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IMF Reaches Staff Level Agreement on First Review of Stand-By Arrangement
Bucharest, May 9, 2011

A joint mission from the International Monetary Fund (IMF), European Commission, and World Bank visited Bucharest from April 27 to May 9 to prepare the first review of Romania's new Stand-By Arrangement. Mr. Jeffrey Franks, IMF Mission Chief for Romania, made the following statement at the end of the visit:

"The mission has reached agreement at staff level on the first review of the new 24-month Stand-By Arrangement (SBA). All performance criteria and indicative targets were met. Subject to approval by the Executive Board (tentatively scheduled for late June), the second disbursement (SDR 430 million, about €475 million) will become available. The authorities have decided to treat the agreement as precautionary, meaning they will not draw the funds.

"Recent information reinforces our growth forecast of 1½ percent in 2011, accelerating to 3¾ – 4 percent in 2012. Exports are performing even stronger than previously projected, while domestic demand has been revised moderately downwards due mainly to the global increase in commodity prices, which is expected to dampen domestic demand, and continued weakness in the absorption of EU structural funds despite some progress. Higher growth depends crucially on maintaining macroeconomic stability and accelerating structural reforms, including in state-owned enterprises, public investment, the labor market, and in improving the business climate. The current account deficit is expected to remain below 5 percent of GDP during 2011-12. Romanian exports are gaining market share and competitiveness is currently adequate. Inflation is higher than expected, due to increases in global food and energy prices. These factors, plus needed increases in administered prices, are likely to keep inflation above 5 percent for the remainder of the year. The NBR will need to remain vigilant against second round effects so as to bring inflation within its target range in 2012.

"So far, the government is on target to meet its 2011 cash budget deficit target (4.4 percent of GDP). Continued prudent fiscal policy is essential, however, as the commitment to bringing the deficit within 3 percent of GDP in 2012 remains challenging. Once revenue collection is permanently improved and the 2012 target is in reach, and as part of the 2012 budget preparations, there could be room for other initiatives, such as additional investment or reduction in social security contributions.

"It is critical that the state-owned enterprises become an engine of growth instead of a drag on the economy. The government has thus proposed to reform the largest loss-making enterprises: a few will be closed, most restructured, while some will be partially or fully privatized. Private independent managers will also be put in place in the largest firms. After credible plans to reduce the losses have been implemented, arrears will be restructured. Private sector involvement is necessary, since the state cannot finance the large investments needed by itself.

"The banking system continues to weather the economic crisis well and banks remain well-capitalized and liquid. The capital adequacy ratio at end-March was 14.7 percent and all banks are over 11 percent. Non-performing loans are increasing, albeit at a slower pace. We expect lending to begin to recover this year.

For information on the Stand-By Arrangement, please see the following links:

Romania and the IMF: http://www.imf.org/external/country/ROU/index.htm

Key documents are also available in Romanian: http://www.fmi.ro/