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**Assessment of the 2012 national reform programme and convergence programme for
ROMANIA**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on Romania's 2012 national reform programme and delivering a Council opinion on
Romania's updated convergence programme, 2012-2015**

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1. EXECUTIVE SUMMARY

After two years of decline, real GDP in Romania is estimated to have grown in 2011 by 2½%. For 2012, on the back of a slowdown in Europe, growth is expected to slowdown to 1.4 %; domestic demand is forecast to be the major driver of growth and investment, supported by improving EU funds absorption, is expected to play a key role in 2012.

In the context of the EU's precautionary medium-term financial assistance agreed in 2011 for two years, Romania has undertaken to implement a comprehensive economic-policy programme with a particular focus on structural reform measures aimed at improving the functioning of labour and product markets and at increasing the resilience and growth potential of the Romanian economy. In parallel, the programme ensures the continuation of fiscal consolidation, the reform of the tax administration and improvements in public financial management and control as well as financial-stability and financial-market reform.

The results of the second formal programme review that took place in late April-early May 2012 are satisfactory and the current precautionary financial assistance programme remains on track. The cash fiscal target for 2011 was met, while the ESA target would have been met had there not been a sizeable one-off measure linked to court decisions obliging the government to pay compensation to certain categories of employees. The 2012 budget remains on track to achieve a deficit below 3 % of GDP in ESA terms. The authorities will also have to continue implementing sound fiscal policies. The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality. Progress in key structural reform areas has been uneven but overall satisfactory. In particular, reforms in the energy sector have recently gathered momentum. Programme implementation could, however, be improved in several areas.

Concerning the national targets under the Europe 2020 strategy, Romania has made limited progress in 2011. Some of the targets remain difficult to reach. This is the case in particular for investments in R&D, the employment rate, the early school leaving rate and the number of people at risk of poverty or exclusion. Romania should step up efforts to accelerate the delivery of the Europe 2020 strategy as the basis for any new growth initiative.

2. INTRODUCTION

Following a request by Romania on 17 February 2011, the European Commission and the IMF negotiated a precautionary Economic Adjustment Programme with the Romanian authorities. These were agreed by the European Council on 12 May 2011 and by the IMF board on 25 March 2011. The programme covers a two-year period until 31 March 2013. Its financial package covers up to EUR 4.9 billion, comprising EUR 1.4 billion from the EU and EUR 3.5 billion from the IMF. Both the EU and the IMF programme are treated as precautionary and no disbursements have taken place so far. The World Bank will continue providing previously committed support of EUR 400 million under its development loan programme and EUR 750 million of results-based financing for social-assistance and health reforms.

In the context of the EU's precautionary assistance, Romania undertook to implement a comprehensive economic-policy programme with a particular focus on structural reform measures aimed at improving the functioning of labour and product markets and at increasing the resilience and growth potential of the Romanian economy. In parallel, the programme ensures the continuation of fiscal consolidation, the reform of the tax administration and improvements in public financial management and control, as well as external, monetary, financial-stability, and financial-market reform. In its totality, the programme is geared towards the achievement of three main objectives: (i) eliminating the excessive budget deficit by 2012; (ii) improving growth potential; and (iii) decreasing the future likelihood of renewed excessive imbalances in the Romanian economy.

As for all Member States benefiting from a financial assistance programme, progress in implementing the accompanying policy programme is monitored in a dedicated, regular and specific manner, in line with the provisions of the Memorandum of Understanding. Given the reporting requirements under financial assistance programmes, as well as the much more extensive monitoring and enforcement involved, in 2012, programme countries have been exempted from the obligation to submit full-scale national reform programmes and stability or convergence programmes, but they were asked to submit certain information on key fiscal and structural issues. The Staff Working Document under the 2012 European Semester provides a summary of the recent progress on implementation. More details can be found in the reports on the state of implementation that the European Commission publishes following programme review missions¹.

3. ECONOMIC SITUATION AND OUTLOOK

After two years of decline and a cumulated GDP contraction of more than 8%, real GDP grew by 2.5% in 2011. Growth was mainly driven by a robust increase in industrial output and an exceptional agricultural harvest. GDP growth is expected to slow down to 1.4% in 2012; domestic demand is forecast to be the driver of growth with public investment, supported by better absorption of EU funds playing a key role. External demand is expected to contribute negatively to GDP growth in 2012 due to the worsening economic outlook for the EU (which accounts for about 70% of Romania's exports). The current account deficit is expected to increase from 4.1% in 2011 to 5%² in 2012, mainly on account of a widening trade deficit. For 2013, GDP growth is currently estimated to accelerate to 2.9% as domestic

¹ These reports, along with other information related to the financial-assistance programme, can be found on http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/romania/romania_en.htm.

² Current account balance calculated based on national accounts data.

demand recovers. Risks to growth for 2012 are tilted to the downside while they become more balanced over the medium term.

Upside risks to the inflation outlook remain, although price pressures receded significantly in the second half of 2011 and the first quarter of 2012. Inflation, which has been high for a prolonged period (above 8 % in the second quarter of 2011), fell sharply to 3.2% in December 2011, close to the mid-point of the NBR's target range of 3.0% \pm 1 percentage point set for end-2011, against the background of a favourable VAT-related base effect and easing food prices. HICP inflation continued to recede and fell close to the euro area level in early 2012 (averaging 2.7% in the first quarter of 2012), partly on account of a favourable base effect from higher food prices a year ago. The temporary downward pressure on headline price indices stemming from volatile commodity prices will gradually reverse from now on, but inflation is forecast to remain in the upper range of the NBR's target for end-2012 and end-2013. Over the medium term, risks to the inflation outlook are tilted to the upside due to the planned increases in administered energy prices.

Financial markets recovered in early 2012 after having suffered from the deterioration in the second half of 2011 in the market sentiment towards emerging markets. Credit default swap (CDS) spreads on Romanian government debt declined to about 350 basis points at the beginning of May 2012, down from a high of just below 500 basis points in November 2011.

4. PROGRAMME IMPLEMENTATION

Budget execution for 2011 shows that Romania reached a cash deficit of 4.2 % of GDP, remaining below the programme target of 4.4 % of GDP. The better-than-expected performance concerning the deficit target in the last months of 2011 allowed the government to allocate additional resources to clear arrears and unpaid bills for state-owned enterprises (SOEs) and the health sector. On the revenue side, tax revenue was higher than forecast, thanks to VAT, social-security contributions and personal income tax. In contrast, excise revenue was lower than expected following a renewed increase in tax evasion. Moreover, revenue from EU funds was lower than planned because of delays in reimbursing funds for two operational programmes. On the expenditure side, there were significant savings in current expenditure following lower spending on personnel, interest and other transfers. Total spending on personnel for 2011 was RON 38.5 billion, within the programme target of RON 39 billion, following a faster-than-expected reduction in public-sector employment. Spending on goods and services was higher than planned at the levels of local government and self-financed institutions. The higher spending at the level of local government was partly the result of several reforms that have taken place since 2010: the decentralisation of 370 hospitals from the central to the local level and the enforcement of staffing norms. Other factors that led to higher spending were new infrastructure-maintenance requirements and the purchase of more and costlier goods and services from suppliers. Capital expenditure was also substantially higher than planned. The efficiency of capital spending can be enhanced by improving the capital-budgeting process through a genuine prioritisation of investment projects across the general-government sector. Moreover, more needs to be done to improve the capital-budgeting process, in particular by including the National Programme for Infrastructure Development (PNDI) in the medium-term fiscal strategy and in the investment database of the Ministry of Finance³. The authorities have issued legislation to stop the PNDI

³ The National Programme for Infrastructure Development (PNDI) consists of a series of infrastructure works mainly related to water and sewage systems. The programme is scheduled to start in 2012 and finish in 2020. The total value of the programme is around RON 21 bn. A notable feature is that private contractors would start works in 2012 but would only receive the payment related to these works in

programme, but will continue to ensure the necessary financing for the contracts that have already been signed as part of the programme.

Due to a sizeable one-off payment obligation, the 2011 general government deficit in ESA terms was 5.2% of GDP, above the original programme target of 5% of GDP. However, without this item, the deficit would be at 4.1% of GDP, significantly below the original target. As the policy effort remains in line with programme requirements, the financial assistance programme can be regarded as still being on track. Moreover, since the payments resulting from the court decisions are considered a one-off item, they do not affect Romania's structural balance or its fiscal-consolidation effort and the country remains on track to reach the 3% of GDP deficit target in 2012, in line with the Council recommendations under the EDP procedure. Domestic payment arrears decreased (from RON 3.5 billion at the end of January 2011 to RON 2.9 billion at the end of 2011).

Budget execution for the first four months of 2012 shows that Romania remains on track to reach a deficit below 3% of GDP in ESA terms, but increased vigilance is needed especially in capital spending. On the revenue side, tax revenue was lower than expected due to an underperformance in VAT and the profit tax, while non-tax revenue was better than expected as the government collected dividends from state owned enterprises. There has been significant over-spending on the expenditure side, particularly in capital, interest, subsidies and, to a lesser extent, goods and services. The higher spending on subsidies was due to an earlier payment of agricultural subsidies which was made in April instead of June. While over-spending on capital is partly explained by the authorities' attempt to bring spending forward within the year, there is a heightened risk of slippage, particularly at local government level which is not well controlled by the central government. For this reason, the authorities decided to set aside an additional buffer for capital spending equivalent to 0.1% of GDP, while at the same time strengthening the monitoring of the capital budget and eliminating low performing investment projects.

During the April/May programme review mission, an additional fiscal space of 0.3% of GDP was identified which the authorities can use while remaining safely below the 3% of GDP programme target in ESA terms for 2012. The fiscal space will be used by the authorities to grant an 8% wage increase in June, which is part of the restoration of the 25% wage cut implemented in 2010. It would be followed by a second increase by 7.4% in December (which would complete the restoration of the wage cut as ordered by the Constitutional Court). The remainder of the fiscal space will be used to compensate pensioners for the additional 5.5% health insurance contribution levied on pensions below RON 740 in 2011 and the beginning of 2012, thereby abiding by the Constitutional Court rulings on this issue.

Arrears have started to increase again, particularly at local government level. The stock of arrears between 0-360 days has increased from RON 3.1 billion at end-February to RON 3.2 bn at end-March, of which the arrears at local government level grew from RON 1.4 bn at end-February to RON 1.5 bn at end-March. Arrears over 90 days have continued to increase

future years (from 2013 onwards, with 'big' payments starting in 2015). Given the way in which the programme was designed, there is no cash flow related to the PNFI in 2012 and therefore the cash deficit as such is not affected. However, according to ESA95 rules the recording of the PNFI should be made on an accrual basis (i.e. following progress in construction) and not when the cash payment will be made. Moreover, the progress in construction should be valued on the basis of the costs incurred by the constructor, independently of any certification. The expenditure related to the PNFI programme, which is estimated at 0.2% of GDP for 2012 is included in the 2012 ESA definition of the budget. In order to adequately monitor the programme and not increase the discrepancy further between the cash and ESA definitions of the budget deficit, the expenditure related to the PNFI programme has also been included in the cash-deficit target monitored under the EU/IMF programme.

since the beginning of the year, reaching RON 914 million at end-March, of which RON 794 mn are at local government level. The rise in the stock of arrears is due in part to low enforcement of the local public finance law by local authorities. While the central government has allocated additional funds to local governments to help pay back the arrears, an in-depth analysis of the causes of these arrears is necessary and will be undertaken by the authorities in the coming months. Arrears over 90 days in the health sector have been eliminated, but the authorities need to monitor and limit overdue bills from the National Health Insurance House to hospitals in order to prevent a renewed accumulation. The clawback tax, which yielded revenue of RON 282 million in the first quarter of 2012 is also expected to help prevent a new accumulation of arrears in the sector.

Romania submitted the national reform programme on 23 April 2012 and the convergence programme on 11 May 2012. Both programmes reflect the objectives and actions required under the economic reform programme agreed with the Romanian government for the purposes of the EU financial assistance.

The macroeconomic assumptions on which the convergence programme is based are plausible. Both the Commission Spring 2012 forecast and the CP assume a slowdown in GDP growth this year to 1.4%-1.7%. The main driver of growth in the forecasting period is domestic demand, while net exports contribute negatively to GDP growth. GDP growth for 2013-15 is expected to accelerate and be above the potential GDP estimated by the Commission. The forecast inflation path for 2011-12 is similar for the CP and the Commission. For 2013, the Commission foresees a slight acceleration in inflation, while the CP foresees a stagnation. The CP foresees a slight decrease in inflation for 2014-2015.

The convergence programme aims to reach a budget deficit below 3% of GDP, in line with the Council recommendations given to Romania in the EDP procedure. It plans to reach this objective through a combination of a decrease in spending and an increase in revenue. On the spending side, the main measures taken by the government include: employment cuts in the public sector through the continued application of the 1 in 7 rule, a pension freeze, the introduction of a new social assistance code which streamlines the number of social assistance programmes and targets them towards the most vulnerable and the termination of pre-accession programmes following the end of the extension period for finishing them. On the revenue side, measures include excise rate hikes for cigarettes and diesel, an increase in royalties for the use of resources necessary to produce construction material, as well as measures aimed at improving tax collection. The deficit is expected to decrease further to 2.2% of GDP in 2013, 1.2% of GDP in 2014 and 0.9% of GDP in 2015. In terms of the structural balance⁴, this implies an improvement in the deficit by 1.5% in 2012, 0.5% in 2013 and 0.7% in 2014, in line with the 0.5% of GDP benchmark of the Stability and Growth Pact. The growth rate of government expenditure is in line with the expenditure benchmark of the Stability and Growth Pact over the 2012-2015 period. The programme foresees the achievement of the MTO of a (recalculated) structural deficit of 0.7% of GDP in 2014. Overall, the adjustment path towards the medium term budgetary objective is appropriate over the 2012-2015 period. The main risks to the budgetary targets are the arrears of state owned enterprises, as well as potential re-accumulation of arrears at local government level and in the health sector. As regards public debt, it was below 34% of GDP by end 2011 thus remaining substantially below 60% of GDP

The Romanian banking sector has remained resilient, in spite of the ongoing deterioration in asset quality, which has continued to adversely impact banking-sector profitability. Notwithstanding the negative return on equity (-1.4 %) at the end of 2011, the

⁴ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

capitalisation of the banking sector improved by roughly one percentage point (to 14.5%) at the end of 2011 compared to the previous quarter. Banking-sector capitalisation has remained at reassuring levels due to the support provided by shareholders, in particular euro-area parent banks. However, further market pressures on banking-sector capitalisation, particularly regarding smaller credit institutions without a strong shareholder base, are likely in the future. As to programme conditionality, the authorities adopted, with some delay, the legislation on bridge-bank powers and other resolution measures as well as the amendments to the deposit guarantee fund legislation aiming at enhancing the fund's resources. Furthermore, there has also been some delay in aligning the legislation on the winding up of insurance undertakings with the general law on bankruptcy. It had been agreed that the amended legislation would be sent to Parliament before the end of 2011 but this did not happen until January 2012. It has to be enacted by the end of October 2012 in order to meet the deadline in the programme.

Progress in the energy area was uneven at the beginning of the programme but lately has been more encouraging. The authorities missed the January 2012 programme deadline for the presentation of the roadmap for phasing out regulated electricity and gas prices. However, certain progress on price deregulation in the electricity sector was achieved during the January/February 2012 mission. The share of electricity sourced from the competitive market will be progressively increased to reach complete deregulation in the non-residential segment by the end of 2013. For households, starting from 2013, prices will be adjusted gradually to reach market levels by 2017. Moreover, the electricity roadmap adopted in March 2012 outlines individual steps of this reform and provides deadlines for the adoption of further measures to protect vulnerable households. The second formal programme review in late April – early May also agreed on a roadmap for gas price deregulation which is essential to ensure proper market functioning in line with EU legislation and to attract the urgently needed investments. Regulated gas prices for companies will be phased out by end 2014. For households, prices will be adjusted to reach market levels by end 2018. The impact of the price adjustment will be mitigated for vulnerable consumers. To start the long-overdue transposition of the Third EU Energy Package into Romanian law, a draft electricity law was sent to the Parliament in March 2012; a draft gas law still needs to be submitted to Parliament.

Progress with structural reforms in transport has been limited. A government decision of 2012 denies the right of the rail regulator to take decisions on the charges for infrastructure. Moreover, it does not place incentives on the infrastructure manager CFR SA to reduce its unit costs and charges. In addition, the charging system does not currently provide incentives to reduce delays and traffic disruption in the form of a performance scheme. Furthermore, Romania does not use competitive tendering for passenger services. The direct-award system and the lack of performance incentives risk perpetuating the decline of Romanian passenger transport.

Arrears of state-owned enterprises in both the transport and energy sectors continued to decline and preparations for restructuring as well as partial or full privatisation continue. Additional measures are being implemented to achieve efficiency gains in a number of large SOEs, to further reduce arrears and to keep the operating loss in check. The authorities also undertook to offer for sale equity stakes in a number of major SOEs. Steps have been taken to improve corporate governance and the quality of management. A new corporate governance law was adopted in December 2011; it should facilitate the introduction of private management in companies with more than 20 employees or a turnover of more than RON 1 mn.

The legal provisions requiring economic-needs tests and the involvement of competitors in the authorisation procedure for large-surface retail shops were not removed by the end of January 2012, as foreseen under the programme. With the appointment of a new government in May 2012, these provisions are set to be abolished by the end of May 2012.

The Point of Single Contact, while technically operational, should be further developed in terms of the quantity of information and the possibility to complete procedures by electronic means. To this end, the authorities have committed to appoint a coordinating authority to speed up the implementation process by the end of June 2012 and make fully operational the electronic completion of procedures in all services sectors covered by the Services Directive by the end of December 2012.

The government continues its efforts to reform the healthcare sector, despite the political difficulties encountered at the beginning of 2012. A draft framework law will be ready for public debate by the end of June 2012 and it is expected to be approved in Parliament by the end of October 2012. Meanwhile, specific reform measures are underway, including implementation of a negative list of reimbursed drugs, introduction of the electronic prescription and the electronic health card, as well as a revision of the draft co-payment law, that now foresees co-payment as a flat fee. Arrears over 90 days have been brought close to zero while the revenues from the clawback tax will be used to prevent a renewed accumulation of arrears.

The second set of quarterly progress reports on the implementation of the action plans (based on the functional reviews' recommendations) was submitted to the Commission in mid-April 2012 by all the relevant Ministries. The Commission is now consolidating the feedback received from the various DGs on the actions plans' implementation status. Although overall no substantial progress is visible so far, the quarterly reports allow for a closer follow up of the implementation and for a strengthening of the coordination process. As the initial deadline was not met for a number of actions, a new template for monitoring the action plans' implementation status was designed by the General Secretariat of the Government with advice from the World Bank; these more detailed implementation tables should help identify progress and spot bottlenecks quicker than now. Besides the new template for monitoring progress with the action plans, the Romanian government is also introducing a new monitoring structure under the supervision of the General Secretariat of the Government. However, due to the government change in May, this process has been somewhat delayed.

The end-2011 EU funds absorption target of EUR 2.1 bn was met, since the cumulative EU-funds absorption for the structural and cohesion funds and for the agricultural funds amounted to EUR 3.275 bn at 31 December 2011. However, significant efforts are still required to meet the end-2012 target (i.e. EUR 8 bn on a cumulative basis). A number of measures have already been taken and/or will be put in place. These include an adjusted Priority Action Plan, European Social Fund specific Road Maps, a Code of Conduct for personnel working on/with EU funds, a limit of 45 working days for processing the reimbursement of claims, enhancement of administrative capacity and the signature of Memoranda of Understanding for receiving technical assistance from specialised institutions (European Investment Bank, the World Bank and the European Bank for Reconstruction and Development).

The implementation of the joint EU-IMF-World Bank programme contributed in many ways to the attainment of Europe 2020 targets, in particular in the areas of R&D, employment and poverty/social exclusion. Firstly, the programme conditionality introduced functional reviews in a number of public administration branches. Action Plans adopted in this context are being monitored under the current programme. They help establish priorities and provide better monitoring of policy reforms, in particular in the R&D sector. Secondly, the amendments to the labour legislation, in particular those related to a wider use of fixed-term contracts, are expected to help make labour markets more flexible, thus contributing to a potentially higher employment rate over the medium term. Thirdly, a number of programme policy measures are expected to help reduce the number of people at risk of poverty or

exclusion. For example, the conditionality of the programme includes policy commitments related to the introduction of a means-tested social assistance system that could better target the most vulnerable parts of the population. The law, in force since January 2012, seeks to streamline social benefits and improve the efficiency of social protection. Fourthly, the European Commission was also consulted on the increase in the minimum wage that took place during the programme. Finally, the programme supports the phasing-out of regulated energy prices allowing proper market functioning in line with EU legislation. To facilitate the transition, a much longer period has been given to households (in comparison to non-residential energy consumers) to phase out regulated energy prices.

	Current situation	Development over the last year	Europe 2020 targets
R&D investment (% of GDP)	0.47% of GDP in 2010. Romania currently has the lowest R&D intensity in the EU. The low R&D budget is a direct result of the economic crisis, with cuts in many areas. A major challenge for Romania is the poor awareness among leading political figures of the value added of R&D and innovation for growth and competitiveness and of the fact that a substantial increase in R&D spending, in both absolute and relative terms, is vital if Romania is to increase its economic competitiveness and secure high-quality jobs.	A Reform Action Plan was adopted in August 2011, as a result of the functional review of the R&I system performed in the context of the previous loan received by Romania from the EU. A number of measures have been taken, such as the ongoing certification of national R&D institutes, a reform of universities to provide greater autonomy and better profiling of research universities, as well as the introduction of a new financing instrument in the Innovation Programme of the National Plan. Better coordination of these measures within an overarching reform is needed in order to improve the overall efficiency of the R&I system. The major challenges continue to be the overall fragmentation of the R&I system, as reflected in the large number of researchers, combined with a lack of critical mass in terms of the quality of research results, poor governance and weak coordination between research and innovation policy and other policies, as well as very weak links between education, research and the business sector.	2% of GDP Recent trends show that the 2% R&D intensity target is very ambitious and difficult to reach, given the low commitment of government and the very low level of business R&D activities (business R&D expenditure is 0.18% of GDP, one of the lowest rates in the EU). This target could be achieved only if the country prioritises R&I in a context of smart fiscal consolidation, whilst implementing without delay key reforms as outlined in the Action Plan for Research and Innovation.

	Current situation	Development over the last year	Europe 2020 targets
Employment rate (%)	<p>63.3% in 2010 (non-seasonally adjusted), 63.3% for Q3 2011.</p> <p>The government's policy measures, as presented in the current National Reform Programme, focus on four fields of action: making the labour market function better, facilitating the transition from unemployment or inactivity to employment, up-skilling the labour force and integrating rural residents, young people and women in the labour market.</p>	<p>The employment rate slightly decreased between 2009 and the third quarter of 2011. While the yearly gap was positive yet in the first quarter of 2011 (0.9 pps), it widened very significantly to 1.7 pps in the second half of 2011. At 63.3% in the third quarter, the employment rate was down by 1.3 pps compared to the third quarter of 2010. This deterioration suggests that the annual employment figure for 2011 will be lower than in 2010.</p> <p>In terms of policy measures, the new Labour Code and the new Social Dialogue Code has brought an increase in flexibility, as regards labour relations. A national strategy for reducing undeclared work is under implementation and the law on occasional work of daily labourers was adopted in order to combat undeclared work. The amendment of the legal framework concerning the unemployment insurance system will be soon finalised. The legislation on apprenticeship at the workplace was amended and the law regarding the vocational training of adults is being modified with the aim of up-skilling the labour force.</p> <p>Increasing labour market participation still remains a challenge in Romania. Greater involvement of young people, women, older workers, rural residents and other vulnerable groups (e.g. Roma) should remain one of the primary objectives for the Government in order to reach the national employment target.</p>	<p>70%</p> <p>Achieving an employment rate of 70% by 2020 remains a very ambitious target and sustained efforts are needed in the following years in order to reach it.</p>
Early school leaving (%)	<p>17.7% in 2011 (tbc)</p> <p>Early school leaving rates peaked in 2010 but remained well above the EU average in 2011. Early school leaving is higher in rural areas and among the Roma community.</p>	<p>The new education law introduces a number of policies which in time will have a positive impact on preventing early school leaving. However, there is no coherent strategy for preventing early school leaving and existing data is not used to target measures. There is a need to consolidate all existing programmes in order to identify priority measures that are adequately budgeted and based on clear identification and monitoring of the groups at risk of early school leaving. The resources of the European Social Fund have so far been insufficiently used.</p> <p>The education budget has decreased considerably in the last three years, becoming one of the smallest in the EU. Romania introduced an ambitious education reform early in 2012, which requires sustained efforts for implementation. This, in turn, requires a larger education budget without jeopardising Romania's commitments made in the context of the Stability and Growth Pact and the current IMF/EU precautionary financial assistance programme.</p>	<p>11.3%</p>

	Current situation	Development over the last year	Europe 2020 targets
Tertiary education attainment (%)	19.9% in 2011 (tbc). Higher-education attainment is rapidly increasing but remains the lowest in the EU.	Romania introduced in 2012 an ambitious reform of higher education. However, attracting students from lower-income families, in particular from rural areas, remains a big challenge. While improving attainment levels, the government also needs to continue its efforts to improve the quality of tertiary education and align it with the needs of the labour market.	26.7%
Reduction of number of people at risk of poverty or exclusion (This indicator has three components: at-risk of poverty after social transfers, material deprivation and households with zero or very low employment intensity).	The latest available Eurostat data show that the headline indicator "at risk of poverty or social exclusion" for the total population decreased from 44.2% (2008) to 41.4% (2010). The same trend is registered for the three components of the headline indicator: -"At risk of poverty rate after social transfers" from 23,4% (2008) to 21,1% (2010); "Severe material deprivation" from 32,9% (2008) to 31% (2010); "People in households with zero or very low employment" from 8,2% (2008) to 6,8% (2010). However, even if all components of the headline indicator were on a decreasing trend, their values are still high compared to the EU average (except for the indicator "people in households with zero or very low employment intensity").	A new social assistance law was adopted in December 2011. It introduces a new and systematic approach to social benefits and plans to give more responsibility at local level, where most of these benefits are granted. Poverty should decrease as a result of better targeting the social assistance to people in need. It is expected to have some positive effects starting in 2013. Another positive development is represented by the adoption in December 2011 of the National Strategy for Roma Inclusion, including six sectorial actions plans on education, employment, health, housing, culture and social infrastructure. The first results of its implementation are expected in two to three years.	Reduce by 15% (580.000) the number of people at-risk of poverty or social exclusion by 2020, as compared to 2008.
Energy efficiency — reduction in primary energy consumption by 2020 in million tonnes of oil equivalent (Mtoe):	n.a. The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology for expressing in the same format the 2020 energy-consumption impact of these objectives was only recently agreed, the Commission is not yet able to present this overview.	Romania is the only Member State not to have yet submitted its second Energy Efficiency Action Plan, due by June 2011 under Article 14 of Directive 2006/32/EC on energy end-use efficiency and energy services.	Reduction in primary energy consumption: 10.0 MToe by 2020.

	Current situation	Development over the last year	Europe 2020 targets
Greenhouse gas emission reduction in sectors not covered by the Emission Trading System (ETS) (compared to 2005 levels)	Greenhouse gas emissions in non-ETS sectors reduced by 4.4% by 2010 (compared to 2005).	Non-ETS GHG emissions slightly increased between 2009 and 2010. It should be noted that emissions had significantly decreased between 2008 and 2009 and that a slight increase of GHG emissions in 2009 was recorded in most Member States and partly corresponds to better economic conditions.	Increase of greenhouse gas emissions in non-ETS sectors limited to 19% (compared to 2005) ⁵ .
Renewable energy (% of total energy use)	The share of renewable energy in gross final energy consumption was 22.4% in 2009 ⁶ . The sectoral shares of renewable energy in 2009 were: 30.7% in the electricity sector, 26.7% in heating and cooling, ⁷ and 1.6% in transport, respectively. By 2009, Romania had already reached its 2011/2012 interim target.	Romania submitted in September 2010 its National Renewable Energy Action Plan which sets sectoral targets and describes current and future measures to develop renewable energy sources. In 2011, the support scheme for the promotion of electricity produced from renewable energy was finally put into place. New legislation was adopted in the field of renewable energy; transposition of Directive 2009/28/EC was notified as complete.	24% of gross final energy consumption from renewable sources. Romania's achievement of its 2020 target should generate 144 800 renewable-energy jobs, compared to 84 000 if the EU were to abandon its support for renewables.

Euro Plus Pact (national commitments and progress)	
1. Foster competitiveness Decreasing the share of public wage bill with view of avoiding large increases in unit labour cost, strengthening the institutional capacity and performance of the RDI sector, developing a national Lifelong Learning Strategy and curricula focussed on skill upgrading, a better prioritisation of public investments, selling stakes in state owned enterprises.	Commitments regarding competitiveness have been partially implemented. So far, the public wage bill has been held in check. In the field of R&D, national research institutes have been certified. Selling stakes in state companies has been slow, while the authorities still need to step up their efforts in prioritising public investments.
2. Foster employment Create a unitary wage framework in the public sector; render flexible the system of collective wage bargaining; amend the labour code and unemployment benefits system to promote flexicurity and job creation; take measures to reduce undeclared work; introduce legislation on day workers; amend legislation on apprenticeship and on adult professional training; implement the EU framework on mutual recognition of professional qualifications; start ranking universities.	Commitments regarding fostering employment have been partially implemented. The unitary wage law has been adopted as well as the new labour code rendering collective bargaining system more flexible. The law on occasional work of daily labourers was adopted, while a national strategy for reducing undeclared work is under implementation. A university reform has been launched to provide greater autonomy and better profiling of research universities.

⁵ Current projections based on existing measures imply an increase of 10.1 % (compared to 2005) by 2020.

⁶ Starting from 17.8 % in 2005, the share of renewable energy in gross final energy consumption decreased to 17.2 % in 2006.

⁷ Source: Eurostat.

Euro Plus Pact (national commitments and progress)	
<p>3. Enhance the sustainability of public finances</p> <p>Implement the law on the unitary pension system which: (i) gradually increases the retirement age to 65 for men and 63 for women until 2030 and gradually increases the full contribution period to 35 years for men and women until 2030; (ii) introduces more restrictive criteria for accessing partial early retirement; (iii) gradually introduces an indexation mechanism for pensions based only on inflation. Introduce numerical rules for the general government deficit in line with the provisions of the Maastricht Treaty; continue fiscal consolidation with a view to reaching a deficit below 5% of GDP in ESA terms in 2011 and below 3% of GDP in 2012; cut down on general government arrears by restructuring the health sector and strengthening budget discipline at local authorities' level through recently introduced amendments to the local public finance law; implement the programme on child care allowances; improve flexibility of the pre-university education system; finalize legal framework on social assistance including social benefits and services.</p>	<p>Commitments regarding sustainability of public finances have been partially implemented. Due to a sizeable one-off payment obligation, the 2011 general government deficit in ESA terms was 5.2% of GDP, but it would have been 4.1% of GDP without the one-off item. For 2012, a budget deficit of 2.8% of GDP in ESA is forecasted. General government arrears had gone down but have recently started to increase again, particularly at local government level.</p>
<p>4. Reinforce financial stability</p> <p>Undertake steps to secure adequate implementation of IFRS by the banking system starting with 2012; by end-June 2011 the NBR is set to make recommendations on prudential filters to further secure a prudent policy stance on solvency, bank reserves and provisions; amending the legislation so that the resources of the Bank Deposit Guarantee Fund (FGDB) may be used to finance the resolution measures authorised by the NBR. Prepare the necessary procedures for the implementation of the new tasks of the central bank and FGDB in the area of credit institution restructuring as well as securing immediate access of FGDB to government funds where necessary. Reassess the provisions of the normative acts included in the legal framework regarding the winding-up of credit institutions with a view to ensuring their consistency. Expand the list of eligible collateral for the NBR refinancing operations. Establish prudential treatment of debt-to-equity swaps as a result of loan restructuring in order not to weaken banks' financial position. Monitor foreign-currency denominated loans and take the necessary steps for their price to reflect the risk of granting such loans to unhedged borrowers in an accurate and transparent manner. Refrain from adopting legislative initiatives that could undermine debtor discipline. Further measures adopted by NBR related to the contingency plan in order to preclude the materialisation of systemic risk in the banking system.</p>	<p>Commitments regarding the reinforcement of financial stability were met, although in certain cases with delays compared to the envisaged deadlines. Authorities adopted with some delay the amendments to the Bank Deposit Guarantee Fund legislation. Furthermore, authorities took more time than initially foreseen to complete the proposals on prudential filters necessary to ensure under IFRS a prudent stance on loan-loss provisions.</p>

5. CONCLUSION

The results of the second programme review are satisfactory. The implementation of the programme remains on track. The cash fiscal target for 2011 was met, while the ESA target would have been met had there not been a sizeable one-off measure linked to court decisions obliging the government to pay compensation to certain categories of employees. The 2012 budget remains on track to achieve a deficit below 3% of GDP in ESA terms. The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality, which has continued to adversely impact banking-sector profitability. The programme conditionality in the financial sector was met, albeit with some delays in certain cases. Progress in key structural reform areas has been uneven but satisfactory overall. Significant progress was achieved on price deregulation in the electricity sector during the January/February mission, while the second formal programme review that took place in late April – early May agreed on a roadmap for gas price deregulation. In contrast, little progress has so far been achieved in the transport sector. Also, more time will be allocated to the

reform of the health sector, given political difficulties. Finally, while the authorities met the EU-funds absorption target for the end of 2011, meeting the 2012 programme absorption target will be a challenge.

In the future, the authorities will need to step up efforts to reform the energy sector, accelerate the restructuring of SOEs and increase the absorption of EU funds. They will also have to continue implementing sound fiscal policies.

The next review mission will take place in late July - early August 2012.

6. ANNEX

Table I. Macroeconomic indicators

	1995- 1999	2000- 2004	2005- 2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	0.4	5.4	6.4	-6.6	-1.6	2.5	1.4	2.9
Output gap ¹	-4.2	-2.8	7.2	0.4	-3.2	-2.8	-3.7	-3.3
HICP (annual % change)	74.6	26.0	7.1	5.6	6.1	5.8	3.1	3.4
Domestic demand (annual % change) ²	2.0	7.5	10.6	-12.0	-1.5	3.1	1.9	3.8
Unemployment rate (% of labour force) ³	5.6	7.1	6.7	6.9	7.3	7.4	7.2	7.1
Gross fixed capital formation (% of GDP)	20.1	20.8	27.9	24.4	24.0	24.6	25.9	26.6
Gross national saving (% of GDP)	14.0	17.6	16.9	21.2	20.9	24.7	25.1	25.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-3.5	-2.6	-3.0	-9.0	-6.8	-5.2	-2.8	-2.2
Gross debt	14.1	22.7	13.6	23.6	30.5	33.3	34.6	34.6
Net financial assets	42.8	29.9	10.0	-2.2	-7.3	n.a	n.a	n.a
Total revenue	31.8	32.8	33.7	32.1	33.4	32.5	33.4	33.2
Total expenditure	35.3	35.4	36.7	41.1	40.2	37.7	36.2	35.4
of which: Interest	3.4	2.6	0.9	1.5	1.5	1.6	1.7	1.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-0.8	-5.4	-5.3	4.9	6.6	n.a	n.a	n.a
Net financial assets; non-financial corporations	-85.4	-85.1	-109.3	-121.6	-158.3	n.a	n.a	n.a
Net financial assets; financial corporations	-0.9	0.3	-0.9	4.5	7.1	n.a	n.a	n.a
Gross capital formation	10.3	17.0	21.4	17.7	13.1	n.a	n.a	n.a
Gross operating surplus	26.6	23.3	26.7	29.2	25.8	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	-1.2	4.1	-2.4	0.0	-5.1	n.a	n.a	n.a
Net financial assets	35.7	33.9	56.2	46.1	92.2	n.a	n.a	n.a
Gross wages and salaries	28.6	32.0	33.6	34.3	34.0	n.a	n.a	n.a
Net property income	5.0	3.5	1.0	0.7	0.0	n.a	n.a	n.a
Current transfers received	20.9	15.9	15.1	17.0	17.5	n.a	n.a	n.a
Gross saving	2.5	-1.9	-5.9	-0.8	-1.5	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-5.6	-3.8	-10.6	-3.6	-3.7	-4.0	-4.9	-4.9
Net financial assets	10.8	23.4	45.8	76.1	69.8	n.a	n.a	n.a
Net exports of goods and services	-6.4	-7.0	-12.3	-6.0	-5.2	-5.1	-6.2	-5.9
Net primary income from the rest of the world	-1.1	-1.8	-3.2	-1.4	-1.2	-1.3	-1.4	-1.5
Net capital transactions	0.3	0.4	0.6	0.5	0.2	0.1	0.1	0.1
Tradable sector	65.0	59.2	54.5	53.2	55.1	55.2	n.a	n.a
Non tradable sector	27.3	30.6	34.2	36.7	35.2	32.8	n.a	n.a
of which: Building and construction sector	5.6	5.6	8.6	10.5	10.0	9.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	71.4	95.8	138.7	141.3	150.4	152.5	147.3	148.8
Terms of trade goods and services (index, 2000=100)	92.1	102.7	122.7	134.7	138.1	140.2	139.2	143.0
Market performance of exports (index, 2000=100)	92.4	123.3	148.8	169.6	173.9	182.8	186.1	188.8
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
Commission services' spring 2012 forecast								

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	2.5	2.5	1.4	1.7	2.9	3.1	3.6	3.9
Private consumption (% change)	1.3	1.3	1.3	1.8	2.6	3.2	3.6	3.6
Gross fixed capital formation (% change)	6.3	6.3	4.7	7.2	6.4	7.4	7.5	7.8
Exports of goods and services (% change)	9.9	9.9	2.9	4.0	5.8	5.8	7.3	8.7
Imports of goods and services (% change)	10.5	10.5	4.0	7.9	7.4	7.7	8.6	9.3
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	1.8	1.9	2.1	3.2	3.6	4.2	4.6	4.8
- Change in inventories	1.4	1.4	-0.1	0.4	0.4	0.2	0.1	0.1
- Net exports	-0.8	-0.8	-0.6	-1.9	-1.1	-1.3	-1.1	-1.0
Output gap ¹	-2.8	-3.0	-3.7	-3.6	-3.3	-3.1	-2.2	-1.1
Employment (% change)	0.4	0.4	0.4	0.3	1.1	0.4	0.5	0.5
Unemployment rate (%)	7.4	7.4	7.2	7.1	7.1	6.9	6.7	6.5
Labour productivity (% change)	2.0	2.0	0.9	1.3	1.7	2.7	3.0	3.3
HICP inflation (%)	5.8	5.8	3.1	3.0	3.4	2.9	2.8	2.5
GDP deflator (% change)	8.1	8.1	3.5	3.3	3.9	3.7	3.3	2.5
Comp. of employees (per head, % change)	3.7	3.7	3.2	3.8	4.2	5.3	5.9	5.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-4.0	-4.1	-4.9	-3.7	-4.9	-3.4	-3.5	-3.3
<p>Note:</p> <p>¹In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.</p> <p>Source:</p> <p>Commission services' spring 2012 forecasts (COM); Convergence programme (CP).</p>								

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	32.5	33.4	33.3	33.2	33.7	34.1	34.0	1.5
<i>of which:</i>								
- Taxes on production and imports	12.6	12.7	12.8	12.6	12.5	n.a.	n.a.	n.a.
- Current taxes on income, wealth, etc.	5.8	6.0	6.0	6.3	6.1	n.a.	n.a.	n.a.
- Social contributions	8.8	8.8	8.6	8.6	9.2	optional	optional	n.a.
- Other (residual)	5.3	6.0	5.9	5.7	5.9	n.a.	n.a.	n.a.
Expenditure	37.7	36.2	36.1	35.4	35.9	35.3	34.9	-2.8
<i>of which:</i>								
- Primary expenditure	36.1	34.5	34.4	33.6	34.2	33.6	33.2	-2.9
<i>of which:</i>								
Compensation of employees	7.5	7.2	7.7	7.0	7.8	7.4	7.4	-0.1
Intermediate consumption	6.0	6.2	5.6	6.5	5.4	5.6	4.6	-1.4
Social payments	12.6	11.8	12.1	11.4	11.8	11.9	12.3	-0.3
Subsidies	0.4	0.3	0.3	0.2	0.2	0.2	0.2	-0.2
Gross fixed capital formation	5.2	5.5	5.0	5.2	5.1	5.1	5.3	0.1
Other (residual)	4.3	3.5	3.7	3.4	3.9	3.4	3.4	-0.9
- Interest expenditure	1.6	1.7	1.7	1.7	1.7	1.7	1.7	0.1
General government balance (GGB)	-5.2	-2.8	-2.8	-2.2	-2.2	-1.2	-0.9	4.3
Primary balance	-3.7	-1.1	-1.1	-0.4	-0.5	0.5	0.8	4.5
One-off and other temporary measures	-1.1	0.0	0.1	0.0	0.0	0.0	0.0	1.1
GGB excl. one-offs	-4.1	-2.9	-2.9	-2.2	-2.2	-1.2	-0.9	3.2
Output gap ²	-2.8	-3.7	-3.6	-3.3	-3.1	-2.2	-1.1	1.7
Cyclically-adjusted balance ²	-4.4	-1.7	-1.6	-1.2	-1.2	-0.5	-0.5	3.9
Structural balance³	-3.3	-1.8	-1.7	-1.2	-1.2	-0.5	-0.5	2.7
<i>Change in structural balance</i>		1.5	1.5	0.6	0.5	0.7	0.0	
Structural primary balance ³	-1.7	0.0	0.0	0.6	0.5	1.2	1.2	2.9
<i>Change in structural primary balance</i>		1.7	1.7	0.6	0.5	0.7	0.0	
Expenditure benchmark								
Public expenditure growth ⁴ (real)		-5.14	-4.25	0.50	1.53	1.41	2.01	-
Reference rate ^{5,6}		2.81	2.81	2.81	2.81	2.81	2.81	-
Lower reference rate ^{5,7}		1.44	1.44	1.44	1.44	1.44	1.44	-
Deviation in % GDP against applicable reference rate		-2.36	-2.04	-0.31	0.03	-0.01	-0.25	-
Two-year average deviation in % GDP against applicable reference rate		n.a.	n.a.	-1.34	-1.01	0.01	-0.13	-
Notes: ¹ On a no-policy-change basis. ² Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme. ³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures. ⁴ Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures. ⁵ The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards. ⁶ The (standard) reference rate applies starting in the year following which the country has reached its MTO. ⁷ The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO. Source: Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.								

Table IV. Debt dynamics

(% of GDP)	average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio¹	18.5	33.3	34.6	34.2	34.6	33.7	32.8	31.8
Change in the ratio	2.9	2.8	1.3	0.9	0.0	-0.5	-0.9	-1.0
<i>Contributions²:</i>								
1. Primary balance	4.3	3.7	1.1	1.1	0.4	0.5	-0.5	-0.8
2. "Snow-ball" effect	-0.4	-1.3	0.2	0.1	-0.4	-0.4	-0.5	-0.2
<i>Of which:</i>								
Interest expenditure	1.1	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Growth effect	-0.2	-0.7	-0.4	-0.5	-0.9	-1.0	-1.1	-1.2
Inflation effect	-1.3	-2.2	-1.1	-1.0	-1.3	-1.1	-1.0	-0.7
3. Stock-flow adjustment	-0.8	0.5	0.0	-0.3	0.0	-0.5	0.1	0.1
<i>Of which:</i>								
Cash/accruals diff.				0.0		0.0	0.0	0.0
Acc. financial assets				0.6		0.0	0.0	0.0
<i>Privatisation</i>				0.6		0.0	0.0	0.0
Val. effect & residual				-2.5		-2.7	-2.1	-1.9

Notes:

¹End of period.

²The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table V. Long-term sustainability indicators

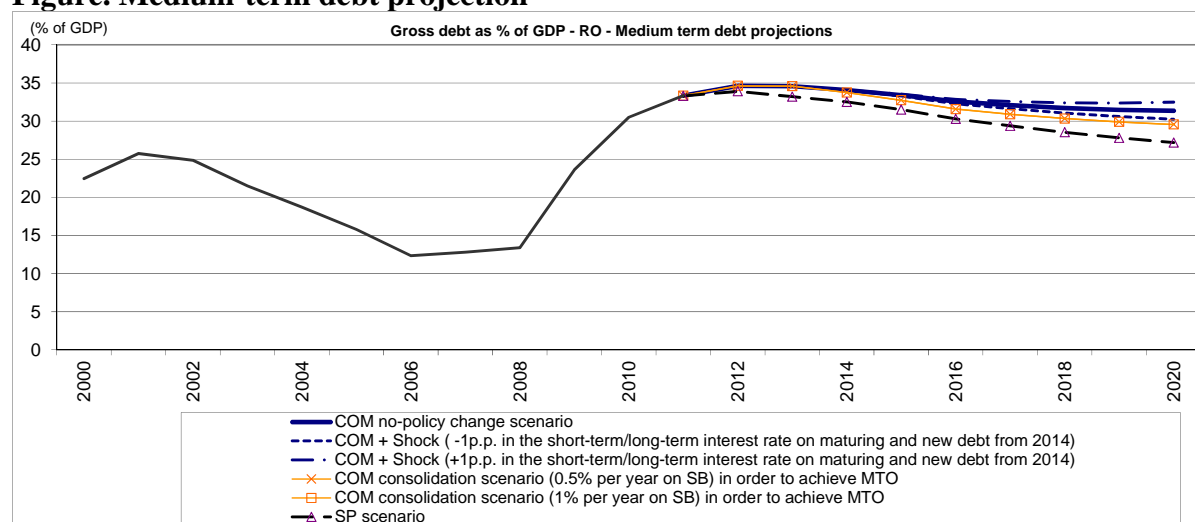
	RO		EU27	
	no-policy change scenario	SCPs scenario	no-policy change scenario	SCPs scenario
S2	3.6	3.2	2.9	0.7
of which:				
Initial budgetary position (IBP)	0.1	-0.4	0.7	-1.6
Long-term change in the primary balance (LTC)	3.5	3.6	2.3	2.4
of which:				
Pension	2.3	2.4	1.1	1.2
Health care and long-term care	1.3	1.2	1.5	1.5
Others	-0.1	-0.1	-0.3	-0.3
S1 (required adjustment)*	-1.5	-2.3	2.2	-0.1
Debt, % of GDP (2011)	33.3		82.8	
Age-related expenditure, % of GDP (2011)	17.0		25.8	

Source: Commission, 2012 stability and convergence programmes.

Note: The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Figure. Medium-term debt projection



Source: Commission, 2012 stability and convergence programmes.

Table VI: Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.6	27.8	29.0	28.0	26.9	27.2
Breakdown by economic function (% of GDP) ¹						
Consumption	10.6	12.3	11.8	11.2	10.3	11.5
of which:						
- VAT	6.2	8.1	8.1	7.9	6.6	7.8
- excise duties on tobacco and alcohol	0.9	1.2	1.3	1.2	1.5	1.5
- energy	1.9	1.8	1.7	1.4	1.6	1.8
- other (residual)	1.6	1.2	0.8	0.7	0.5	0.4
Labour employed	12.8	11.0	11.8	11.5	11.6	11.1
Labour non-employed	0.0	0.0	0.1	0.1	0.2	0.2
Capital and business income	3.9	3.6	4.2	4.2	3.8	3.3
Stocks of capital/wealth	1.2	0.9	1.1	1.0	1.0	1.1
<i>p.m.</i> Environmental taxes ²	2.4	2.0	2.1	1.8	1.9	2.1
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	41.5	53.9	56.8	56.3	47.2	43.9

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII: Selected macrofinancial stability indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	57.8	60.5	73.1	73.5	69.8
Share of assets of the five largest banks (% of total assets)	56.3	54.0	52.4	52.7	...
Foreign ownership of banking system (% of total assets)	88.9	86.8	76.1
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	2.6	2.8	7.9	11.9	14.2
- capital adequacy ratio (%) ^{1), 2)}	13.8	13.8	14.7	15.0	13.4
- return on equity (%) ^{1), 3)}	9.4	17.0	2.9	-1.7	-3.4
Bank loans to the private sector (year-on-year % change)	50.2	20.2	-4.5	4.2	5.1
Lending for house purchase (year-on-year % change)	77.3	33.3	9.6	19.3	13.2
Loan to deposit ratio	113.3	129.7	118.3	117.2	118.6
CB liquidity as % of liabilities	0.0	0.5	2.9	1.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP) ⁴⁾
Private debt (% of GDP) ⁴⁾	32.9	35.3	40.1	40.3	...
Gross external debt (% of GDP) ⁵⁾					
- Public	...	7.7	11.3	14.7	...
- Private	...	27.6	33.5	33.0	...
Long term interest rates spread versus Bund (basis points)*	291.8	371.3	647.2	459.3	463.2
Credit default swap spreads for sovereign securities (5-year)*	...	593.9	387.8	299.0	310.6
Notes: ¹⁾ Latest September 2011 ²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets. ³⁾ Net income to equity ratio. After extraordinary items and taxes. ⁴⁾ Due to data gaps on debt securities in 2007, 2008 and 2009, only the loans to GDP ratio is provided for these years. ⁵⁾ Latest data 2011Q3. * Measured in basis points. Source : <i>Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt), ECB (all other indicators).</i>					

Table VIII: Labour markets and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	64.8	64.4	64.4	63.5	63.3	62.8
Employment growth (% change from previous year)	1.9	0.7	0.2	-1.3	0.0	-1.1
Employment rate of women (% of female population aged 20-64)	58.5	57.9	57.3	56.3	55.9	55.7
Employment rate of men (% of male population aged 20-64)	71.2	71.0	71.6	70.7	70.8	69.9
Employment rate of older workers (% of population aged 55-64)	41.7	41.4	43.1	42.6	41.1	40.0
Part-time employment (% of total employment)	10.2	10.3	10.4	10.3	11.5	10.9
Part-time employment of women (% of women employment)	10.4	11.0	11.5	11.2	12.1	12.1
Part-time employment of men (% of men employment)	9.9	9.7	9.6	9.5	11.0	10.0
Fixed term employment (% of employees with a fixed term contract)	1.8	1.6	1.3	1.0	1.1	1.5
Unemployment rate ¹ (% of labour force)	7.3	6.4	5.8	6.9	7.3	7.4
Long-term unemployment ² (% of labour force)	4.2	3.2	2.4	2.2	2.5	3.1
Youth unemployment rate (% of youth labour force aged 15-24)	21.0	20.1	18.6	20.8	22.1	23.7
Youth NEET ³ rate (% of population aged 15-24)	14.8	13.3	11.6	13.9	16.4	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	17.9	17.3	15.9	16.6	18.4	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	14.8	16.6	18.8	19.5	20.6	:
Labour productivity per person employed (annual % change)	7.1	5.9	7.3	-4.7	-0.2	2.0
Hours worked per person employed (annual % change)	0.9	0.5	0.0	0.4	-0.2	-0.3
Labour productivity per hour worked (annual % change; constant prices)	6.2	5.4	7.3	-5.1	-0.1	2.3
Compensation per employee (annual % change; constant prices)	1.7	7.5	14.5	-5.9	1.5	-4.0
Nominal unit labour cost growth (annual % change)	4.9	15.2	22.9	2.9	7.9	1.7
Real unit labour cost growth (annual % change)	-5.1	1.5	6.6	-1.2	1.8	-5.9

Notes:¹ According to ILO definition, age group 15-74)² Share of persons in the labour force who have been unemployed for at least 12 months.³ NEET are persons that are neither in employment nor in any education or training.**Sources:**

Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	3.75	3.25	3.53	3.54	4.15
Invalidity	1.09	1.09	1.27	1.38	1.62
Old age and survivors	5.27	5.17	5.50	6.50	8.00
Family/Children	1.84	1.76	1.67	1.49	1.70
Unemployment	0.41	0.33	0.27	0.20	0.40
Housing and Social exclusion n.e.c.	0.00	0.00	0.00	0.02	0.02
Total	13.4	12.8	13.6	14.3	17.1
of which: Means tested benefits	0.92	0.80	0.84	0.68	0.91
Social inclusion indicators	2006	2007	2008	2009	2010
Risk-of-poverty or exclusion ¹ (% of total population)	0.0	45.9	44.2	43.1	41.4
Risk-of-poverty or exclusion of children (% of people aged 0-17)	0.0	50.5	51.2	52.0	48.7
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	0.0	57.7	49.2	43.1	39.9
At-risk-of-poverty rate ² (% of total population)	0.0	24.8	23.4	22.4	21.1
Value of relative poverty threshold (single household per year) - in PPS	0	1726	1838	2065	2122
Severe material deprivation ³ (% of total population)	0.0	36.5	32.9	32.2	31.0
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	0.0	8.4	8.2	7.7	6.8
In-work at-risk-of poverty rate (% of persons employed)	0.0	18.5	17.7	17.9	17.3
<p>Notes:</p> <p>¹ People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).</p> <p>² At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.</p> <p>³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.</p> <p>⁴ People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.</p> <p>Sources: For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.</p>					

Table IX: Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity ¹ total economy (annual growth in %)	1.3	1.3	-0.5	-2.5	2.4	1.4
Labour productivity ¹ in manufacturing (annual growth in %)	3.0	3.0	-2.4	-8.0	9.9	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	-0.2	-2.0	-1.3	-1.6	1.1	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	3.2	2.9	2.5	n.a.	n.a.	n.a.
Policy indicators	2002-2006	2007	2008	2009	2010	2011
Enforcing contracts ³ (days)	n.a.	535	542	548	549	556
Time to start a business ³ (days)	n.a.	20	17	15	15	14
R&D expenditure (% of GDP)	1.8	1.8	1.9	2.0	2.0	n.a.
Tertiary educational attainment (% of 30-34 years old population)	26.5	30.0	31.1	32.3	33.6	n.a.
Total public expenditure on education (% of GDP)	5.1	5.0	5.1	n.a.	n.a.	n.a.
	2005	2006	2008	2009	2010	2011
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	4	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	3	3	3*	n.a.	n.a.	n.a.
<p>Notes:</p> <p>¹Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.</p> <p>² Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.</p> <p>³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.</p> <p>⁴ The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.</p> <p>⁵ Aggregate ETCR.</p> <p>*figure for 2007.</p> <p>Source :</p> <p>Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).</p>						

Table X: Green Growth performance

Romania		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.81	0.70	0.66	0.61	0.58	0.59
Carbon intensity	kg / €	3.25	2.77	2.54	2.32	2.12	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	6.08	6.23	6.96	8.34	7.01	n.a.
Waste intensity	kg / €	n.a.	5.95	4.33	2.86	n.a.	n.a.
Energy balance of trade	% GDP	-2.6%	-3.0%	-2.6%	-2.9%	-1.6%	-2.2%
Energy weight in HICP	%	18	18	19	18	17	17
Difference between change energy price and inflation	%	n.a.	7.3	2.8	1.3	-0.5	-2
Environmental taxes over labour taxes	ratio	19.5%	16.8%	17.4%	15.4%	15.9%	n.a.
Environmental taxes over total taxes	ratio	8.1%	6.8%	7.1%	6.3%	7.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.70	0.40	0.30	0.27	0.22	n.a.
Share of energy-intensive industries in the economy	% GDP	11.0	10.4	10.3	9.8	27.2	n.a.
Electricity prices for medium-sized industrial users	€/ kWh	n.a.	0.08	0.08	0.09	0.08	0.09
Public R&D for energy	% GDP	n.a.	0.01%	0.03%	0.03%	0.02%	n.a.
Public R&D for the environment	% GDP	n.a.	0.02%	0.01%	0.02%	0.02%	n.a.
Recycling rate of municipal waste	ratio	1.4%	0.5%	0.4%	0.9%	0.9%	n.a.
Share of GHG emissions covered by ETS	%	n.a.		44.6%	41.8%	37.5%	n.a.
Transport energy intensity	kgoe / €	0.79	0.45	0.36	0.38	0.48	n.a.
Transport carbon intensity	kg / €	2.28	1.25	0.99	1.05	1.31	n.a.
Change in the ratio of passenger transport and GDP	%	-2.7%	-3.7%	-2.3%	-2.2%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	26.8%	29.2%	31.5%	27.7%	20.3%	n.a.
Diversification of oil import sources	HHI	n.a.	0.38	0.39	0.51	0.50	n.a.
Diversification of energy mix	HHI	0.27	0.27	0.25	0.24	0.23	n.a.
Share of renewable energy in energy mix	%	10.6%	11.7%	11.7%	13.2%	14.9%	n.a.
Country-specific notes:							
The year 2011 is not included in the table due to lack of data.							
General explanation of the table items:							
Source: Eurostat unless indicated otherwise; ECFIN explanations given below							
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)							
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)							
Carbon intensity: Greenhouse gas emissions (in kg CO ₂ equivalents) divided by GDP (in EUR)							
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)							
Waste intensity: waste (in kg) divided by GDP (in EUR)							
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP							
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP							
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)							
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"							
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)							
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP							
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste							
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP							
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)							
Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)							
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector							
Passenger transport growth : measured in %-change in passenger kilometres							
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers							
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin							
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels							
Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents							