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# Romanian News Letter 20th August 2012

## The European Commission (EC) urges Romania to ensure the implementation of the Civil and Criminal Codes.

The Commission made a series of recommendations regarding the reforms needed to ensure progress under the Cooperation and Verification Mechanism (CVM). The EC recommends that Romania should:

- adopt and implement a joint comprehensive plan to ensure implementation of all four codes, including all relevant aspects of structural and procedural reform, human resource adjustment, and investment into judicial infrastructure;

- restructure the court system and prosecution offices, rebalancing staff and workload, guided notably by the functional review of the Romanian judicial system and the project on optimal workload in courts currently funded by the World Bank;

- create a monitoring group for judicial reform which involves all state powers, professional associations and civil society.

## Romania’s Prime Minister Victor Ponta assured the European Commission the country will meet all its recent commitments.

The Commission will continue to monitor the situation in Romania and a new Cooperation and Verification Mechanism (CVM) report will be adopted this year to look at whether authorities addressed its concerns. The European Commission (EC) will closely monitor the situation in Romania to make sure that the commitments made by the Prime Minister concerning the rule of law and the independence of the judiciary are honoured.

The EC highlighted that the political developments in Romania have been a source of concern for the Commission and the European Union. The European Commission adopted its annual report on Romania’s progress in the justice sector, under the Cooperation and Verification Mechanism (CVM) implemented in 2007. The report includes several recommendations on observing the rule of law and the independence of the judiciary.

## Romania's Communications Ministry wants to sell a stake of at least 20% in national postal operator Posta Romana to a strategic investor.

The Government had pledged to hire a consultant in June and publish the tender prospectus in August, in preparation for the capital increase at the end of September. The consultant has not yet been hired and the ministry wants to put together a committee for this purpose. According to the draft decision, a committee will also be set up to coordinate the privatization, made up of representatives of the Communications Ministry, Finance Ministry, the Prime Minister's cabinet and minority shareholder Fondul Proprietatea.

Another committee will be created to prepare and monitor the privatization process, with members including representatives of the Communications Ministry, Posta Romana and Fondul Proprietatea.

The members of these two committees and their technical staff will be paid no more than 2,500 lei (530 Euro) before tax per month, from Posta Romania's budget. The company will also pay for consultancy and legal services, as well as advertising.

### Romania's Finance Ministry wants to introduce certain spending restrictions when the net public debt goes over 35%, 40%, or 45% of the GDP.

Into restrictions will be implemented through a bill, which is expected to be put forward in September and enter force in 2013. When the public debt exceeds 35% of GDP, a rule automatically activates whereby public spending would not be allowed to grow faster than the rate of inflation. When the debt goes over 40% of GDP, local budgets will have to be balanced without transfers from the state budget. When the public debt tops 45% of the GDP, the Government will be barred from providing state guarantees and subsidies.

Romania has one of the lowest public debts in the European Union (EU) and, according to the euro convergence criteria; the maximum level of debt is 60% of the GDP, which the Minister and many economic analysts consider too high. On the other hand, Romania is facing an excessive deficit procedure and has pledged to the European Commission to end the year with a deficit (under ESA 95) below 3% of the GDP.

### Romania’s Government expects revenues to the state budget to decrease by more than 2.1 billion lei (462 million Euro) in 2012.

The Government has revised down its forecast on this year's revenues to the state budget, estimating lower revenues from excise duties and European Union funds, but higher revenues from the value added tax, the income tax and the tax on use of goods. The Government expects state budget revenues from excise duties to decrease by 918.6 million RON, or 0.2% of the GDP, cash-ins from untaxed revenues to go down by 1.8 billon RON, the amounts received from the European Union as deductions for operated payments to decrease by 2 billion RON, capital revenues to decline by 432.7 million RON, revenues from social security contributions to decrease by 179.6 million RON, as well as cash-ins from the profit tax to decrease by 91.8 million RON. The Government has also revised its expenditure forecast down by 753 million RON.

Romania’s economy shrank for a second straight quarter in January through March, meaning the country is technically into recession.

In 2011, the country’s GDP increased by 2.5%, helped by a bumper harvest and improved performance in industry.

### The IMF, the European Commission and the World Bank do not agree with reducing VAT on basic foods or progressive income taxation.

The IMF delegation argued that this would bring Romania's budget deficit above the limit of 3% of the GDP, under European regulations. Agriculture Minister Daniel Constantin said in July that the 2013 state budget will surely provide VAT of 9% on food, if the measure is not implemented this year.

The Prime Minister announced in May that the Government would introduce three income tax brackets next year, if the Social-Liberal Union would win the general elections this autumn. The Government has revised down its economic growth forecast to 1.2% in 2012 from 1.5% previously, according to a draft of this year's first budget revision.

The IMF have also analysed the macroeconomic framework that will serve as the basis for next year's state budget and expect Romania's GDP to grow by 2.5% next year, lower than the National Prognosis Commission's estimate of 3.1%.

### The International Monetary Fund approval of the latest quarterly review of Romania’s progress under a multilateral loan program is conditional.

“Staff-level agreement has been reached with the authorities and we will recommend the review mission be completed,” said Erik der Vrijer, head of the IMF mission to Bucharest. “However, prior measures are required,” he added.

The IMF said Romania must reduce the level of local Government arrears, adding that the Government will issue an ordinance allowing local authorities to use available resources to pay existing arrears. Other measures comprise adjusting natural gas prices to production costs as of mid-September, launching the privatization of state-run chemical company Oltchim (OLT.RO) and running a secondary offering for 5% in gas pipeline operator Transgaz (TGN.RO).

All four terms are prerequisite for the approval of the review report at a meeting tentatively scheduled for late September. Joint teams from the IMF, the European Commission and the World Bank visited Bucharest

during July 31 to August 14 for the sixth review of Romania's economic program under a 5 billion Euro precautionary loan agreement. Following the review, the IMF is scheduled to release the seventh instalment of the loan, worth some 510 million Euro.

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