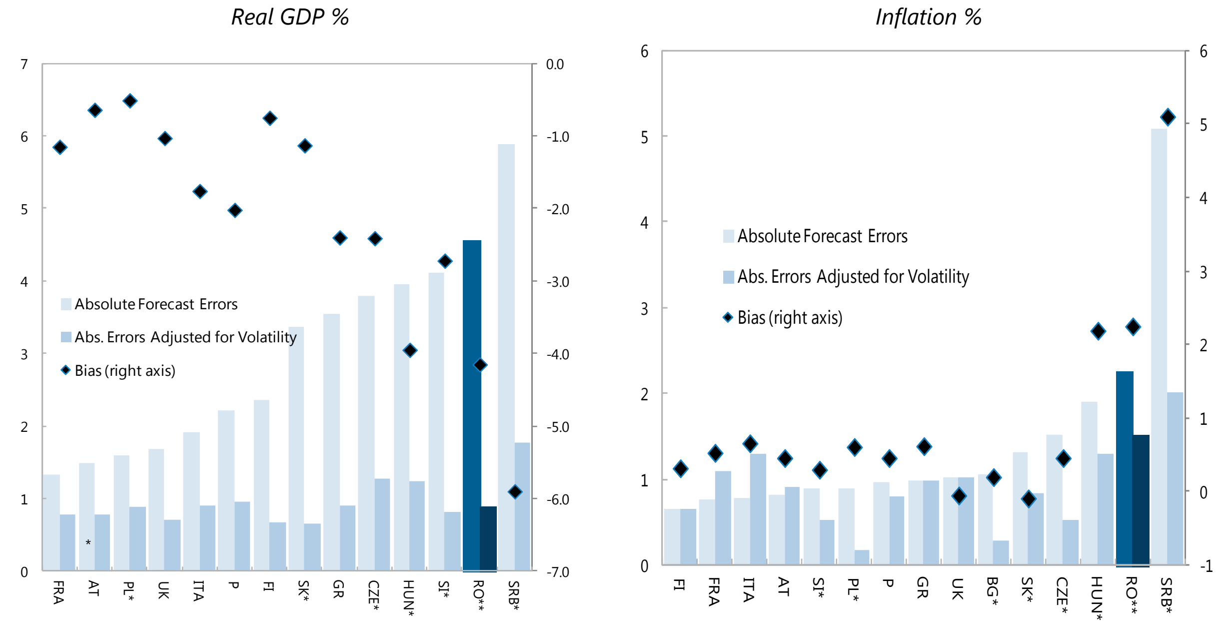


Sources: MoPF; IMF staff calculations.
Note: Outturn Forecast.

34. The medium-term errors, both for real GDP and inflation, are relatively large and optimistic, also when compared to a sample of European countries (see Figure 2.4). These medium-term forecast errors can be partially explained by the high degree of volatility in Romania's macroeconomic environment. Indeed, when adjusted for volatility, the errors do not stand out as particularly significant.

[13] Since the start of the multilateral financial program in 2009, the macroeconomic forecasts are discussed and agreed with the Troika.

Figure 2.4. Romania: Macroeconomic Forecast Errors in the Medium-Term Plans



Sources: Stability/Convergence Programs, Romania: MoPF; IMF staff calculations.
Note: 2000-12, *2005-12, **2004-12, 2 years ahead, bias defined as a simple average of forecast errors.

2.1.3 Medium-term budget framework (Advanced)

35. **Budget documentation includes medium-term fiscal information on the same basis as the annual budget.** The Government approves its annual Fiscal and Budgetary Strategy, on the proposal of the MoPF, by the end of July. In terms of its timing and content, the Strategy is broadly in line with international best practices (see Table 2.2). The Strategy includes outturns for the two previous years, forecasts for the current budget year and three further years on the level of budgetary expenditures by economic and functional classifications and revenues classified by main categories of revenues. The Strategy also includes binding ceilings for the overall balance and personnel spending of the general consolidated budget for the next two years (Articles 18 and 20 of the FRL). The Government then submits a draft Framework Law based on these ceilings for parliamentary approval.[14] Based on the Strategy and draft Framework Law, a note on Expenditure Ceilings is issued to all 53 primary budget users providing them with three-year indicative expenditure ceilings to be used in preparing their budget submissions. The State Budget Law submitted to Parliament in the autumn also presents indicative multi-year expenditure estimates for all individual ministries and institutions by functional and economic classification.

[14] Furthermore, the ceilings on reimbursable funding that can be contracted, the level under which the Government and local authorities can issue guarantees, the nominal level of aggregate personnel expenditure (net of EU and other donor funds), the nominal balance of the consolidated general budget and the primary balance of the consolidated general budget are be binding for the forthcoming budget year and are subject to an approval by the parliament.

Table 2.2. Timing and Contents of Pre-Budget Statements in Selected Countries

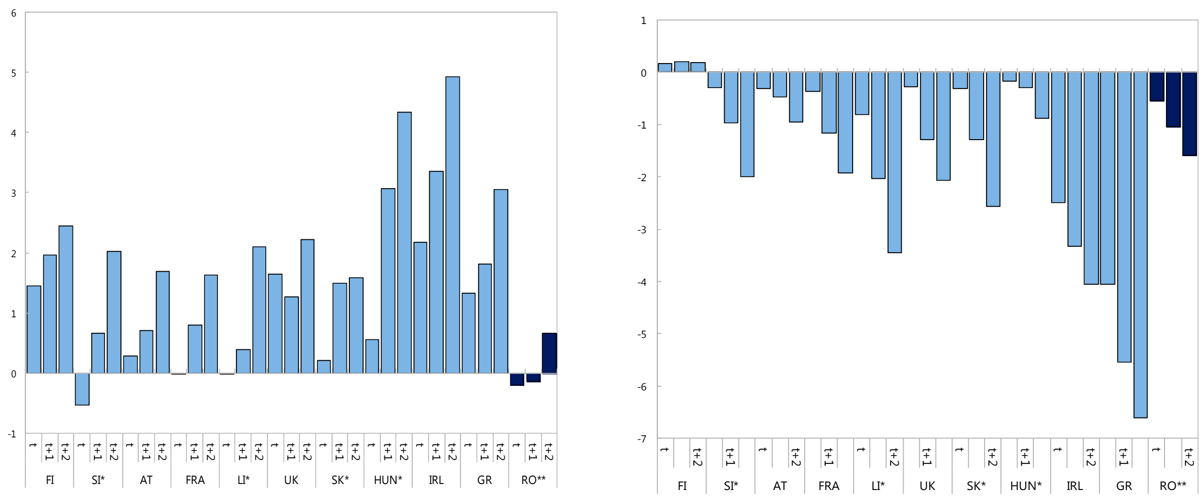
Country	Pre-Budget Statement	Issuance (months before fiscal year)	Parliamentary Decision on Sector/Min. Ceilings	Medium-term Exp.	Medium-term Revenue	Gen. Gov't or Public Sector Finances	Macro-econ Update	Debt Projection
Romania	**Fiscal and Budgetary Strategy Report**	**5**	**Submitted but not adopted**	**X**	**X**	**X**	**X**	**X**
Austria	Federal Financial Framework Law	8	Yes	X	X	X	X	X
Canada	Economic and Fiscal Update	5	No	X	X		X	X
Estonia	State Budget Strategy	7	No	X	X	X	X	X
Finland	Economic Survey	8	Submitted but not adopted	X	X	X	X	X
France	Budget Orientation Debate	6	Submitted but not adopted	X	X	X	X[1]	X[1]
Nether-lands	Spring Memorandum	7	Submitted but not adopted	X	X	X	X	X
New Zealand	Budget Policy Statement	4.5	No	X	X		X	X
UK	Autumn Statement	5	Submitted but not adopted	X	X	X	X	X
South Africa	Medium-term Budget Policy Statement	5	Yes	X	X		X	X
Sweden	Spring Fiscal Policy Bill	8	Submitted but not adopted	X	X	X	X	X

Source: National Budget Documents.

36. **Actual expenditure levels have exceeded medium-term plans by an average of around 1 percent of GDP during the past decade, although with markedly different trends before and after the crisis (see Figures 2.5 and 2.6).** Over-expenditure was particularly apparent prior to 2008. Since then, following the period of fiscal consolidation, and the introduction of the IMF/EU/WB supported financial program in 2009, expenditure outturns have been lower than originally envisaged in the medium-term plans. Revenue forecasts were cautious during the first half of the period, but following the global financial crisis, have proved to be optimistic. The targets set for the second-year's overall balance have been missed, on average, by around 2 percent of GDP during the past seven years.

Figure 2.5. Romania: Fiscal Forecast Errors in the Medium-Term Plans, 2000-12

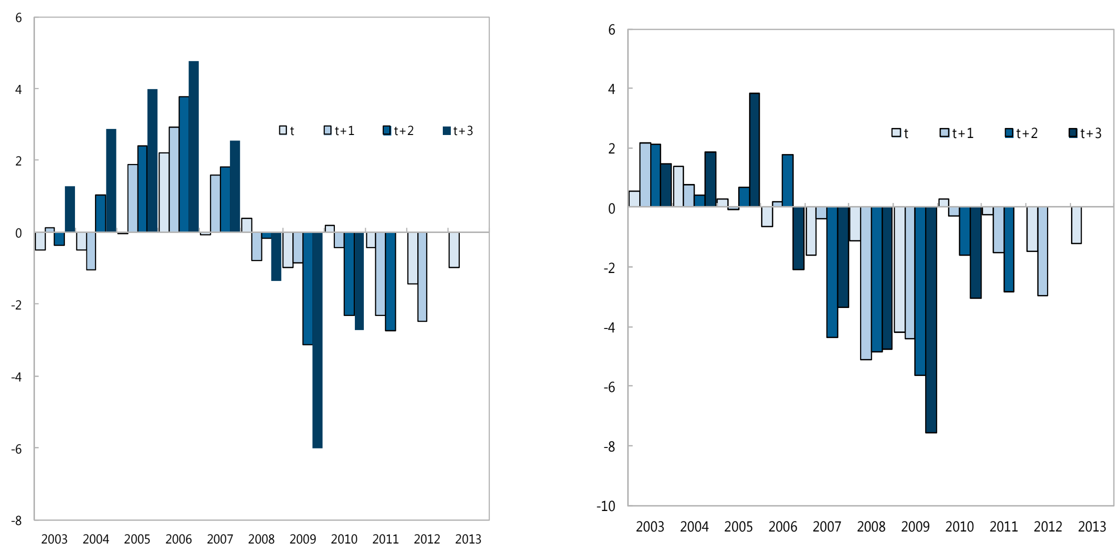
Expenditures (% of GDP) *Balance (% of GDP)*



Source: IMF staff calculations.
Note: 2003-12, 2008-12 Outturn Forecast; coverage – General Government.

Figure 2.6. Romania: Fiscal Forecast Errors in the Medium-Term Plans, 2000-13

Expenditures (% of GDP) *Revenues (% of GDP)*



Sources: MoPF, IMF staff calculations.
Note: Years refer to the years fiscal plan was made. Outturn forecast.

2.1.4 Investment projects (Basic)

37. Section 3 of the PFL includes detailed provisions regarding public investment management (Articles 38-46). In particular, the law requires budget users to provide financial and nonfinancial information on their public investment programs which then are submitted to parliament as an annex to the budget of each main budget user. The financial information should include, among other things, the commitment credits (i.e., the maximum limit of the expenditure which can be committed over the life of the program/project) and budgetary credits (i.e., the amount approved by the annual budget).

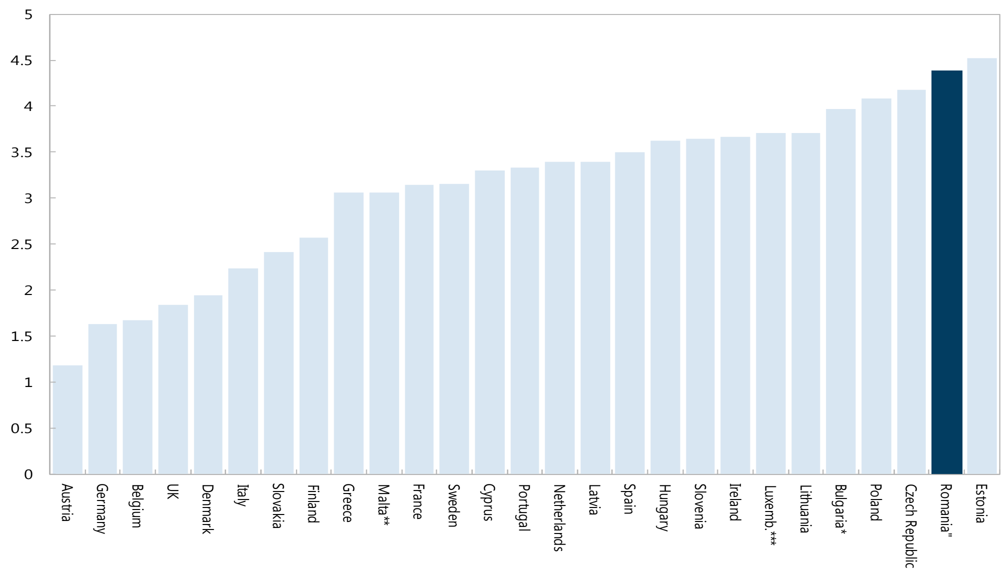
38. The budget documentation does not include an aggregate value of the Government's total obligations under multi-annual investment projects. The share of investment expenditure to GDP in Romania has been the second-highest on average among the EU countries over the course of the past decade (see Figure 2.7). While most of the information on multi-annual investments is included in the budget documentation it can only be obtained by adding the commitment credits disclosed in the individual budget chapters for each primary credit holder. Information on the commitment credits for investment projects that extend beyond year t+3 is recorded by the MoPF in their internal database.

39. The MoPF established a unit in 2013 tasked with analyzing the affordability and sustainability for significant investment projects (projects in excess of RON 100 million) based on prefeasibility studies and the technical economic briefs prepared by line ministries.[15] This unit is not yet fully operational and no concrete plans currently exist to make this information public. The line ministries currently perform cost-benefit analysis on major investments under their areas of responsibility, but this information is also not published. Significant investments projects, as defined above, are subject to an open and competitive tender. The EU directive on public procurement is applied also to such investment projects.

[15] "Significant projects" are defined in Ordinance 88/2013.

Figure 2.7. Public Investment in EU Countries, 2000-12

(Percent of GDP)



Source: Eurostat.

Note: 2000-12, *2002-12, **2005-12, ***2006-12, “2000-11.

2.2 Orderliness

2.2.1 Fiscal legislation (Advanced)

40. **Romania has a comprehensive legal framework which defines the government's powers with respect to fiscal policy making, budget preparation and execution, and accounting and audit.** The Public Finance Law (PFL), adopted in 2002 and subsequently revised, is a framework law which outlines, among other things, the competencies and responsibilities of the various actors in the budget process and the principles related to budget execution, tax collection, and accounting which are then specified further in secondary legislation.[16] The FRL, adopted in 2010 and subsequently revised, largely to take account of EU fiscal compact requirements, focuses mainly on the principles, objectives and rules for fiscal policies, the content of various budget documents, the rules on supplementary budgets, and the role of fiscal council. The Local Public Finance Law 273 of 2006, and subsequently revised, includes provisions related to the planning, approval, execution, and reporting of the local public finances.

2.2.2 Timeliness of budget documents (Basic)

41. **In recent years, the annual budget has often been submitted to parliament relatively late in the preceding year and is sometimes approved well after the start of the year to which**

[16] Some issues remain to be addressed, as explained in paragraph 49.

it applies. While the PFL requires the Government to submit the budget proposal to parliament by November 15 each year (Article 35 (4)), this has not routinely been observed, mainly due to political volatility.[17] Over the last eight fiscal years, the submission has been made on time three times (Table 2.3). According to advanced international standards, the budget should be submitted to the Parliament at least three months before the start of the financial year instead of the 1 ½ months currently mandated in the PFL. Late submission reduces the legislature's ability to consider the budget before it goes into effect.

42. Over the last eight years, the budget has been approved by the parliament significantly after the start of the financial year on three occasions. While the PFL includes provisions on the procedure to be applied if the Parliament fails to adopt the budget before the start of the financial year, it does not explicitly state when the budget should be approved by the Parliament.

Table 2.3. Romania: Budget Submissions and Approvals for 2007-14 Budgets

	2007	2008	2009	2010	2011	2012	2013	2014
Budget Submitted	**Oct 13**	**Oct 10**	Feb 5	Dec 23	Dec 6	Nov 25	Jan 23	**Nov 14**
Budget Approved	**Dec 27**	**Dec 31**	Feb 25	Jan 25	**Dec 28**	**Dec 20**	Feb 21	**Dec 18**

Source: MoPF.
Notes: Years refer to the budget year. Bolded dates refer to budgets submitted in line with the timetable established by law.

2.3 Policy Orientation

2.3.1 Fiscal policy objectives (Good)

43. Romania has adopted both qualitative objectives for its fiscal policy as well as number of quantitative fiscal rules (FRL Article 5-6 and 18-20). These include:

- ceilings for general consolidated budget balance and personnel expenditure of the general consolidated budget, expressed as a percentage of GDP for the next two years, as specified in the fiscal and budgetary strategy;
- ceilings for the primary balance of the general consolidated budget and the ceilings on the issuance of guarantees, for the next budgetary year, as specified in the fiscal and budgetary strategy;
- a ceiling for the total expenditure of the general consolidated budget excluding financial assistance from the European Union and other donors, and personnel costs, for the next budgetary year, as specified in the fiscal and budgetary strategy; and

[17] Before 2013, the deadline for the budget submission was October 15.

- a structural budget balance rule, debt-rule, and a correction mechanism, following the enhanced EU economic governance requirements.[18]

44. While the stated fiscal objectives are precise and time-bound, the large number of rules and objectives introduce complexity to the fiscal framework which may hinder its transparency. This places great demands on reporting of fiscal forecasts and related outturns. Article 22 (2b) of the FRL includes a requirement to provide an explanation of the fiscal and budgetary policies relative to the fiscal responsibility principles and objectives and the fiscal rules in the Fiscal and Budgetary Strategy. This explanation is currently presented but it lacks detail.

2.3.2 Performance information (Basic)

45. Romania has taken first steps towards program and performance budgeting. As discussed in Chapter I, a program classification is presented as an annex to the state budget law, and it covers the major policy areas. There are currently 179 programs. The Fiscal and Budgetary Strategy and the Report on the Macroeconomic Situation and Forecast include discussions on the Government's major policy goals as well as its sectoral policy goals and program objectives, and on the inputs acquired under the policy areas. However, no systematically published reporting on the performance against stated outputs or outcomes exists.

2.3.3 Public participation (Basic)

46. Steps have been taken to provide more accessible budget information to citizens. In 2013, a citizens' budget was published, which included the main economic and fiscal projections as well as the Government's key policy objectives and the main highlights from the 2013 budget. However, this document did not include detailed information on the implications of budget on the lives of typical citizens or any account of the financial impact of major policies on different income groups.

47. Romania has also introduced a number of legal acts aimed at improving public participation to the legislative processes. The Economic and Social Council, created in 1997, provides a consultative forum which analyses and issues non-binding recommendations to the Government on a wide range of areas, including the draft budget (Law No. 248 of July 2013). The Council brings together the representatives of the Government, trade unions, and employer associations. Other initiatives include Law No. 544 of October 2001 which was introduced to improve public access to information, and Law No. 52 of January 2003 which aims to improve public's participation in the development of government legislation. For example, Law 52 (Article 7), states that public authorities are obliged to organize public meetings on draft legislation if this has been requested in writing by a legally constituted association or by another public authority.

[18] The Fiscal Compact (intergovernmental agreement) and the "Six Pack" (EU secondary law) require member states, among other things, to modernize their fiscal frameworks by enshrining in national legislation a structural balance budget rule, an automatic correction mechanism to be triggered in the event of deviations from the rule and a new debt reduction rule.

2.4 Credibility of Forecasts and Budgets

2.4.1 Independent evaluation (Advanced)

48. The FRL created an independent fiscal council in 2010. The Fiscal Council (FC) has been tasked (FRL, Article 40), inter alia, to:

- analyze and issue opinions and recommendations on official macroeconomic and budgetary forecasts;
- analyze and issue opinions and recommendations on the Fiscal and Budgetary Strategy and assess its compliance with the principles and rules specified in FRL; and
- assess the budgetary performance of the Government against fiscal targets and policies specified in the Fiscal and Budgetary Strategy and the level of compliance of these policies with the principles and rules specified in the FRL.

49. In line with its mandate, the FC has issued opinions on the relevant budget documents assessing the Government's compliance with fiscal rules and the credibility of the underlying macro-fiscal forecasts. The FC regularly produces opinions and reports on the main budget documents. However, the FC has not always received the relevant budget documents in time to perform a proper ex ante analysis.[19] This has been largely due to the last minute changes to the documents. In these cases, the FC has prepared its opinion only after the document in question was made public. The lack of time provided to the Fiscal Council is an impediment to its efforts to carry out a thorough and timely assessment of budget documents.

2.4.2 Supplementary budget (Basic)

50. The FRL introduced limitations on the use of supplementary budgets. As stipulated by the FRL (Article 15), not more than two supplementary budgets may be approved in any financial year, and no supplementary budget can be sent to Parliament during the first six months of the financial year. According to the law, supplementary budgets should take into account the conclusions of the published half-yearly report on the economic and budgetary situation, and be supported by a recommendation of the Fiscal Council.

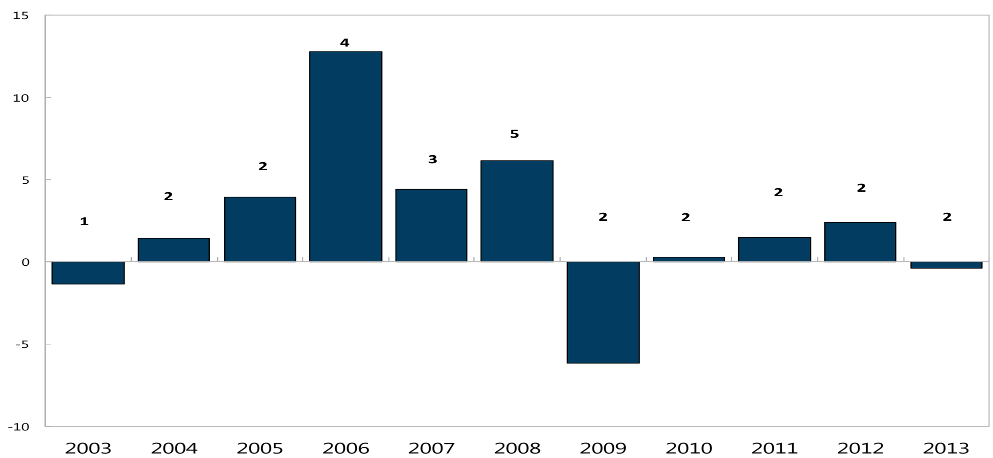
51. Multiple and fiscally significant supplementary budgets were common practice in Romania in the past, but in recent years the use of supplementary budgets to increase expenditure has been more subdued. On average, the size of supplementary budgets has been

[19] Article 40 (2d) of the FRL states: "Analysis and issuing opinions and recommendations on the annual budget laws before approval by the Government and before submission to Parliament, on the supplementary budgets and other legislative initiatives that may have an impact on the budgetary targets, as well as assessing their compliance with the principles and rules specified in this Law."

just over 2 percent of the approved budget (just over 3 percent if 2009 is excluded), slightly higher than international practice (see Figures 2.8 and 2.9).

Figure 2.8. Supplementary Budgets in Romania, 2003-14

(Percent of Approved Expenditure)

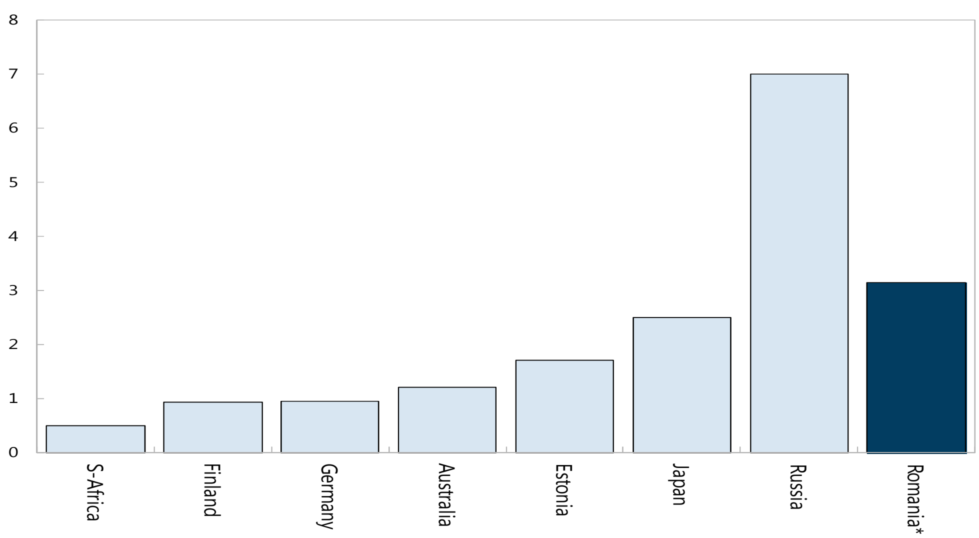


Source: MoPF.

Note: Numbers indicate the number of supplementary Budgets.

Figure 2.9. Supplementary Budgets in Selected Countries

(Percent of Approved Expenditure)



Sources: MoPF; IMF Staff estimates.

Note: 2000-12, *2003-13; excludes 2009 (Japan excludes 2008 and 2009).

52. However, the parliament does not usually give ex ante authorization to changes in appropriated expenditure. For the first supplementary budget, which typically takes place between July and August when the parliament is in recess, the parliament authorizes, via an empowerment law, the Government to issue a supplementary budget. However, the second supplementary budget, which typically takes place in October or November, is done via emergency ordinances issued by the Government. This is deemed necessary as it can take over a month for any legislation to be passed by the parliament and finally signed by the president in law, which would make it very difficult for ex ante authorization to be given for a supplementary budget late in the year. Consequently, in some instances the second supplementary budget is not endorsed by parliament until after the end of the fiscal year. Therefore, a parliamentary endorsement does eventually take place, but it is frequently well after the budgetary changes have been approved by the government meaning that expenditure increases or decreases have already taken place.[20]

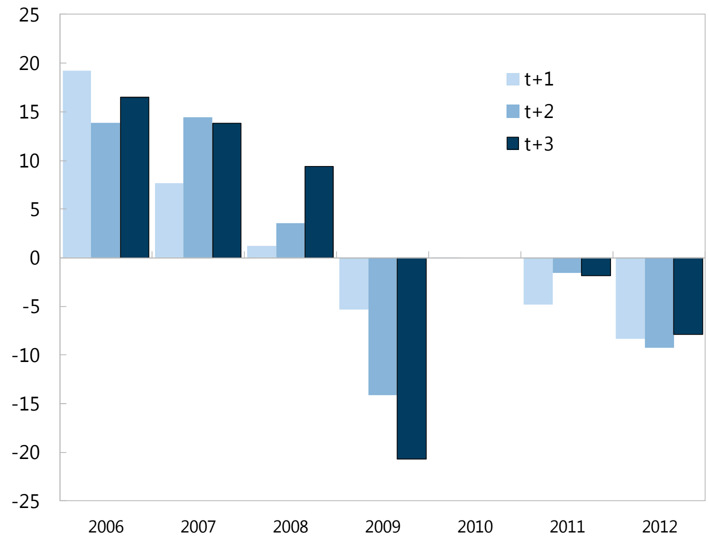
2.4.3 Forecast reconciliation (Basic)

53. Existing budget documentation includes limited explanations of changes between successive fiscal plans. Expenditure plans have seen substantial revisions from year to year, reflecting the non-binding nature of existing multi-year expenditure estimates. During the past few years, the revisions have been markedly smaller, possibly due to the IMF/EU/WB supported financial program which has been in place since 2009 and the recent improvements to the fiscal framework. The absolute average of the revisions to the first year's expenditure has been around 7 percent, the second year's expenditure around 8 percent, and the third year expenditure around 10 percent (Figure 2.10). The Fiscal and Budgetary Strategy document includes information about the changes in the main economic indicators and in the aggregate fiscal variables. A qualitative discussion of the impact of new policies on the forecast is also provided, but not quantitative estimates of their individual costs or yield. Such information would substantially increase the credibility of the recently introduced fiscal rules.

[20] Also, some tax changes have been carried out outside the budget process. Examples include a VAT reduction on flour and bakery products in mid-2013 and the delay in the excise increase in 2014.

Figure 2.10. Romania: Revisions to the Medium-Term Plans, 2006-12

(Percent of Total Expenditure)



Sources: MoPF, IMF staff calculations.

Note: The years refer to the year when the MT plan was made.

2.5. Conclusions

54. In summary, Romania has taken several steps in recent years to improve its fiscal forecasting and budgeting practices, which are rated as good or advanced in slightly less than half of the areas studied in this FTE. Table 2.4 summarizes the quality of Romania's fiscal forecasting and budgeting relative to the standards set by the draft *Fiscal Transparency Code* as well as the relative importance of each area. This assessment highlights a number of areas where fiscal forecasting and budgeting can be improved. These include that:

- the budget is frequently submitted after the timetable established by law and approved after the start of the financial year;
- parliament often authorizes expenditure changes after the expenditure increases or cuts have already been implemented and sometimes well into the next fiscal year;
- there is insufficient information on the assumptions surrounding macro-fiscal forecasts, and on reconciliation of changes to successive fiscal plans; and
- budget documentation does not include information on performance, consistency between fiscal rules and fiscal plans, and aggregate data on investment projects.

Table 2.4. Romania: Summary Evaluation of Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec.
2.1.1	Budget Unity	**Basic:** Budget documentation covers the vast majority of revenues and expenditures of central government although retained earnings of some entities are excluded.	**Medium:** Retained revenues and associated expenditures amount to approximately 3 percent of budget revenues but are on a declining path.	
2.1.2	Macroeconomic Forecast	**Good:** Two macroeconomic forecasts published per year in connection with the budget documentation. Explanation of forecast assumptions could be more detailed.	**High:** Medium-term forecast error for real GDP is around 4 percent on average during 2005–12.	4 (a)
2.1.3	Medium-Term Budget	**Advanced:** Budget documentation includes medium-term projections of revenues, expenditures, and financing by economic and functional category.	**Medium:** Deviations from fiscal plans are relatively minor on average (average medium-term forecast errors during 2002-13 have been 0.7 percent of GDP for expenditures and 1.6 percent of GDP for revenues).	
2.1.4	Investment Projects	**Basic:** Major projects subject to open and competitive tender, the value of obligations under each primary budget user is provided, but not the total value. Regular, published, cost-benefit analysis for major projects is lacking.	**High:** High public investment expenditure (4.4 percent of GDP on average during 2000–11) makes improvements a priority.	5 (a)
2.2.1	Fiscal Legislation	**Advanced:** Comprehensive legal framework for fiscal policy, budgeting, execution, accounting, and audit.	**Low:** Legal framework continually updated to address emerging issues.	
2.2.2	Timeliness of Budget Documents	**Basic:** Budget submitted to the parliament and made public one-and-a-half months before the start of financial year, and approved just before the start of financial year or after.	**High:** For the last 8 budgets, 5 have been submitted after the timetable established by law, and 3 approved after the start of financial year.	3
2.3.1	Fiscal Policy Objectives	**Good:** Several medium-term fiscal rules are in place, some of which were introduced very recently. Large number of objectives introduces complexity to the framework.	**Medium:** Rules introduced since 2010 are relatively untested. The multilateral financial program limits Govt's independence to pursue its own fiscal policy. A complex set of rules places high demands on reporting of fiscal forecast and related outturns.	5 (b)
2.3.2	Performance Information	**Basic:** Program classification is presented for the major policy areas as an annex in the budget law, but no systematically published reporting on the performance against the stated outputs or outcomes exist.	**Medium:** Performance measures and outcome indicators remain to be defined.	
2.3.3	Public Participation	**Basic:** Citizens' guide to budget produced, but without detailed implications of the budget policies. Provisions on public consultation in place. Economic and Social Council provides recommendations on the draft budget.	**Medium:** Economic and Social Council has an established role, but budget documentation does not provide accessible information on the implications of the budgets.	
2.4.1	Independent Evaluation	**Advanced:** Independent fiscal council with a mandate issues opinions and recommendations on official forecasts, and assesses the budgetary performance of the government.	**High**: The fiscal council has not often received the relevant budget documents in time leaving little time for a substantive analysis.	5 (c)
2.4.2	Supplementary Budget	**Basic:** Limitations on the use of supplementary budgets strengthened but parliament often authorizes expenditure increases ex post.	**Medium:** Supplementary budgets increased expenditure by more than 2 percent on average over 2002-12.	3
2.4.3	Forecast Reconciliation	**Basic:** There is a qualitative discussion of differences between the successive vintages of the government's fiscal forecasts.	**High:** The average revision of total expenditure in medium-term plans is around 10 percent—high by international standard.	4 (b)

III. FISCAL RISK ANALYSIS AND MANAGEMENT

55. This chapter assesses the adequacy of the government's analysis, reporting, and management of fiscal risk relative to the IMF *Fiscal Transparency Code.* In doing so, it looks at three dimensions of disclosure and management:

i. general arrangements for disclosure and analysis of fiscal risks;

ii. risks emanating from specific sources such as government assets and liabilities, guarantees, public-private partnerships, and the financial sector; and

iii. coordination of fiscal decision-making between central government, local governments, and public corporations.

Table 3.1 lists selected reports in which information on fiscal risks can be found.

Table 3.1. Romania: Selected Reports Relating to Fiscal Risk

Report	Fiscal Risks Discussed	Author
Convergence Program 2013–16	Macro risks, long-term fiscal projections	Government of Romania
Report on the Macroeconomic Situation of 2014 and Forecasts for the Years 2015–17	Macro risks, some guarantees	MoPF
Fiscal and Budgetary Strategy for 2014–16	Macro risks	MoPF
Budget-execution reports	Guarantees	MoPF
Financial Accounts of General Government	Government's liabilities and financial assets	NBR
Government Public Debt Management Strategy 2013–15	Interest-rate, exchange-rate, and refinancing risks in debt portfolio	MoPF
Financial Stability Report	Risks from financial sector	NBR
Bank Deposits	Guarantees of bank deposits	Bank Deposit Guarantee Fund
Quarterly Situation of Main Economic and Financial Indicators [of public enterprises]	Finances of public enterprises	MoPF

Source: MoPF.

3.1. Analysis of Fiscal Risks

3.1.1. Macroeconomic risks (Basic)

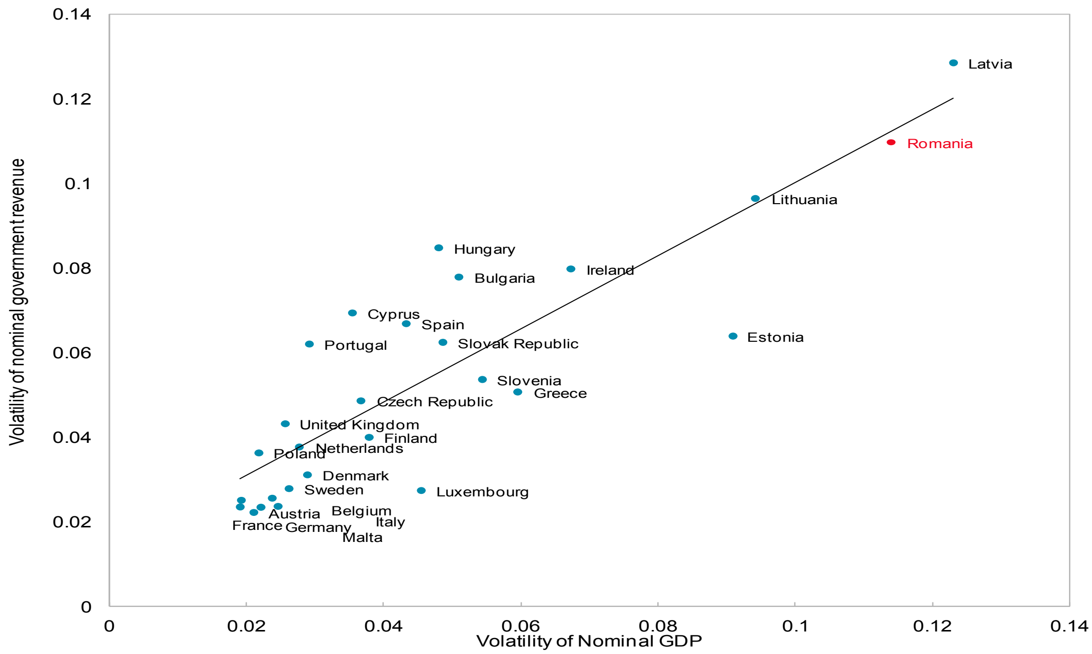
56. The volatile economy is a major source of fiscal risk. As discussed in Chapter II, uncertainty about prices and the rate at which the economy will grow have made budgeting and fiscal forecasting difficult. Figure 3.1(a) shows that in 2000–12 nominal GDP and government revenue were more volatile in Romania than in any other country of the European Union except Latvia. In recent years, falling inflation has made prices more predictable, reducing the problem. Nevertheless, the volatility of real GDP and real government revenue remains high (Figure 3.1(b)). The volatility of real GDP is reflected in debt-sustainability analysis, which shows that a one-standard-deviation decline in economic growth in 2014 and 2015 would cause debt to rise from 39 percent of GDP at the end of 2013 to 50.5 percent of GDP by the end of 2015.[21]

57. Three recent government reports include some macroeconomic sensitivity analysis: (i) Convergence Program 2013–16; (ii) Report on the Macroeconomic Situation of 2014 and Forecasts for the Years 2015–17; and (iii) Fiscal and Budgetary Strategy for 2014–16. All three show the sensitivity of government debt to economic growth and the sensitivity of interest payments to the interest rate and the exchange rate (see Sections 5, 3.4, and 3.3, respectively). However, this is as far as the analysis goes. For example, there is no sensitivity analysis for the budget deficit. Nor is there much discussion of the implications of the analysis for fiscal policy. No scenario or stochastic analysis is published.

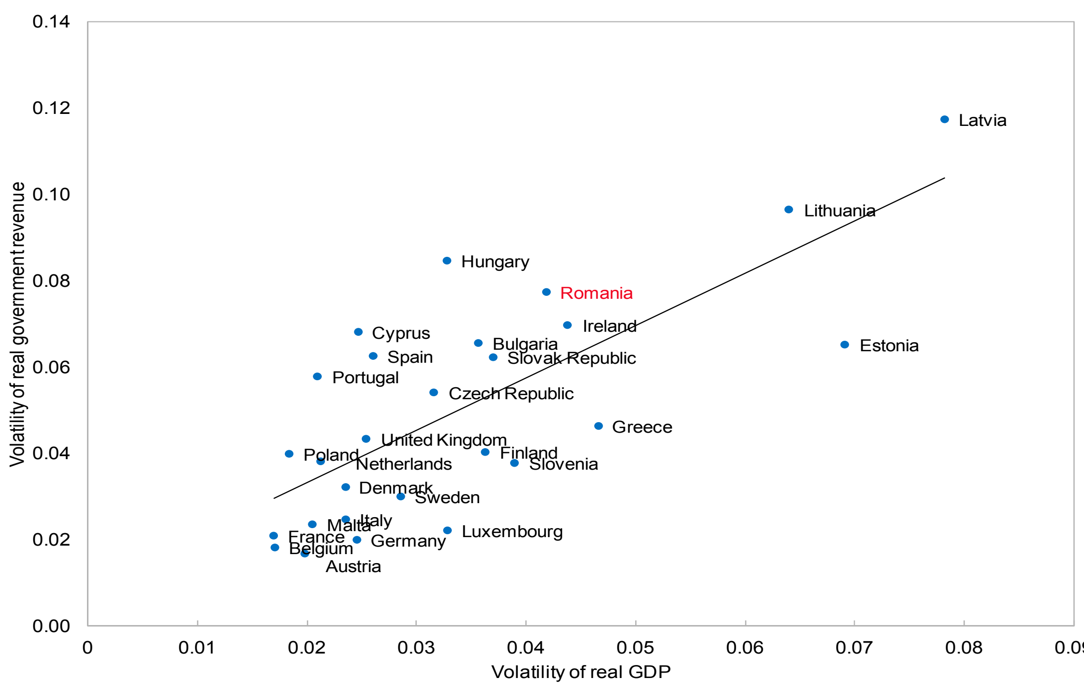
[21] IMF staff estimate, February 2014.

Figure 3.1. Macro-Fiscal Risks in the European Union, 2000-12

(a) Volatility of Nominal GDP and Government Revenue



(b) Volatility of Real GDP and Government Revenue



Source: IMF, World Economic Outlook database, October 2013.

Notes: Volatility is measured as the standard deviation of the annual rate of growth. Government is general government. Croatia is excluded because of incomplete data.

3.1.2. Specific fiscal risks (Basic)

58. Several specific fiscal risks are disclosed. The Report on the Macroeconomic Situation discusses some of these risks in mainly qualitative terms, including the risks that arise from uncertainty about the climate (which affects agricultural output) and about the credit that will be provided by banks. The report also discusses guarantees, but the discussion of contingent liabilities is not comprehensive. For example, the report does not give the total stock of outstanding guarantees, though that figure is published elsewhere. The FRL calls for what appears to be a more extensive statement of fiscal risks including "any commitments and contingent liabilities not included in the fiscal forecasts, and all other circumstances which may have a material effect on the fiscal and economic forecasts and which have not already been incorporated into the fiscal forecasts, as well as information on the losses and outstanding payments of the SOEs."[22] Table 3.2 quantifies some of the specific risks discussed below; it is not exhaustive.

Table 3.2. Romania: Size of Specific Fiscal Risks
(Percent of GDP)

Risk	Size	Nature of Estimate
Government guarantees	2	Face value of guaranteed debt, 2012
Public-private partnerships	3	Capital cost of three planned projects
Insured deposits	16	Deposits insured by government-backed Fund, 2013
Other liabilities of the financial sector	41	Liabilities of financial sector insured deposits, 2012
Large earthquake	7	Estimated cost of 1977 earthquake in Bucharest

Source: See text below.

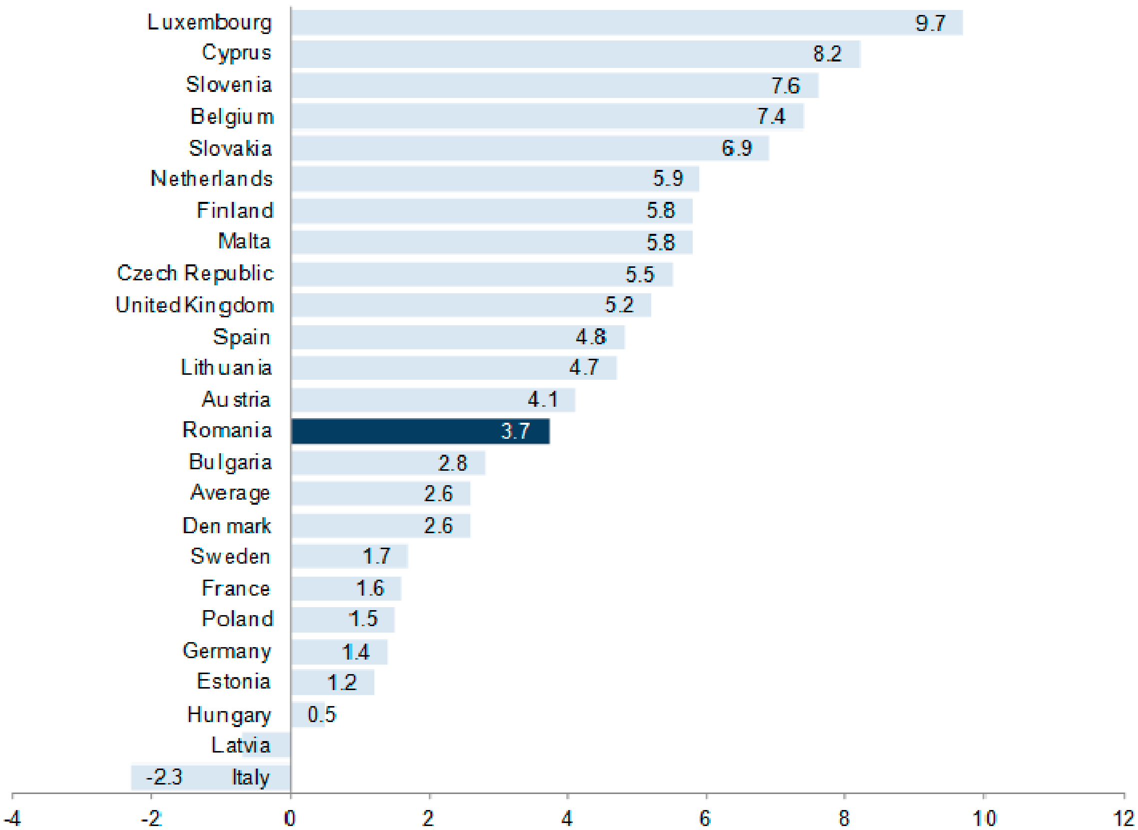
3.1.3. Analysis of long-term fiscal sustainability (Not Met)

59. In the long term, ageing and the rising cost of healthcare create a significant fiscal risk. According to analysis done by the European Commission in collaboration with member states, the government would need to permanently raise taxes and/or cut spending by 3.7 percent of GDP to ensure a balanced budget in the long term.[23] This is a large adjustment, but about average for members of the European Union (Figure 3.2). The government's initial deficit is lower than average, but age-related spending is projected to grow faster than in many countries. The uncertainty surrounding the estimate is of course very large, and the adjustment that is ultimately required may be much less or much more.

[22] See Article 20 (2) (d) of the English translation of the law, available on the website of the Fiscal Council.

[23] See Government of Romania, *Convergence Program 2013–2016*, April 2013, Section 6, and European Commission, *Fiscal Sustainability Report 2012*, Section 7.19.

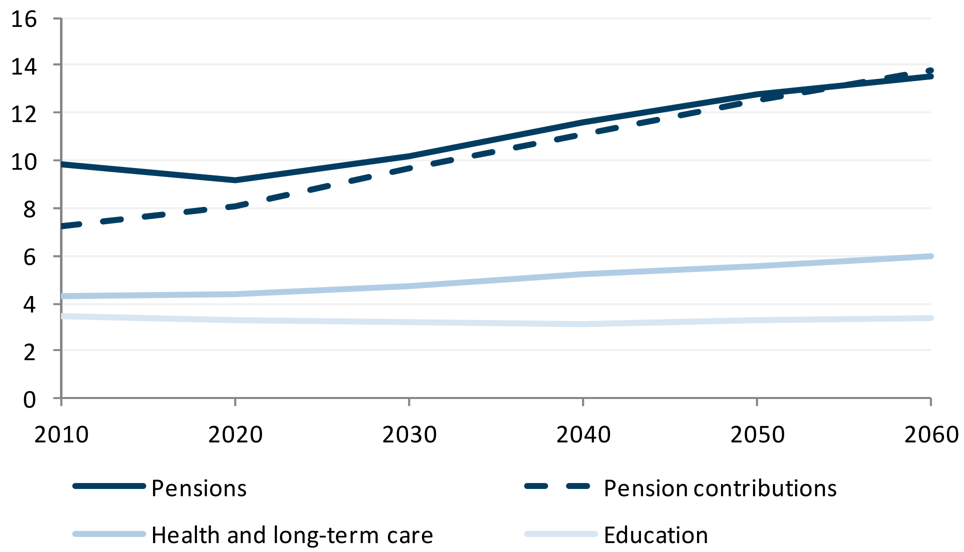
Figure 3.2. Budgetary Change Required for Long-Term Balance – European Union, 2012
(Percent of GDP)



Source: European Commission, Fiscal Sustainability Report 2012, Table 3.5.
Note: The required change is measured by the S2 indicator. The value for Latvia is −0.7.

60. Elements of the long-term fiscal outlook are discussed in Convergence Program reports. The report for 2013–16 projects spending on pensions, education, and healthcare until 2060 (see Figure 3.3). However, it does not show projections of total spending and revenue or of debt, so it is not clear what is expected to happen to public finances overall. Nor does the report present any sensitivity analysis. Such analysis would be useful because of the uncertainty surrounding long-term projections and their sensitivity to assumptions about labor productivity, population growth, health-care costs, and other factors.

Figure 3.3. Romania: Elements of Projected Spending and Revenue, 2010-60
(Percent of GDP)



Source: Government of Romania, Convergence Program 2013–16, Annex Table 7.
Note: The graph is produced by linear interpolation between the values reported for the six years (2010, 2020, 2030, 2040, 2050, and 2060) shown in the table.

3.2. Management of Fiscal Risk

3.2.1. Budgetary contingencies (Basic)

61. The budget includes a small provision for contingencies, but there are concerns about its use. In 2013, the provision was RON 207 million for the budget year (0.2 percent of total spending) and RON 107 million (0.1 percent of total spending) for each of the years 2014–16.[24] These amounts are small, but more flexibility is created by a provision in the budget law that requires 10 percent of certain spending items to remain unallocated until the second supplementary budget. The PFL specifies that reserve funds should be used for urgent or unexpected needs.[25] However, there are concerns that in practice the reserve functions less to manage risk than to allow the executive to allocate certain funds without prior approval of parliament.[26] An emergency

[24] Budget Law of the State for 2013 (Legea budgetului de stat pe anul 2013), p. 15. There is also an "intervention fund" (*fond de intervenție la dispoziția Guvernului*). See Contul General Anual de Executie A Bugetului De Stat Pe Anul 2012—Sinteza.

[25] Legea finanțelor publice, 500/2002, Article 30.

[26] Societatea Academică din România, *În atenția FMI: Nemaipomenita epopee a fondului de rezervă bugetară*, Policy brief #65, July 2013.

ordinance in 2012 allowed it to be used to repay arrears, a use which probably could have been foreseen at the beginning of the year.[27]

3.2.2. Tax expenditure (Not Met)

62. There are many tax expenditures, but no public report on them. The government has started to prepare a report that details dozens of exemptions (or other advantages) related to corporate tax, income tax, nonresident tax, excise duties, value-added tax, social contributions, and local taxes. The costs of only two of the measures are estimated: an exemption of certain pension income from personal income tax (RON 6.4 billion or 1 percent of GDP) and "the personal deduction granted for salary-based incomes, in the location hosting the basic position" (RON 1.4 billion or 0.2 percent of GDP).

3.2.3. Asset and liability management (Basic)

63. Government assets and liabilities have grown, increasing their importance in risk management. According to the NBR's financial accounts for general government, government financial assets grew from 24 percent of GDP in 2008 to 31 percent in 2012, while liabilities grew from 28 percent of GDP to 50 percent (Table 3.3). The government also has nonfinancial assets worth 100 percent of GDP (see the column for general government in Table 1.3 above). This value is high compared to other countries where data on nonfinancial assets are available, though cross-country differences in recording and measuring nonfinancial assets make comparisons difficult.[28] The above estimate of liabilities is higher than Maastricht debt (37.9 percent of GDP in 2012) for at least two reasons. First, unlike the Maastricht measure, the estimate includes some liabilities owed by one part of general government to another part. This explains about 4 percentage points of the difference between the two estimates. Second, the estimate includes certain obligations not counted in Maastricht debt, such as other accounts payable (7 percent of GDP). Other accounts payable includes arrears, but most of this amount probably relates to bills that are not overdue.[29]

64. Debt-related risks are greater than the Maastricht measure might suggest. First, as noted above, total liabilities exceed Maastricht debt. Second, while the government's financial assets

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[27] Ordonanța Urgența, 8/ 2012, stabilirea unor masuri financiare, April 5, 2012, Article 3.

[28] Data on nonfinancial assets for a sample of countries not including Romania can be found in Elva Bova, Robert Dippelsman, Kara Rideout, and Andrea Schaechter, "Another Look at Governments' Balance Sheets: The Role of Nonfinancial Assets," IMF Working Paper WP/13/95, 2013.

[29] According to cross-country data published by Eurostat, Romania's government had trade credits and advances (a component of accounts payable) of 3.1 percent of GDP in 2011, which was higher than the value for most other countries. Also excluded from Maastricht debt are financial-derivative liabilities, a component of securities other than shares, which added to liabilities in earlier years but which are now zero. (The obligations classified as derivative liabilities related to compensation for expropriations during the Communist era.) Differences may also arise because of valuation methods: debt for Maastricht purposes is measured at face value, while debt for statistical purposes is measured at market value. The data in Table 3.3 differ also from the accounts presented in Table 1.3, which show higher values for both liabilities (57.4 percent of GDP) and financial assets (40 percent of GDP). The discrepancies may arise from differences in valuation methods and the coverage of institutions.

partially offset its liabilities, its financial assets are smaller than those of most other European governments (Figure 3.4(a)).[30] Thus while Romania's Maastricht debt is the fifth lowest in the European Union, its net financial liabilities are only the tenth lowest (Figure 3.4(b)). Finally, the government must service its debt with revenue that is less predictable than that of most other European governments (Figure 3.3).

Table 3.3. Romania: Financial Assets and Liabilities of General Government, 2000-12

(Percent of GDP)

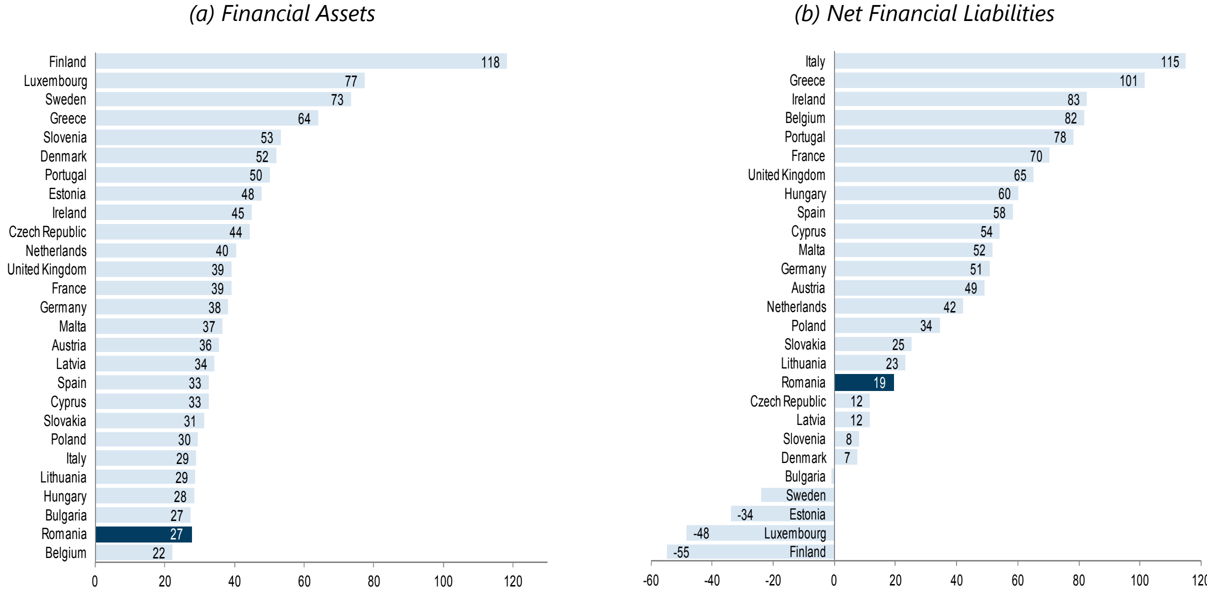
	2008	2009	2010	2011	2012
Assets					
Currency and deposits	6.0	7.3	6.6	6.4	7.8
Securities other than shares	0.1	0.0	0.0	0.0	0.0
Loans	1.6	1.9	1.8	1.8	1.7
Shares and other equities	8.1	16.7	16.1	15.5	12.9
Other accounts receivable	8.0	7.9	8.1	8.2	8.7
Total	23.7	33.8	32.7	31.9	31.1
Liabilities					
Currency and deposits	4.2	3.5	3.7	4.0	3.4
Securities other than shares	5.9	13.0	16.5	19.9	24.7
Loans	7.9	11.9	14.7	15.2	14.5
Shares and other equities	4.2	4.5	4.2	1.5	0.5
Other accounts payable	5.6	6.8	5.5	6.6	7.1
Total	27.9	39.8	44.6	47.3	50.2

Source: National Bank of Romania, Financial Accounts.
Note: Data are unconsolidated.

65. Borrowing is controlled by law and debt-related risks are described in a debt-management report. The FRL requires that the medium-term fiscal framework include ceilings for new borrowing (Article 20(1) (c)). Planned ceilings for 2014–16, for example, are set out in Fiscal and Budgetary Strategy for 2014–16 (p. 98), and the legal ceiling for 2014 is set out in law 355 of 2013 (Article 3). The Government Public Debt Management Strategy 2013–15 discusses refinancing risk and how debt-service payments will vary with interest rates and exchange rates. It also describes the government's strategy for managing these risks. Information on risks relating to the government's assets and how they are managed is not published.

[30] The NBR data in Table 3.2 show greater financial assets than the Eurostat data in Figure 3.4, because only the latter are consolidated and therefore eliminate holdings of one part of general government in another part of general government.

Figure 3.4. Financial Assets and Net Financial Liabilities – European Union, 2012



Sources: Eurostat's Quarterly Financial Accounts for Government for 2012:Q4, and Eurostat GDP data.
Note: data are for consolidated general government. The values for net financial liabilities for Bulgaria and Sweden are –1 and –24, respectively.

3.2.4 Guarantees (Good)

66. Government guarantees are increasing, but are currently only about 2 percent of GDP.[31] This is modest, especially compared with the levels found in countries where the financial crisis led the government to guarantee banks' debts.[32] The fiscal strategy allows new guarantees of up to RON 8 billion (1.3 percent of 2013 GDP) a year for the next three years, while the ceilings for new borrowing are RON 2.4 billion (0.4 percent of GDP) per year or less, so the risks created by guarantees will probably grow (Figure 3.5), though the growth is constrained by additional limits set in the EU- and IMF-supported program.

67. The government's outstanding guarantees are disclosed, and their issuance is controlled by law. The FRL requires the government to set ceilings for the issuance of guarantees in the budget year and the following two years (Art. 20(1)(d)). Planned ceilings for 2014–16 are set out in Fiscal and Budgetary Strategy for 2014–16 (p. 98), and the legal ceiling for 2014 is set out in law 355 of 2013 (Article 3). A list of government guarantees is presented in annexes to the annual report

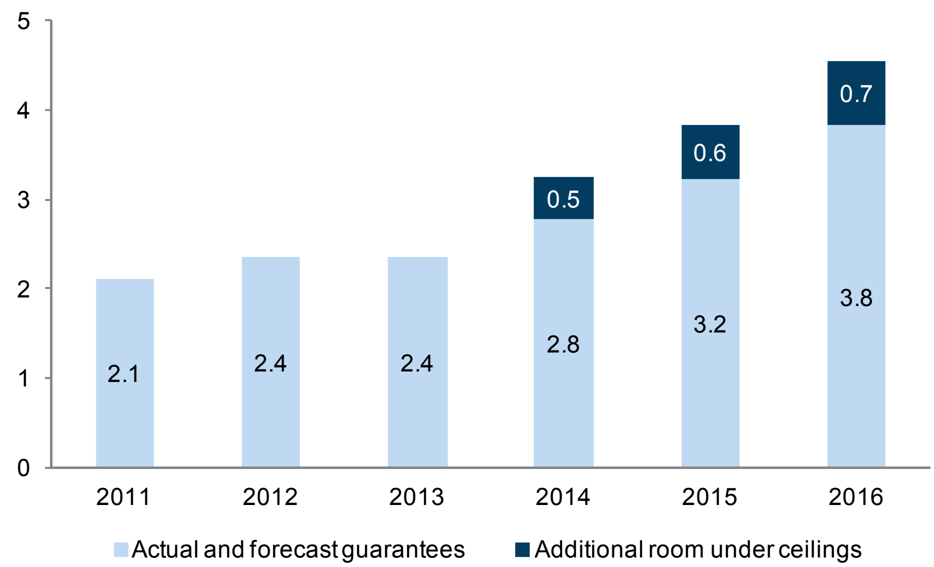
[31] The best data on the total stock of guarantees issue by general government come from Table 9.1, which is reported to Eurostat but not published. They show guarantees of RON 12.4 billion at the end of 2012. MoPF publishes more-detailed and up-to-date information, which shows guarantees of RON 13.8 billion at the end of 2012, but among other differences this information includes guarantees of the debt of entities in general government.

[32] See Eurostat, Supplementary Tables for the Financial Crisis.

on budget execution and public debt.[33] Total guarantees issued by local and central government are shown in the government's monthly report on the structure of public debt.[34] The report on the Macroeconomic Situation estimates that calls on certain guarantees in the next few years will be less than 0.1 percent of GDP, though it does not explicitly discuss the probability of calls on guarantees or report the total stock of guarantees.

Figure 3.5. Romania: Past and Projected Stock of Guarantees, 2011-16

(Percent of GDP)



Source: MoPF.

Note: Guarantees are as defined by MoPF and are thus higher than the consolidated guarantees of general government.

3.2.5 Public-private partnerships (Not Assessed)

68. Public-private partnerships may become a fiscal risk. So far, however, little use has been made of them. According to one study, there has been less investment in PPPs in Romania than in any other member of the European Union (Figure 3.6). This is partly because some planned PPPs in the road sector stalled when the concessionaires failed to obtain financing.[35] But a new PPP law is being considered by parliament, and a preferred bidder has been chosen for a 29-year contract for

[33] The first page of the report is entitled "Contul General Anual de Executie A Bugetului De Stat Pe Anul 2012—Sinteza." Detailed information on debt guaranteed by central and local government can be found in Annexes 10 and 12, beginning on pp. 1281 and 1312, respectively.

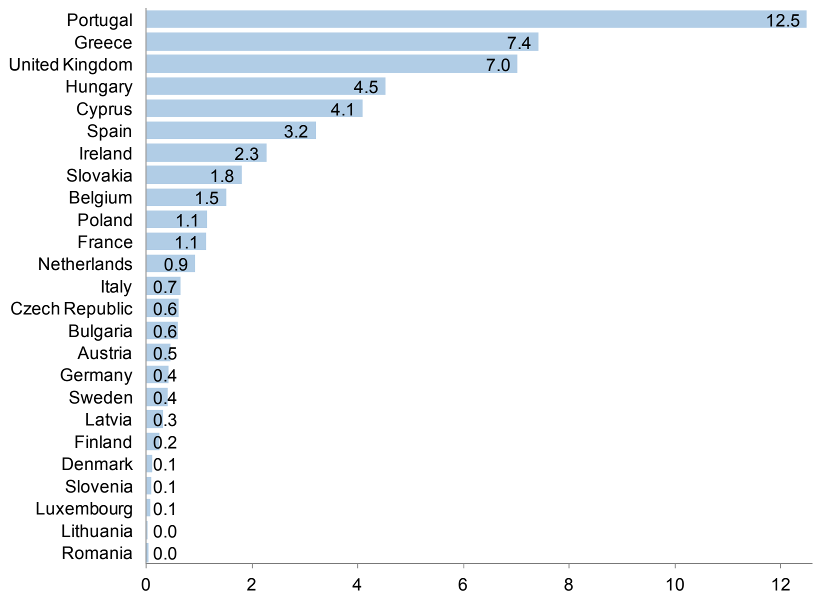
[34] See Structure of Public Debt at 31 of August 2013.

[35] Andreea Neferu, "Anul concesiunilor de autostrăzi: Statul caută 5 miliarde de euro la investitori privați," *Ziarul Financiar*, December 25, 2013. The term PPP is used in this report to include not only the government-funded contracts described by Eurostat as PPPs, but also (user-funded) concessions.

a highway between Comarnic and Braşov. The capital cost of the project has been estimated at 1.8 billion euros (about 1.2 percent of 2014 GDP).[36] The government would pay this cost, as well as the expected cost of operating and maintaining the road, over the course of the contract by making monthly availability payments to the contractor. The government is considering two other road PPPs with a cost that, including the Comarnic-Braşov road, has been estimated at 5 billion euros (3.4 percent of GDP).[37] Even if these projects do not immediately increase the Maastricht measures of the deficit or debt, their fiscal implications (and economic benefits) are similar to those of traditional debt-financed public investments.

Figure 3.6. Investments in PPPs – European Union, 1990-2011

(Percent of 2012 GDP)



Source: Andreas Kappeler, "Recent Trends in the PPP Market in Europe: Slow Recovery and Increasing EIB Involvement," Econ Note, European Investment Bank, October 2011.
Note: What is measured is cumulative investment.

3.2.6. Exposure to the financial sector (Not met)

69. The financial sector is a source of explicit and implicit fiscal risks. Analysis by the NBR and IMF shows that these risks remain important.[38] For example, the current-account deficit has been high in the recent past (Figures 3.7) and the level of nonperforming loans remains high (22 percent in June 2013, compared to an average of 13 percent for emerging and developing

[36] Transcript of a press conference given by the Prime Minister and by the Minister Delegate for Infrastructure Projects of National Interest and Foreign Investments. The estimate of the size of the project as a percentage of GDP uses an exchange rate of RON 4.49 per euro.

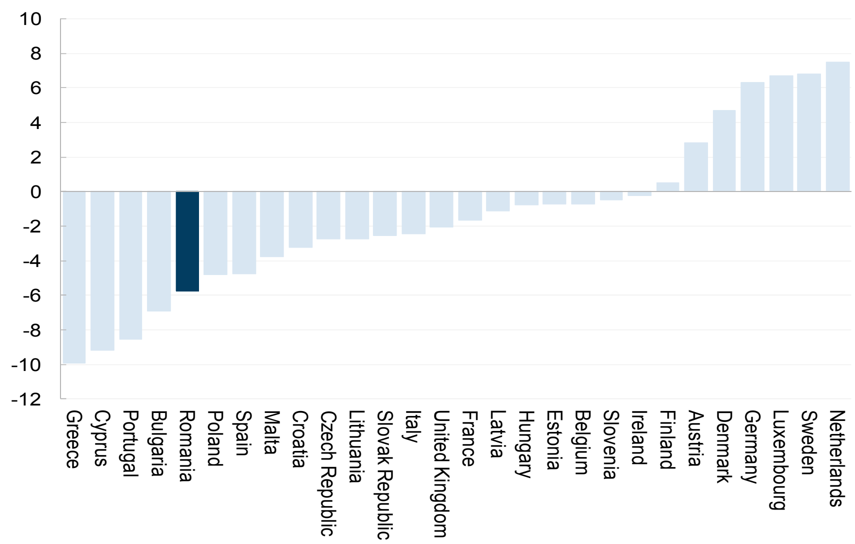
[37] Andreea Neferu, "Anul concesiunilor de autostrăzi."

[38] IMF, *Staff Report,* October 2013, pp. 23, 40; NBR*, Financial Stability Report: Overview,* 2013, pp. 3–4.

European countries).[39] On the positive side, the current-account deficit fell to 1 percent in 2013; banks are well-capitalized, with provisions for nonperforming loans said to be adequate; and the banking sector is smaller in relation to the economy than in many countries—though the possible fiscal implications of a banking crisis are still larger than those of most of the other risks considered in this section.[40]

Figure 3.7. Current Account Balances in European Union, 2008-12

(Percent of GDP)



Source: IMF World Economic Outlook database, October 2013.

70. Explicit risk arises from the Bank Deposit Guarantee Fund. The Fund, which was created by law, insures eligible deposits up to €100,000. It collects premiums from banks, but if it cannot meet claims from depositors the government must lend it the necessary money.[41] In September 2013, insured deposits were 102 billion euros (16 percent of GDP),[42] while the Fund's assets were €768 million or about RON 3.4 billion.[43]

[39] IMF, *Financial Soundness Indicators*, April 2014.

[40] IMF, *Romania: Staff Report*, October 2013, pp. 9, 7; IMF, *Romania: Financial Sector Stability Assessment*, February 2010.

[41] See the "frequently asked questions" on the website of the Guarantee Fund and, in particular, the response to the question, "Is there a risk that FGDB will not pay the compensations?" to which the answer is, "No . . . in exceptional cases where the FGDB's financial resources are insufficient to cover payouts, the Government shall give to the Fund, as a loan, the necessary amounts, within 5 working days, at the most, from their request by the Fund." See also Art. 15 of Emergency Ordinance of the Government 39/1996 as amended.

[42] Bank Deposit Guarantee Fund, Bank Deposits, 8/2013, p. 4. A graph on p. 4 of this newsletter suggests instead RON 115 billion. "Guaranteed" deposits are shown as RON 155 billion in the same graph and in these data, but guaranteed deposits may include the parts of the deposits that are above €100,000. The Guarantee Fund's "coverage

(continued)

71. Risk can also arise from implicit guarantees. In crises, governments often come under pressure to rescue distressed financial institutions whether or not they have explicitly guaranteed the institutions' liabilities, although it should be noted that the Romanian government did not inject capital in any banks during the recent crisis. Total deposits of nongovernment resident clients at the end of September 2013 were 33 percent of GDP while at the end of 2012 banks' total liabilities were about 57 percent of GDP.[44] Many mortgage loans are denominated in foreign currency, which makes households, and ultimately banks, vulnerable to a large depreciation in the currency. The pressure for bail outs may be hardest to resist in the case of state-owned institutions, of which there are two (other than NBR): EximBank Romania (liabilities of 0.5 percent of GDP) and CEC Bank (4 percent).[45]

72. The risk created by the government's backing of the Guarantee Fund is not disclosed in budget documents. The Bank Deposit Guarantee Fund regularly publishes detailed information on insured bank deposits, and the NBR publishes a detailed annual report on financial stability. The MoPF is also involved in the monitoring of financial stability.[46] However, no budget report discloses the government's exposure to the Guarantee Fund or, more generally, the fiscal consequences of possible problems in the financial sector.

3.2.7. Natural Resources (Not Met)

73. Revenues from royalties on natural resources are small, but likely to grow. Romania's proven reserves of oil are the 44th largest in the world,[47] and the country also has some gas and mineral deposits. Shale gas may become important as new discoveries are exploited. In 2012, royalties, mainly on oil, brought in RON 1.5 billion a year, or 2 percent of budgetary revenue.[48] In 2013, new taxes on natural resources were introduced, including a temporary windfall tax. Plans for a new tax regime for the post-2014 period could further increase revenues. The budget shows royalties and other natural-resource-specific taxes, and the National Agency for Mineral Resources publishes an annual report on the resources for which it is responsible. The government does not, however, publish annual estimates of the volume and value of the country's major natural resources or of sales in the previous year.

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ratio" at the time was 2.2 percent, which, with assets of €768 million (NBR), appears to imply insured deposits of €34.9 billion, or RON 155 billion at an exchange rate of 0.2247 on September 30, 2013.

[43] Data provided by the NBR.

[44] Data provided by the NBR.

[45] For EximBank, see partially legible copy of IFRS financial statements for 2012, available here, showing liabilities of RON 2.8 billion on December 31, 2012; for CEC Bank, IFRS financial statements for 2011, showing liabilities of RON 22.9 billion.

[46] See Rapoarte asupra stabilității financiare and the tab on *stabilitate financiară* at MoPF's website.

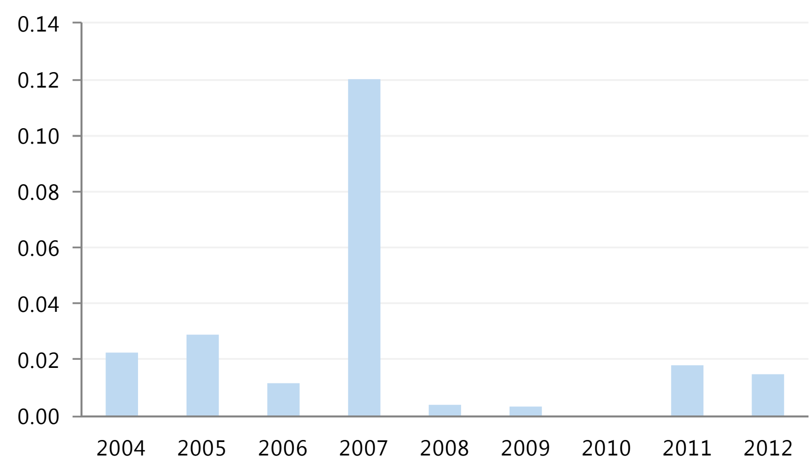
[47] Data for 2012 published by the U.S. Energy Information Administration.

[48] See lines for mining royalty (*redevente miniere*, RON 261 million), petroleum royalty (*redevente petroliere,* RON 1,218 million), and total revenue (RON 86,019 million) reported on pp. 9 and 1 of *Contul General Anual de Executie A Bugetului De Stat Pe Anul 2012—Sinteza.*

3.2.8 Environmental risks (Not Met)

74. **Floods, earthquakes, and other environmental risks are significant, but not described in budget reports.** During 2004–12, the Ministry of Agriculture spent an average of RON 100 million on compensation for droughts, floods, and frosts, the annual amounts ranging from nothing in 2010 to RON 500 million (0.1 percent of GDP) in 2007 (Figure 3.8). Some of these costs were paid from the reserve fund, others were budgeted for in the year following the damage. These amounts are not large compared to the government's total budget, but they illustrate the budgetary uncertainty created by natural disasters. Climate change may increase the risks, which have indirect as well as direct budgetary effects because of their effects on agriculture. Earthquakes create a small probability in any given year of much higher costs. In 1977, Bucharest was shaken by an earthquake that measured 7.2 on the Richter scale, killed some 1,500 people, and had an estimated economic cost of $2 billion (about 7 percent of GDP).[49] Other risks include those of an influenza pandemic and a nuclear accident. The uncertain future cost of decommissioning the Cernovodă nuclear power plant is a further fiscal risk. Apart from the brief mention of the effect of the climate on agriculture in the *Report on the Macroeconomic Situation*, these risks are not discussed in budget documents.

Figure 3.8. Compensation for Droughts, Floods, and Frosts in Agriculture, 2004-12
(Percent of GDP)



Source: Ministry of Agriculture.

3.3. Fiscal Coordination

[49] Size of earthquake and number of deaths from website of US Geological Survey. Estimates of economic cost of earthquake and GDP in 1977 from government officials.

3.3.1. Sub-national governments (Advanced)

75. While most local governments have low debt, a few are financially stressed. Their spending is about 27 percent of the spending of general government.[50] Their debt, however, is only 6 percent of the debt of general government.[51] (About 40 percent of local debt is owed by the city of Bucharest.)[52] Moreover, the deficit of the sector is low and forecast to decline from 0.3 percent of GDP in 2013 to 0.1 percent in 2016.[53] Most local governments have relatively modest ratios of debt and debt service to own revenue (Figure 3.9). Yet local governments are responsible for about 88 percent of the reported arrears of general government (which are RON 284 million or 0.4 percent of GDP), and about a third of their arrears are more than a year overdue.[54] At least one small town, Băile Herculane in the county of Caraş-Severin, has defaulted on a bond.[55] Another, Oras Aninoasa in Hunedoara, is included on a registry of insolvent municipalities.[56] The communes of Ardeuani in Bacau and Naruja in Vrancea may soon be registered. Figure 3.10 shows the distribution of arrears by county. Valcea's arrears are the highest, partly because this is the headquarters of the large and insolvent state-owned enterprise Oltchim, which owes money to the locally owned electricity supplier, illustrating the interrelatedness of different fiscal risks. In addition, some of local governments' financial problems have arisen because the central government has not communicated changes in its transfers in a timely manner.

76. Extensive data on the finances of local governments are available. Monthly data on budget execution for the sector are available on the website of the MoPF, as well as in the National Institute of Statistics' monthly bulletin.[57] Debt data are available as part of MoPF's reports on the structure of public debt. Local governments must publish quarterly and annual information on their finances, though the accounts do not follow IPSAS or any similar standards, and the Court of Accounts has qualified many of them.[58]

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[50] See Bugetul general cosolidat realizari 01.01–31.12.2012.

[51] See Structure of Public Debt at 31 of August 2013.

[52] Data provided by MoPF.

[53] *Convergence Program 2013-16*, Annex Table 2 (a), p.38.

[54] Arierate ale bugetului general consolidat, November 2013.

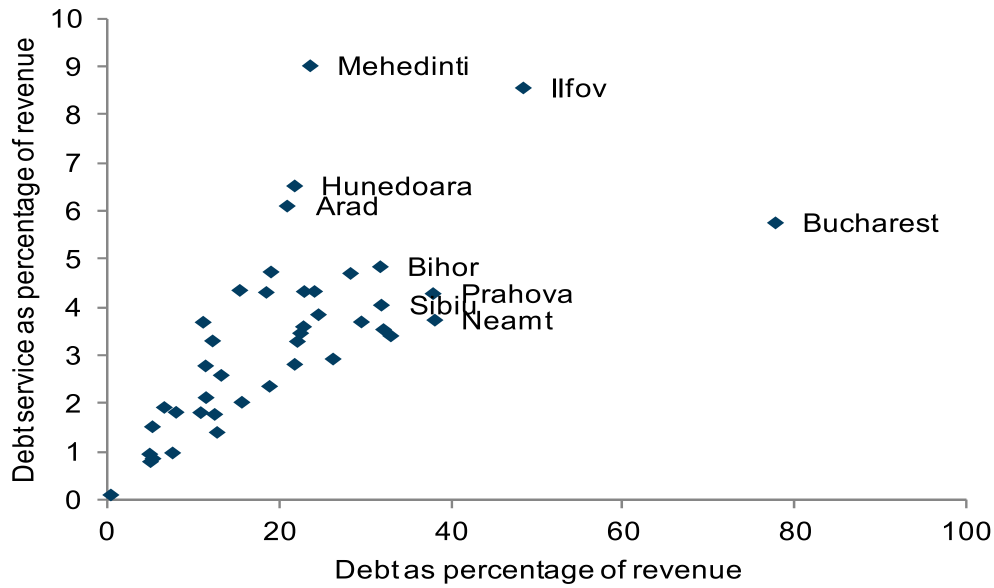
[55] Andrei Chirileasa, "Primăria Herculane, primul emitent de obligaţiuni de pe bursă în incapacitate de plată. Restanţele au ajuns la RON 1,35 mil.," *Ziarul Financiar*, December 24, 2013.

[56] Registrul general al situațiilor de insolvență a unităților administrativ-teritoriale.

[57] See MoPF files entitled "Bugetul general consolidat" and National Institute of Statistics, Buletin Statistic Lunar, Monthly Statistical Bulletin, 8/2013.

[58] Article 8 of Law on Local Public Finances (273/2006). For Bucharest, for example, see Situația financiare 2012 (financial statements for 2012) and other financial information available on the city's website.

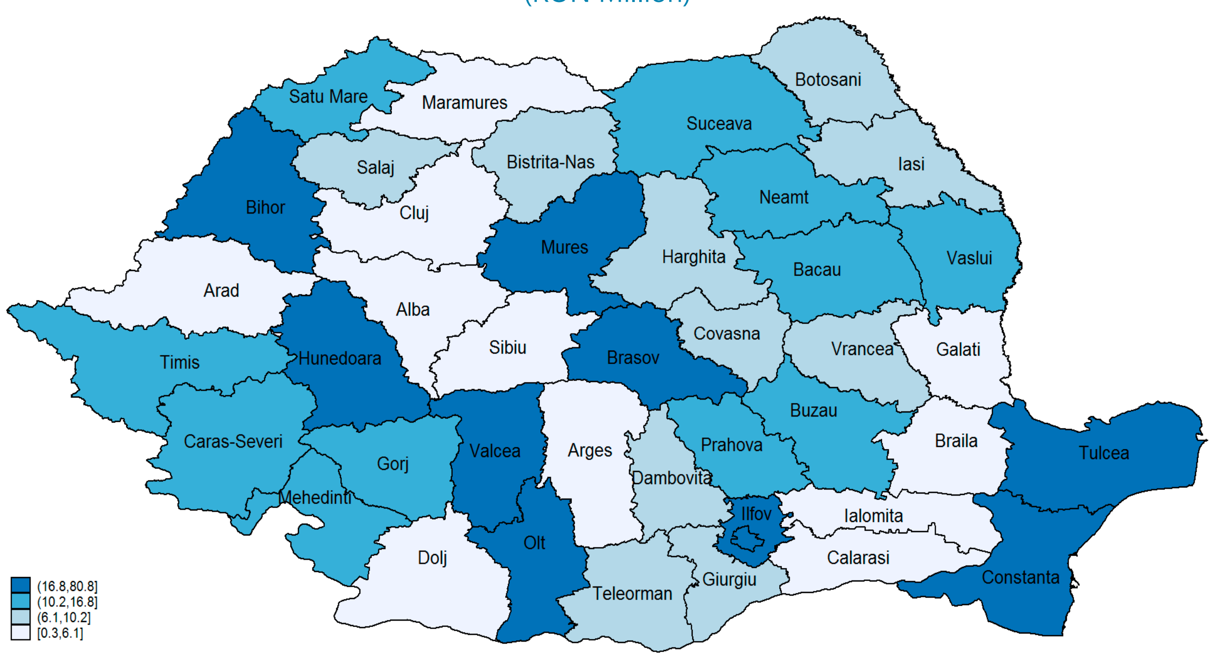
Figure 3.9. Romania: Ratios of Debt and Debt Service to Revenue by County, 2012



Source: MoPF.

Figure 3.10. Romania: Distribution of Arrears by County, November 2013

(RON Million)



Source: Situaţiei plăţilor restante mai mari de 90 de zile înregistrate la nivelul bugetului general al unităţilor/subdiviziunilor adminisitrativ-teritoriale la data de 30.11.2013. Note: the unlabelled district within Ilfov is Bucharest. The colors show which quartile of the distribution of arrears each county falls in. The legend shows the range for each quartile. For example, counties in the darkest shade of blue have arrears of between RON 16.8 and 80.8 million.

77. Borrowing by local governments is controlled by law. The Law on Local Public Finance forbids a local government to borrow, or to guarantee any borrowing, if that would cause the government's debt service to exceed 30 percent of the average over the last three years of the local government's own revenue, excluding capital revenue.[59] Total borrowing by the local government sector is limited by the medium term and annual ceilings discussed above.

3.3.2. Public corporations (Basic)

78. Public enterprises create significant fiscal risks. As Table 1.3 shows, nonfinancial public enterprises have liabilities of 21 percent of GDP, while the two commercial financial enterprises, EximBank and CEC Bank, together have liabilities of 4 percent of GDP. Although the sector as a whole is profitable, many enterprises are loss-making.[60] Public enterprises have outstanding payments of about RON 23 billion (3.6 percent of GDP).[61] Of 1,271 reported enterprises, 144 have been classified in general government because they are deemed not to be commercial.[62] The debts of some of the largest state-owned enterprises not included in general government are shown in Figure 3.11. Several enterprises, including large ones such as Oltchim and Hidroelectrica, have entered into bankruptcy proceedings designed either to restructure the businesses or liquidate their assets.[63] Plans to improve the performance of public enterprises are a significant part of the IMF/EC/WB-supported program.[64]

79. The government publishes a lot of information on the finances of public enterprises, but not on their quasi-fiscal activities. The MoPF has published an analysis of the activities of state-owned enterprises, which, among many other things, shows the subsidies and transfers made to the enterprises (RON 2.8 billion in 2012) and the dividends received from them (RON 2.1 billion). The report also gives the purpose of the subsidies and information on the enterprises' debts (from which Figure 3.11 is derived).[65] The government also publishes a table showing summary information on the aggregate finances of public enterprises (revenues, spending, surplus, outstanding payments, employees, and wage bill), which breaks down the totals into four groups

[59] See amendment of Article 61(4) of Law on Local Public Finances (273/2006).

[60] "Quarterly Situation of Main Economic and Financial Indicators Achieved by Economic Operators in which the State or Local Authorities Are Single or Majority Shareholders, or in which They Hold Direct or Indirect Majority Stake," December 31, 2013.

[61] "Quarterly Situation of Main Economic and Financial Indicators," December 31, 2013. Some 18 billion of these "outstanding payments" are owed to other entities in general government.

[62] Quarterly Situation of Main Economic and Financial Indicators," December 31, 2013. Eurostat publishes a list of all the units in general government as Annex 1 of the *Inventory of the Methods, Procedures, and Sources Used for the Compilation of Deficit and Debt Data and the Underlying Government Sector Accounts According to ESA95*.

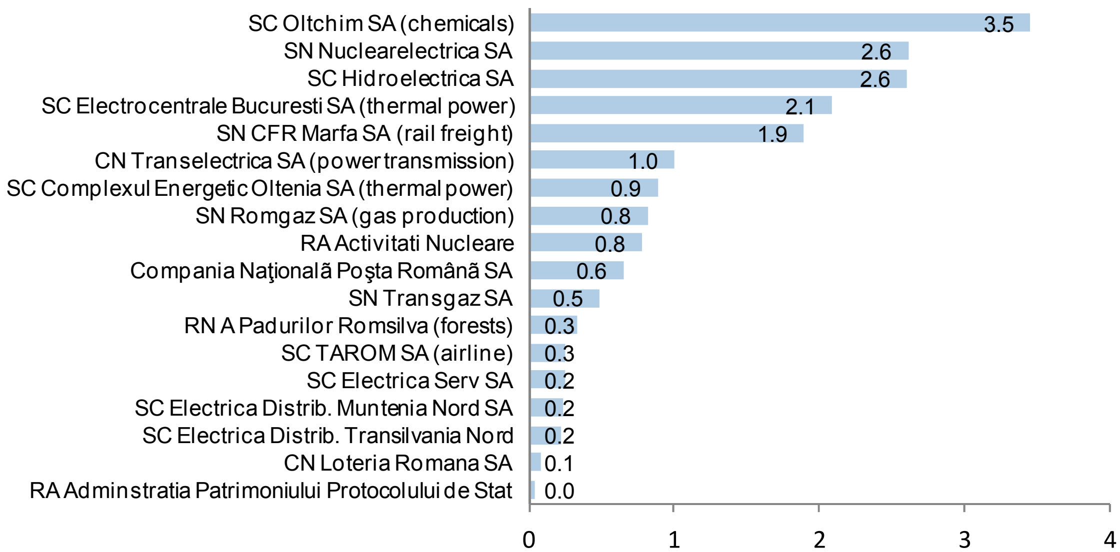
[63] IMF, Staff Report, July 2013, para. 23, and Attachment 1 to Romania, Letter of Intent, June 10, 2013, paras 29–30.

[64] IMF, Romania: Memorandum of Economic and Financial Policies, Attachment 1 to Romania: Letter of Intent, September 12, 2013, pp 69–74.

[65] Ioan Răceu and Marioara Nițu, "Raport pentru anul 2012 privind activitatea regiilor autonome şi societăților comerciale de subordonare centrală la care statul deține o participație majoritară sau integrală," MoPF, Raport ocazional de analiză 1/2013, pp. 10, 23–25, 32.

according to whether the enterprises are controlled by central or local government and according to whether they are classified in general government or not.[66] Individual public enterprises publish their accounts, many according to IFRS as promulgated in the European Union. Although public enterprises operate more commercially than they used to—with some instances of noncommercial pricing being replaced by on-budget subsidies, such as the heating allowance—there still appear to be cases in the energy and transport sectors in which enterprises provide loss-making services to meet political objectives without remuneration from the budget. There is no public report on these quasi-fiscal activities.

Figure 3.11. Romania: Debt of Largest Public Enterprises Outside General Government, 2012



Sources: Ioan Răceu and Marioara Nițu, "Raport pentru anul 2012 privind activitatea regiilor autonome şi societăților comerciale de subordonare centrală la care statul deține o participație majoritară sau integrală," MoPF, Raport ocazional de analiză 1/2013, Table 16, pp 35–36. Note: Companies listed as units of general government in Annex 1 of the Eurostat's 2013 EDP Inventory are excluded(should RN A Padurilor Romsilva be excluded?). CN is short for Compania Naţională, RA for Regia Autonoma, RN for Regia Naţională, SA for Societatea Anonimă, SC for Societatea Comerciale, and SN for Societatea Naţională.

3.4. Conclusion

80. The government meets at least the standard of basic practice in most areas of fiscal risk addressed by the Code, but there are several areas for improvement (see Table 3.4):

- The government publishes information on many sources of fiscal risks, and in the case of guarantees and local governments meets the standard of good or advanced practice. In other cases, however, little or no information is available, and sometimes the available information is scattered among a variety of different reports and is nowhere clearly summarized.

[66] "Quarterly Situation of Main Economic and Financial Indicators," December 31, 2013.

- Macroeconomic volatility is high, but, although some sensitivity analysis is done, the analysis and reporting of macroeconomic risks is limited.
- Although the Maastricht measure of debt is relatively low, more could be done to analyze and manage risks related to other fiscal obligations, including accounts payable, government guarantees, public-private partnerships, and the debts of public corporations.

Table 3.4 Summary Evaluation: Fiscal Risk Analysis and Management

	Principle	Assessment	Importance	Rec.
3.1.1	**Macroeconomic Risks**	**Basic.** Some rudimentary analysis of sensitivity of debt and interest payments to macroeconomic factors. No scenario or stochastic analysis.	**High.** Volatility of nominal government revenue in 2000–12 was 0.11, second highest in European Union.	6(a)
3.1.2	**Specific Fiscal Risks**	**Basic.** Certain fiscal risks discussed in mainly qualitative terms in *Report on Macroeconomic Situation,* but coverage and quantification not comprehensive.	**Medium.** Assessing fiscal position requires better reporting of specific fiscal risks.	6
3.1.3	**Long-Term Fiscal Sustainability**	**Not met.** Age-related spending projected in Convergence Program but not total spending and revenue or deficit or debt.	**High.** Required adjustment for balanced budget in long term is estimated at 3.7% of GDP, with large uncertainty surrounding estimate.	7
3.2.1	**Budgetary Contingencies**	**Basic.** Budget includes a line for contingencies, but use does not appear to follow transparent criteria related to unforeseen emergencies.	**Low.** Reserve fund is small (0.1 percent of spending), but no evidence of systematic overspending.	
3.2.2	**Tax Expenditures**	**Not met.** No published report on tax expenditures yet.	**Medium.** Not a major source of uncertainty about future fiscal outcomes, but pressure to create new tax expenditures is growing.	
3.2.3	**Asset and Liability Management**	**Basic.** Borrowing is authorized by law and risks related to debt (but not assets) are reported.	**Medium.** Financial assets and liabilities are moderate (30 percent and 50 percent of GDP, respectively).	
3.2.4	**Guarantees**	**Good.** Government guarantees disclosed and granting of new guarantees controlled by law, but probabilities of calls not estimated.	**Low.** Though exposure from guarantees may increase, it is currently only 2% of GDP.	6(b)
3.2.5	**Public-Private Partnerships**	**Not assessed.** No major PPPs yet signed.	**Medium.** One large off-balance-sheet PPP is being negotiated and others are planned.	6(c)
3.2.6	**Financial-Sector Exposure**	**Not met.** Government's explicit contingent liability related to deposit insurance not disclosed.	**High.** Fiscal risks from the financial sector are large in Romania, as elsewhere. Banks' liabilities are 57 percent of GDP, of which 16 percent are government-guaranteed deposits.	6(d)
3.2.7	**Natural Resources**	**Not met.** Royalties shown in budget, but volume and value of major natural resources and of last year's sales not published.	**Low.** Royalties on natural resources in 2012 were 2 percent of budget revenue, though they may grow after 2014.	
3.2.8	**Environmental Risks**	**Not met.** Risks of natural disasters and other environmental risks not discussed in budget reports.	**Medium.** 1977 earthquake in Bucharest had estimated cost of 7 percent of GDP.	6(e)
3.3.1	**Sub-national Governments**	**Advanced.** Monthly information published on spending, revenue, and debt of local governments. Borrowing controlled by law.	**Medium.** Local governments are responsible for only 6 percent of total debt, but many are in financial trouble.	
3.3.2	**Public Corporations**	**Basic.** Budget includes all direct transfers to public corporations, but quasi-fiscal activities not discussed.	**Medium.** Public enterprises' liabilities are 26 percent of GDP.	6(f)

IV. RECOMMENDATIONS

81. The above findings suggest that reforms in seven areas would substantially enhance the information base for fiscal decision-making, and bring Romania's fiscal transparency practices into line with evolving international standards. They are to:

i. **reduce fragmentation of existing fiscal reporting and expand the institutional coverage** to include the wider public sector;

ii. **improve the timeliness, quality, and integrity of fiscal reports and financial statements** through publishing reconciliations between cash and accrual based reports, enforcing strict timelines for publication of financial statements and ensuring that external audits of government accounts are assessed on the basis of compliance with international standards;

iii. **allow adequate time for scrutiny of all budgetary expenditure by parliament** by ensuring that existing deadlines for budget submission are strictly observed, that parliamentary approval procedures are considerably streamlined, and that the practice of using government ordinances to push through budget legislation is discontinued;

iv. **increase the transparency of macroeconomic and fiscal forecasts** through the inclusion of more detailed macroeconomic forecasts both in key budget documents and publishing reconciliations of material changes to successive medium-term fiscal forecasts;

v. **increase the transparency of budget documentation** by increasing the amount of information included on multi-annual costs of public investments and publish details of government performance against its medium-term fiscal objectives;

vi. **extend reporting of fiscal risks** to include analysis of the sensitivity of the fiscal position to changes in macroeconomic assumptions, increasing the volume of information reported on outstanding guarantees and PPPs, and including discussions on fiscal risks emanating from the financial sector in budget documents; and

vii. **increase coverage of long-term fiscal projections** to include all main fiscal aggregates.

The rationale for these recommendations and key steps involved in their implementation are set out below. The specific actions required to implement these reforms over the next five years have been reflected in a Fiscal Transparency Action Plan developed in consultation with the Romanian authorities.

1. Reduce Fragmentation of Fiscal Reporting and Expand Institutional Coverage

82. Issue: The government does not publish either a full set of fiscal statistics covering all public sector entities or financial statements in accordance with international standards. While much of the required information is available either internally or on the websites of the MoPF, it is highly fragmented. Coverage of fiscal reports is also limited to the general government with little published information available on the PC sector.

83. Recommendation 1: Improve the comprehensiveness and coverage of fiscal reports by:

a. **publishing consolidated accrual based financial statements (operating statement, balance sheet, cash flow statement, and notes) for central government, in accordance with international standards.** This should include coverage of existing and future pension liabilities. This will reduce the existing fragmentation of fiscal reporting and improve credibility and transparency of government fiscal information.

b. **rationalizing existing disparate data bases of both public nonfinancial and financial corporations.** This will provide fiscal policymakers, legislators, markets, and the public with a regular and comprehensive overview of the financial position and performance of all publicly controlled entities in the economy.

c. **publishing fiscal statistics for the wider public sector to include public corporations.** This will allow for greater understanding of the impact of the wider public sector on government finances.

2. Improve Timeliness, Quality, and Integrity of Fiscal Reports

84. Issue: Consistency and reconciliation checks between key components of fiscal statistics and financial reports need to be expanded to ensure reconciliation of main aggregates. The MoPF's final accounts submission and Court of Accounts timetables for audit of PIs do not meet the deadlines required to produce an audit report that would allow timely public debate and comment. In addition, PI financial statements were heavily qualified in FY2012 for lack of internal control which casts some doubt on the integrity of consolidated reports.

85. Recommendation 2: Improve the timeliness, quality, and integrity of fiscal reports by:

a. **publishing reconciliation checks between summary budget execution and financial reports to ensure their internal consistency and credibility**. In particular, the fiscal reporting system should facilitate transparent reconciliation between accrual based financial statements, ESA95-based fiscal statistics, and cash-based budget execution reports. This will also entail the publication of detailed bridge tables between national fiscal reports where material revisions are necessary.

b. **putting in place and enforcing an explicit and transparent timeframe for submission of PI financial statements to the MoPF and the Court of Account and their eventual publication.** This will facilitate timely production of the audit report, enabling public debate and comment and improving government accountability for fiscal management.

c. **reorienting the tasks of the Court of Accounts to ensure that audits of the government's financial reports are based on an assessment of their compliance with international standards.** This would encourage the government to adopt international standards that facilitate the production of internationally recognized and transparent financial statements, as well as the implementation of international audit standards.

3. Allow Adequate Time for Scrutiny of Budgetary Expenditures

86. **Issue:** Changes to the approved budget, particularly in the case of the second supplementary budgets of the year, are authorized by parliament only after the expenditure increases or cuts have already been implemented and sometimes in the subsequent fiscal year.

87. ***Recommendation 3. Ensure that all budgetary expenditure is adequately scrutinized and approved by parliament prior to adoption.*** This will require observation of existing budget submission deadlines to parliament and streamlining parliamentary approval procedures for time sensitive legislation, such as supplementary budgets and abolish the practice of using government ordinances to circumvent the existing problem. Any material changes to the budget should be authorized by the Parliament prior to alteration of aggregate expenditure levels or major changes in resource allocation.

4. Increase Transparency of Macroeconomic and Fiscal Forecasts

88. **Issue:** Regular forecast updates being produced in accordance with the requirements established by the FRL, but the budget documents do not provide sufficiently detailed information about the motivation behind the macroeconomic forecasts and the reconciliation of changes between successive fiscal plans.

89. ***Recommendation 4: Increase the transparency of the official macroeconomic and fiscal forecasts by:***

a. **including a more detailed discussion of macroeconomic forecasts, in particular the forecast assumptions, variables and related key components, both in the Fiscal and Budgetary Strategy and in the Report on the Macroeconomic Situation and Forecasts.** This would increase the general degree of understanding of the official forecasts among outside observers and thus enhance the transparency and credibility of the forecasts; and

b. **including, in the Fiscal and Budgetary Strategy, a comprehensive reconciliation of the sources of changes in successive government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) sector-specific parameters; (iii) policy measures; (iv) classification changes; and (v) other factors.** This would provide greater transparency about the fiscal and economic impact of discretionary policy decisions and improve understanding of the drivers of fiscal forecast errors.

5. Increase Transparency of Budget Documentation

90. Issue: Budget documentation currently does not include important details related to consistency between fiscal rules and fiscal plans, and aggregate data on investment projects. The FC has not often received the necessary documents in due time in order to perform a robust ex ante analysis envisaged in the FRL.

91. ***Recommendation 5: Increase the transparency of budget documentation by:***

a. **regularly disclosing the value of the Government's total obligations under multi-annual investment projects and related cost-benefit analysis alongside the annual budget.** More structured and accessible information about the investment projects would ensure that both the decision-makers and the public have a broader picture of total commitments related to outstanding multi-annual investments and that prioritization of major investment projects is carried out transparently.

b. **including, in the Fiscal and Budgetary Strategy, a section which clearly states each fiscal rule and objective mentioned in the FRL, outlines the past fiscal performance against each rule, and explains to what extent the Government's fiscal plans are in line with the rules.** Romania will be considered as having advanced practice in place once the recently introduced fiscal rules become more entrenched. Including more detailed and better structured information about the consistency between fiscal rules and plans would ensure the public is better informed as to the Government's fiscal policy objectives and fiscal policy plans. More detailed information would also increase the accountability of the Government and improve credibility of the fiscal framework.

c. **putting in place procedures which allow the Government to submit the relevant budget documents to the FC in due time even if only in draft form.** This would allow the FC to perform more in-depth analysis, as envisaged in the FRL.

6. Improve Summary Reporting of Fiscal Risks

92. Issue: Although the Report on the Macroeconomic Situation of 2014 and Forecasts for 2015–17 contains useful information on several fiscal risks, the discussion does not extend to all major risks, is sometimes too brief, and appears not to satisfy the requirements of the Fiscal Responsibility Law.

93. ***Recommendation 6: Extend reporting of fiscal risks in budget documents such as the Report on the Macroeconomic Situation by:***

a. **reporting the sensitivity of both the debt and deficit to changes in economic growth, interest rates, and exchange rates and more fully discussing the analysis and its**

implications. This will highlight the extent of the fiscal risks emanating from macroeconomic shocks and promote debate among policymakers and the wider public on measures to mitigate these risks and appropriate level of public debt.

b. **adding to the discussion of guarantees a summary table showing the total stock of outstanding guarantees, how this has changed in the last three years, and how it is expected to change in the next three years.** This will ensure that summary data on guarantees and a discussion of guarantee policy is available in one place.

c. **reporting, for all signed and all planned PPPs, the estimated construction cost, forecast government payments by year for the life of the contract, and the contractual obligations that could require greater or accelerated payments (details could be provided in a separate report).** This will promote full transparency of the expected fiscal impact of PPP projects.

d. **discussing fiscal risks related to the health of the financial sector, including those created by government backing of the Bank Deposit Guarantee Fund.** This will help clarify the level of exposure of the government to the financial sector.

e. **discussing the fiscal risks created by earthquakes, floods, and other possible natural disasters or environmental problems and reporting where possible the actual historical budgetary costs of previous disasters.** This will highlight the potential budgetary cost of future disasters based on previous experiences.

f. **reporting summary information on the finances of public corporations, financial and nonfinancial, including their total liabilities and their quasi-fiscal activities.** This will help identify the fiscal exposure of the government to the parts of the public sector that are not in general government.

7. Increase Coverage of Long-Term Fiscal Projections

94. Issue: The long-term fiscal projections published in the Convergence Program reports include only certain categories of spending and revenue that are especially sensitive to ageing, and therefore do not include projections of the deficit and debt.

95. *Recommendation 7: Prepare long-term fiscal projections that include revenue, total spending, and debt and publish them in the Convergence Program reports.* This will foster debate among policy makers on the long-term direction of fiscal policy and the measures that could alleviate any long-term risks to fiscal sustainability.

Appendix I. Fiscal Transparency Action Plan

Action	2014	2015	2016	2017	Responsible Agencies
Recommendation 1: Unify and expand institutional coverage of fiscal reporting					
a. ***Publish consolidated accrual based financial statements***	Develop general government and sub-sector consolidation methodology for production and analysis of consolidated financial statements consistent with international standards.	Design and develop and test ICT based consolidation system to facilitate preparation of consolidated statements	Prepare initial consolidated financial statements for the central government in accordance with national standards and norms	Publish consolidated financial statements for the general government and all its sub-sectors in accordance with international standards.	NIS, MoPF, NBR, NT
b. Rationalize existing disparate data bases of both public nonfinancial and financial corporations		Create a standard database for collection of balance sheets and operating statements of PCs.	Develop a consolidation methodology for financial statements of PCs.	Produce consolidated financial statements for PCs.	MoPF
c. ***Publish fiscal statistics for the public sector***	Assess further changes/reforms required to adopt international standards.	Adopt relevant international standards for recognition and valuation of assets and accrued liabilities (pensions, PPPs, etc).	Prepare fiscal statistics for the wider public sector including all financial assets.	Prepare fiscal statistics for the public sector including all financial and nonfinancial assets and liabilities and net worth, as a first step towards producing	NIS, MoPF, NBR, NT

Action	2014	2015	2016	2017	Responsible Agencies
				consolidated public sector fiscal statistics.	
Recommendation 2. Improve the timeliness, quality, and integrity of fiscal reports and financial statements					
a. Publish consistency and reconciliation checks for aggregate fiscal and financial reports	Develop consistency checks/bridging tables for consolidated fiscal reports and historical time series.	Implement consistency checks and bridging tables.	Publish results of consistency checks and bridge tables.		NIS, MPF, NT
b. Produce and audit government's consolidated financial reports based on an assessment of their compliance with international standards	Put in place and enforce an explicit and transparent timeframe for preparation audit and publication of audited PI financial statements within nine months of the end of the financial year.	Audit Financial Statements within nine months of end of financial year.	Audit new format Financial Statements within nine months of end of financial year.	Audit financial statements within six months of end of financial years.	CoA, NT

Action	2014	2015	2016	2017	Responsible Agencies
Recommendation 3: Allow adequate time for scrutiny of all budgetary expenditure by parliament					
c. Review current procedures for submission and approval of annual and supplementary budgets by parliament	Change existing parliamentary procedures to enable a more streamlined approach to parliamentary approval of time sensitive legislation.	Enforce existing budget submission deadlines and review legislation to ensure that all supplementary budgets are approved by parliament prior to execution.	Extend deadline for submission of annual budgets to parliament to three months to allow sufficient time for parliamentary discussion.		Government, Parliament
Recommendation 4: Increase the transparency of the official macroeconomic and fiscal forecasts					
a. Increase the transparency of the official macro-economic forecasts	Include more detailed information on macroeconomic forecasts, in particular the forecast assumptions, variables and related key components, both in the Fiscal and Budgetary Strategy and in the Report on the Macroeconomic Situation and Forecasts.				MoPF, NPC
b. Provide a more comprehensive	Publish a reconciliation of fiscal forecast changes separately identifying	Publish a reconciliation of fiscal forecast changes separately identifying	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic		MoPF

Action	2014	2015	2016	2017	Responsible Agencies
reconciliation of changes to key fiscal aggregates between successive fiscal forecasts	(i) macroeconomic and (ii) other factors.	(i) macroeconomic (ii) policy, and (iii) other changes.	(ii) policy, (iii) classification; (iv) sector-specific parameter, and (v) other changes.		
Recommendation 5: Increase the transparency of budget documentation					
a. Increase the information about public investments	Operationalize MoPF unit tasked with performing cost-benefit analysis for significant investment projects.	Include in the Report on the Macroeconomic Situation and Forecasts the value of the Government's total obligations under multi-annual investment projects.	Include in the Report on the Macroeconomic Situation and Forecasts the value of the Government's total obligations under multi-annual investment projects. Line Ministries should disclose, as summary information, the cost benefit analysis of the major investment projects from their areas of responsibility on their web-sites.		MoPF, Line Ministries
b. Explain more carefully if the fiscal plans are consistent	Include, in the Fiscal and Budgetary Strategy and in the report on the Macroeconomic	Include in budget documents an analysis of the past fiscal performance against	Maintain precise and time-bound fiscal rules over a three-year horizon.		MoPF

Action	2014	2015	2016	2017	Responsible Agencies
with fiscal rules	Situation and Forecasts, a section which discusses the consistency between each fiscal rule and objective mentioned in the FRL and the fiscal plans.	each fiscal rule, reasons for possible deviations and explains to what extent the Government's fiscal plans are in line with the rules and include e forecast for the next three years for each of the fiscal aggregates covered by the rules.			
c. Improve the timeliness of budget document submissions to the FC	Put in place procedures which allow the Government to submit the relevant budget documents to the FC even if only in draft form at least one week earlier than the FC is supposed to issue its opinion.	Change the timetable for the Government's budget deliberations in a way which allows the Government to submit the final version of the relevant budget documents to the FC at least one week earlier than the FC is supposed to issue its opinion.			MoPF, Government

Action	2014	2015	2016	2017	Responsible Agencies
Recommendation 6. Extend, deepen, and clarify the reporting of fiscal risks in budget documents					
a. Report on sensitivity of both the debt and deficit to changes in economic growth, interest rates and exchange rates	Develop capacity to carry out sensitivity analysis and analysis of the impact of alternative macroeconomic and fiscal forecast scenarios on the deficit and debt.	Include sensitivity analysis and impact of alternative macroeconomic and fiscal forecast scenarios on the deficit and debt.	Include sensitivity analysis, alternative scenarios, and probabilistic forecasts of the future evolution of the deficit and debt.		MoPF, NPC
b. Add a summary showing the total stock of guarantees	Prepare summary table for inclusion in the 2015 budget documents showing the total stock of guarantees and how they are likely to change over a three year period.	Develop capacity to assess the probability of guarantees being called and the likely fiscal impact on the budget over the medium term.	Publish the results of assessment of the likelihood of guarantees being called		MoPF
c. Report on all PPPs including capital cost and contractual obligation	Not applicable	Publish the total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life			MoPF, Department of Large Projects

Action	2014	2015	2016	2017	Responsible Agencies
		of the contracts. Impose a legal limit on accumulated obligations.			
d. Publish details of risks associated with exposure to the financial sector	Quantify the government's exposure to the deposit insurance guarantee fund	Publish in the fiscal and budgetary strategy the government's exposure to the deposit insurance guarantee fund and any other guarantees to the financial sector.	Develop a quantified assessment of financial sector stability, and disclose annually.	Publish a risk management strategy to mitigate risks associated with the financial sector.	MoPF, with input from NBR,
e. Include analysis of risks associated with natural disasters including potential costs	Identify the main fiscal risks from natural disasters in qualitative terms in budget documents.	Highlight the main fiscal risks from natural disasters in qualitative terms in budget documents.	Quantify the magnitude of potential environmental risks through reference to historical costs of such disasters	Develop and publish a strategy to mitigate the risks associated with environmental disasters.	Ministry of Environment and MoPF,
f. Publish summary information on the quasifiscal activities of public corporations	Prepare a qualitative assessment of all quasi-fiscal activities of public corporations including the airline and railways companies.	Include in the budget documents a qualitative assessment of all quasi-fiscal activities of public corporations including the airline and railways companies.	Quantify each quasi-fiscal activity of public corporations in the budget documents.		MoPF, and Ministry of Regional Development and Public Administration and relevant Line Ministries

Action	2014	2015	2016	2017	Responsible Agencies
					supervising public corporations
Recommendation 7. Increase coverage of long-term fiscal projections					
g. Develop long-term projections of other spending and revenue items and debt	Prepare projections of all major spending and revenue items and debt in the budget documents.	Publish projections of all major spending and revenue items and debt in the budget documents.	Publish projections with analysis showing sensitivity of results to major inputs, such as assumed growth rates and demographic change.		MoPF