



GOVERNMENT OF ROMANIA

THE CONVERGENCE PROGRAM

2018-2021

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INTRODUCTION

The 2018 edition of the Convergence program for the period 2018-2021 was elaborated on the basis of Regulation (EC) no. 1466/1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, amended through Regulation (EC) no. 1055/2005 of the Council and Regulation (EU) no. 1175/2011 of the European Parliament and the Council.

The 2018-2021 convergence program is created by taking into consideration the Code of Conduct regarding the Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of the Stability and Convergence Programs from July 5th, 2016.

The submission by the Member States and the assessment by the European Commission of the Convergence Program is a component of the European Semester, which is a cycle of coordination of economic and budgetary policies. The European Semester is the main instrument for the Europe 2020 Strategy, the preventative instrument of the Stability and Growth Pact (amended by the 6-regulation pack which came into effect on December 13, 2011), and of the Macroeconomic Imbalance Procedure and Euro Plus Pact.

The 2018 edition of the Convergence program is based on the provisions under the Fiscal-budgetary strategy for 2018-2020 and the prognosis of the 2018-2021 medium-term macroeconomic framework (the 2018 spring version). In 2017, Romania had a deficit of the general consolidated budget in ESA terms of 2.9% of the GDP, as well as a structural deficit of 2.9% of the GDP.

The budgetary planning for 2018 and the estimates for the 2019-2021 period establish the ESA budgetary deficit for the year 2018 at 2.96% of the GDP, close to the value allowed by European regulations (3% of the GDP), with an adjustment toward the medium-term objective (MTO) to start in 2019. With regards to 2018-2021 horizon, the budget deficit policy continues to directly support economic growth, within the margin allowed by the Stability and Growth Pact, i.e. an ESA budget deficit 3% of GDP.

Within the Country report, the European Commission has found that, in Romania, economic growth has increased in 2017, however, it has a underassessed recovery rhythm, on account of the decrease in public investments for the second year in a row.

The Government of Romania maintains its commitment of adhering to the Euro area, but the setting of a firm date in this regard implies the realization of in-depth analyses, especially with regard to real, structural and institutional convergence, fields in which important progress is necessary. In addition, it is necessary to take into consideration the sustainability of fulfillment of the nominal convergence criteria. **Recently, the National Commission for the approval of the National plan for the adoption of the Euro**, with the role of preparing Romania's adherence calendar to the Single Supervisory Mechanism and for the adoption of the euro, as well as the necessary actions as to prepare the Romanian

economy and society in this respect. Under these circumstances, the commitment of adoption of the EUR currency continues to be an important anchor with regard to the implementation of efficient and coherent budgetary, structural and institutional policies, in order to ensure sustainable real convergence (income/inhabitant), to increase the Romanian economy's competitiveness, to reduce regional disparities and the structural deficiencies of the labor market, etc.

In terms of real convergence, assessed through the gaps relative to the European average (EU-28) of the gross domestic product (GDP) per inhabitant expressed through the standard purchase power (SPP), there is a chance for Romania to reach 70% of the European average in 2020, compared to 58% registered in 2016. For the year 2017, the GDP/inhabitant at SPP is estimated to exceed the 60% threshold.

1. GENERAL FRAMEWORK AND ECONOMIC POLICY OBJECTIVES

1.1. GENERAL CONTEXT

Romania's economic growth has accelerated in 2017, a positive contribution was due to both investments and consumption. Private consumption was supported by the decrease in indirect taxes and by the salary increase in the public and private sector. Romania registered in recent years considerable progress in reducing macroeconomic imbalances, which, together with the monetary policies and structural reforms implemented or in process of implementation, have contributed to maintaining macroeconomic and financial stability.

In perspective, the GDP increase shall slightly decrease from 6.9% in 2017 to 6.1% in 2018 and to 5.7% in 2019. It is estimated that investments shall intensify on account of an increase in the implementation of projects funded with EU funds.

With regards to the international sector, we estimate a reduction of the negative contribution of the net export to the GDP from -0.8 pp in 2017 to -0.6 pp in 2018. In 2017, the current account deficit was of 3.4% of the GDP, following that it reach 3.1% in 2018, being mostly funded through direct foreign investments.

In 2017, **employment**, based on the data of the National Accounts, increased by 2.6%, the number of economy employees increased by 3.0%, representing 75% of total employment, and the unemployment rate, according to AMIGO, decreased from 5.9% in 2016 to 4.9% in 2017.

Despite these estimates, a series of challenges are still present, with regards to:

- Economic and social inclusions, major gaps still existing between rural and urban areas, as well as at regional level. Although most of Romania's regions have registered progress with regards to certain key economic growth indicators, these continue to be under the EU average, with the exception of the Bucharest-Ilfov region. Therefore, in 2016, the GDP/inhabitant calculated at SPP at the level of the Bucharest-Ilfov region, which is over the European average, while in the other regions, the GDP/inhabitant at SPP does not exceed 60% of the EU28 average.
- Income inequality: in 2017, Romania registered a value of the Gini indicator of 35.1, a slight increase compared to the previous year (34.7). Furthermore, the S80/S20 report shows that, in 2017, the first 20% of Romanians with the largest incomes have gained 7 times more compared to the 20% of those with the smallest incomes, the report registering a slight improvement compared to the previous year.

1.2. FISCAL POLICY

In 2018, new measures were implemented with regards to the fiscal framework associated to direct tax and social insurance contributions. An important amendment is

the reduction of the income tax rate from 16% to 10%, measure previously announced through the Governing Program. With regards to the social insurance contributions, the fiscal task associated to the employer was transferred to the employee with the purpose of ensuring a better collection of social securities budget income and of rebalancing the State Social Securities Budget. The transfer of contributions to the employee was preceded by the increase of salaries in the budgetary sector by 25%, so that the net income was not influenced by this transfer.

Starting with January 1st, 2018, the transfer share toward the second pensions pillar (pillar II pensions) was decreased from 5.1% to 3.75%, the measure was taken as to ensure the same transfer toward the second pillar in 2018 compared to 2017 in the amount of approximatively RON 7 billion, in the context of contributions transfer and gross salary increase.

Furthermore, a series of measures were adopted, to ensure a better collection and additional budgetary revenues. With the purpose of improving collection of revenue from VAT, the VAT disaggregated payment mechanism was implemented, optional starting with October 2017 and compulsory from 2018 for companies in insolvency and for those with VAT payments debts. Additional revenues shall also be obtained as a result of the increase of fuel excise duties which took place in two stages in 2017 (from September 15th and respectively October 1st, 2017).

With the purpose of improving voluntary compliance, the creation of technical and procedural conditions for the payment of all fiscal obligations by means of all banking instruments is targeted. In the field of tax evasions and underground economy, such actions are continued: introduction of the random compliance testing program, development of the structure responsible of natural persons with significant fortune, combating customs fraud. In the field of fiscal anti-fraud, the increase in the number of inspections for the elimination of fraud chains, elimination of the “ghost” companies system, revision of antifraud procedures in accordance with the European risk management model, introduction of electronic invoices, of electronic cash registers with on-line reporting and of electronic information of taxpayers.

With regards to expenditure, the Government has adopted a series of measures destined to increase the population’s standard of living, as well as increasing the minimum wage (from RON 1450 from RON 1900, starting with January 1st, 2018). Furthermore, the salaries of personal paid from public fund has increased with 25% starting with 2018, increase which, however, was mostly covered by the transfer of contributions to the employee. Starting with March 1st, 2018, the salaries of physicians and nurses have increased to the level of the basic salary established for the year 2022, and the salary of the personal holding faculty positions within state pre-university and university educational establishments has increased by 20% compared to February 2018 (according to Law no. 153/2017). With regards to the pension system, on July 1st, 2017, the value of

the pension point has increased with 9%, respectively RON 1000. In 2018, during January 1st - July 1st, the value of the pension point is of RON 1000 (Law no. 3/2018) and RON 1100 for the period between July 1st - December 31st (GEO no. 82/2017).

In the 2018-2020 period, within the economic policies plan, the Government has as primary objective the consolidation and maintenance of an intelligent, sustainable and inclusive economical growth, capable of providing the premises for the consolidation of a strong, proactive state and a balanced society, with an extended middle class. This objective shall be achieved by means of:

- Supporting public investment by prioritizing those significant to ensuring infrastructure and services, improving quality of life, these having a multiplying effect and a direct input to the gross fixed capital formation;
- Creating a predictable fiscal policy as to sustain the business environment and stimulate investments in the high added value sectors, simplifying taxation and streamlining internal processes, as to create the premises of a sustainable economic growth;
- The measures adopted by the Government with regards to consumption by adopting new salary, social measures with the purpose of ensuring social protection and social security for the elderly, pensioners and the most vulnerable categories;
- Developing and diversifying the management instruments of public debt;
- Improving, applying and consolidating budgetary governance, increasing budgetary transparency and rendering public expenditure efficient.

1.3. MONETARY AND EXCHANGE RATE POLICIES

Pursuant to its Statute¹, the primary objective of the National Bank of Romania (NBR) is to ensure and maintain price stability, thereby contributing, along with safeguarding financial stability, to sustainable economic growth. The NBR designs and implements monetary policy in the context of inflation targeting², seeking to attain the inflation target of 2.5 percent \pm 1 percentage point³ over the medium term and to put in place the necessary prerequisites for bringing the longer-term annual inflation rate down to a level in line with the European Central Bank's quantitative definition of price stability.

The National Bank of Romania's monetary policy in 2017 was marked by the annual inflation rate posting very low readings (below 1 percent) during the first three quarters and, against this background, by the monetary policy rate being kept unchanged at 1.75 percent per annum throughout the year.

¹ Law no. 312/2004.

² The NBR moved to inflation targeting in August 2005.

³ The NBR shifted to a multi-annual flat inflation target of 2.5 percent \pm 1 percentage point in December 2013.

The end of 2016 saw a negative annual inflation rate, i.e. -0.54 percent, largely as a result of fiscal measures (the cut in the standard VAT rate to 20 percent from 24 percent, on 1 January 2016, and the presence by mid-year of the impact from the cut in the VAT rate on food items to 9 percent from 24 percent, effective 1 June 2015). The annual adjusted CORE2 inflation rate stayed only in positive territory (0.2 percent in December 2016). At constant taxes, the annual increase in the CPI was also positive (0.7 percent at end-2016), but stood below the lower bound of the variation band of the inflation target (1.5 - 3.5 percent).

The first months of 2017 witnessed further exogenous shocks of a fiscal nature⁴, entailing temporary disinflationary effects that kept the annual inflation rate at positive, yet very low readings during the first three quarters of the year. The specific context of 2017 warranted the extension of the *status-quo* of the policy rate at 1.75 percent per annum.

Starting in September 2017, the annual inflation rate witnessed a fast rise and re-entered the variation band of the target, especially due to new budgetary and fiscal measures⁵ which promptly translated into higher prices of some items holding significant shares in the CPI basket, accompanied by increases in some administered prices⁶. To this, a changing external environment was added, characterized by a renewed rise in commodity prices⁷. At the same time, at a European level, prices of a number of food items picked up (in the EU, price increases stood at 5.3% for milk, cheese and eggs, and at 2.5% for meat and meat products), impacting domestic prices as well, given the net importer profile of the Romanian food sector and the large share of foodstuffs in the consumer basket.

The annual adjusted CORE2 inflation rate also followed an upward path in the second half of the year to reach 2.45 percent in December 2017. Behind this stood the stronger-than-expected cyclical position of the economy, the sustained rise in wage costs, the increasing import prices owing to the above-mentioned factors and to the weakening pressures on the Leu (under the impact of the current account worsening). The gradually upward path of short-term inflation expectations played a role as well.

As a result of these factors, annual inflation grew at a fast pace in the latter half of the year, but in December 2017 it did not exceed 3.3 percent, which is inside the variation band of the inflation target. The still high magnitude of the transitory disinflationary action of supply-side shocks anticipated in the first months of the period and in the near run and the slow-in-coming evidence over the short term of inflationary pressures presumably stemming from the stronger-than-expected cyclical position of the economy

⁴ The lowering of the standard VAT rate to 19 percent from 20 percent, and the scrapping of the special excise duty on motor fuels, as a direct effect of the coming into force of measures set forth in the 2015 Tax Code

⁵ the two-step reintroduction of the special excise duty on motor fuels in September and October 2017

⁶ (the electricity price went up by 6.8 percent and 6.9 percent in July and October 2017 respectively)

⁷ the USD-denominated Brent oil price climbed 20.75 percent year on year in December 2017 compared to December 2016

and from the sustained rise in wage costs were strong enough arguments, along with the annual inflation rate running inside the variation band of the inflation target, for the NBR to decide not to increase its policy rate. Moreover, the swift developments in the domestic financial market during the autumn months constituted a “de facto” tightening of monetary conditions, as money market rates went up to the level of the monetary policy rate after more than two years of being stuck at much lower levels, close to the interest rate on the deposit facility.

In the course of 2017, the NBR took the opportunity provided by the low-inflation climate both domestically and internationally to carry on the policy of gradually normalizing some components of the inflation targeting framework with a view to bringing them into line with the good practices of the European Central Bank.

One such measure was the narrowing of the corridor of interest rates on standing facilities around the monetary policy rate from ± 1.5 percentage points at the beginning of 2017 to ± 1.25 percentage points in October 2017 and then to ± 1 percentage points in November 2017, thus reaching a level comparable to that seen in EU countries. The first post-crisis narrowing of the corridor was in July 2013, from ± 4 percentage points to ± 3 percentage points, followed by gradual reductions to the current level. This made money market rates come into line with the monetary policy rate and the groundwork was laid for initiating the policy rate hike cycle.

Another normalization measure consisted in lowering the minimum reserve requirement ratio on forex-denominated liabilities of credit institutions from 10 percent at end-2016 to 8 percent at end-2017, a similar level to that of the minimum reserve requirement ratio on Leu-denominated liabilities. Compared to January 2014, the minimum reserve requirement ratios (MRR) shrank from 12 percent on domestic currency liabilities and 18 percent on foreign currency ones, respectively. The NBR intends to continue the minimum reserve requirement ratio cutting policy when the opportunity arises on the market, the purpose being not to loosen the monetary policy, but rather bring it closer to the ECB stance.

These measures conducive to the normalization of the manner in which bank intermediation takes place were, in turn, fostered by the overall brighter picture painted by the banking sector in Romania, from at least two essential points of view. On one hand, after foreign currency lending had prevailed during the pre-crisis period, in 2017 the share of leu-denominated credit in the total loan stock widened to a post-crisis high of 62.8 percent. By comparison, the share of domestic currency loans in total credit had been 57 percent in 2016 and 40 percent in 2009. A high level of domestic currency lending helps increase the effectiveness of the monetary policy transmission mechanism and mitigate the currency risk for credit institutions and borrowers alike. As a counterpart, household and corporate deposits with banks continued to rise, providing a solid basis for bank funding; the loan-to-deposit ratio reached 76.8 percent in 2017 from

80.3 percent in 2016 or 119 percent in 2011. Even when looking at the foreign currency component, the loan-to-deposit ratio fell below 100 percent (89.5 percent in 2017 against 109 percent in 2016 or 225 percent in 2011).

On the other hand, the adequate policy of macro- and micro-prudential supervision was reflected by the decline in the non-performing loan ratio from a high of 21.9 percent in 2013 to 9.6 percent in December 2016 and to a post-crisis low of 6.4 percent in December 2017, thus entering the average range calculated by the ECB at a European level. The downward path of the non-performing loan ratio (which continues in 2018 as well, with this indicator diminishing further to 6.2 percent in February 2018), along with a level of provisioning above the EU average, points to the reduction in credit risk and enables the resumption in credit growth on sustainable grounds. As a matter of fact, although overall financial intermediation as a share in GDP continued to decline in 2017, the pace of increase of domestic currency credit stood at 16 percent, outpacing the nominal GDP dynamics.

The NBR's quarterly projection updated in November pointed to a significantly higher-than-previously anticipated path of the forecasted annual inflation rate over the short time horizon and to a slightly lower one in the longer run. The new path of the projected annual inflation rate reflected the temporary relative heightening of the inflationary impact anticipated to be exerted by supply-side factors – amid the new shocks having recently occurred, overlapping in early 2018 the base effects associated with the previous cuts and removals of indirect taxes and fees and declines in administered prices –, as well as the prospects for a gradual pick-up in inflationary pressures stemming from the cyclical position of the economy, higher wage costs and the uptrend in short-term inflation expectations, all of which affect primarily the dynamics of core inflation. The increase in excess aggregate demand was expected to be larger over the short term, given the upward revision of the GDP growth rate anticipated for 2017's second half, along with the reconfirmation of the previously-projected rate for 2018, amid the likely protraction in the expansionary nature of fiscal and income policies in 2018 and more robust euro area/EU economic growth, but also amid the gradually less accommodative monetary conditions.

In the context of persistent above-potential economic growth, there emerges the primary effect of excess aggregate demand, which may put pressure on the inflation rate, on the trade deficit and on the exchange rate. Against this backdrop, a risk also emerged that the inflation bout driven by supply-side shocks in the first part of 2018 might trigger sizeable second-round effects via the de-anchoring of medium-term inflation expectations, hence compounding the efforts and costs of bringing inflation back under control. The use of monetary policy instruments, especially via raising the policy rate, is warranted to keep aggregate demand in check, yet the dosage depends on the quality of the macroeconomic policy mix. Moreover, monetary policy tightening also needs to take into account the prevailing context across the EU, where all countries have negative real interest rates, so

as not to generate inadequate incentives for speculative capital flows, with unfavorable implications on the economy's competitiveness and on the external deficit.

The optimum balance between the monetary policy rate, the exchange rate and the level of the foreign exchange reserves is an objective of the National Bank of Romania, considering that each of these variables is impacted by factors with divergent influences. Consequently, at the beginning of 2018, in order to prevent the effects of other exogenous shocks and to keep inflation expectations under control, the NBR continued to tighten monetary policy (a process that had started in the latter half of 2017, via the narrowing of the corridor around the policy rate) and gave a solid response by adjusting the monetary policy rate. **In January and February 2018, the NBR raised the monetary policy rate by 0.25 percentage points each time, thus bringing it to 2.25 percent at the end of 2018 Q1 from 1.75 percent at end 2017.**

The NBR expects the inflation bout in the early months of 2018, which pushed the annual inflation rate to 4.73 percent in February 2018, to dissipate in the latter half of the year, partly due to the fading out of the base effect of fiscal measures. Additional pressures stem from developments in administered prices (electricity price rose by 2.3 percent in January 2018 and the natural gas price by 3.8 percent and 1.8 percent in January and February 2018 respectively), from uncertainties about the evolution of the fiscal position, as well as from imported inflation. In order to keep inflation expectations in line with the price stability objective, the NBR envisages an adequate pacing of monetary policy tightening.

In calibrating the monetary policy response, the NBR analyses a large matrix of factors, including labor market conditions, EU funds absorption, implications on financial stability, the dynamics of economic expansion in the euro area and globally, the evolution of inflation in EU Member States, the monetary policy stances of major central banks and of those in the region.

Considering the monetary policy response within a balanced mix of public policies, **the NBR projected in its latest quarterly Inflation Report (February 2018) an annual inflation rate of 3.5 percent for December 2018 and 3.1 percent for December 2019, with both values being close to the upper bound, yet inside the variation band of the target.**

2. ECONOMIC PERSPECTIVES

2.1. GLOBAL ECONOMY/TECHNICAL ASSUMPTIONS

The predictions made within the International Monetary Fund's spring prognosis estimate a global economic growth of 3.9%, both for 2018 and 2019. According to the IMF, advanced countries are expected to record an average increase of 2.5% in 2018 and, respectively, 2.2% in 2019, while developing countries will have average advances of 4.9% in 2018 and 5.1% in 2019. China's economic growth was revised to 6.6% for 2018, 0.1 p.p. over the estimate from October 2017, based on the expectations related to the continued implementation of growth policies. Nevertheless, the risk of China's economic growth slowing continues to be relatively high, given that growth is based to a large extent on the State's incentives, corroborated with the expansion of crediting and slow progress in reducing companies' debts. As such, for 2019 it is estimated that the rhythm of growth of the Chinese economy will be reduced to 6.4%.

In 2017, the EU economy faced significant challenges (terrorist attacks and geo-political tension, migration flows, Brexit, risks associated with the banking system etc.) and, in spite of all this, it registered a 2.4% growth. This growth was to a very large extent supported by consumption, while investments did not have the expected evolution. Therefore, according to the European Commission's winter prognosis, the real GDP of the EU is predicted to reduce its growth rhythm to 2.3% in 2018 and 2.0% in 2019.

With regards to the Euro zone, the economic growth recorded in 2017 was of 2.3%. For the year 2018, the IMF estimates a growth rate of 2.4%, and a slowing of the dynamic of the real GDP to 2.0% is expected to be recorded in 2019.

With regards to the global economic growth rhythm (excluding the EU), the European Commission's prognosis shows an improvement of economic perspectives, estimating for 2018 and 2019 the same annual real GDP growth rate of 4.1%, exceeding by 0.3 p.p. the increase by 3.8% from 2017.

The economic evolution of Germany, Romania's main commercial partner and the main driver of the EU's economy, was positive for the year 2017, the growth rhythm of 2.2% representing an increase by 0.3 percentage points compared to that of 2016. For the year 2018, an intensification of the economic activity by 0.1 percentage points is predicted compared to 2017 (2.3%), following that, in 2019, the economic growth decrease to up to 2.1%. Furthermore, in Italy's case, Romania's second commercial partner, it is foreseen that the 2018 GDP dynamic shall be maintained at the same level as that of 2017 (respectively 1.5%), followed by a slight slowing of the growth rhythm in 2019, to 1.2%. With regards to France, after an economic growth acceleration in 2017 compared to 2016 (1.8% compared to 1.2%), growth rhythms of 2.0% are estimated in 2018 and a slight deceleration in 2019, to 1.8%.

According to the European Commissions predictions, it is expected that the basic inflation

rate, which excludes the volatility of energy and unprocessed foods prices, shall remain within moderate rates, given the fact that the issue of the under-use of the workforce being resolved in a slow manner, and the salary pressures remain within reasonable limits. Global inflation shall continue to reflect the significant influence of energy prices, a modest increase of the global inflation being foreseen for the following period. Within the Euro zone, inflation has reached 1.5% in 2017. It is estimated that this rate shall remain the same in 2018 as well, following that it increase to 1.6% in 2019.

The forecast of Brent crude oil prices was revised in an ascending direction, from \$52.8 /barrel in 2017, to \$62.3/barrel in 2018. A reduction of the Brent crude oil price is estimated for the year 2019, to \$58.2/barrel.

Considering the evolution of the world economy in the following period, in Romania, average annual growths of exports of goods by 8.6% and of imports by 9.3% are estimated for the time interval 2018-2019. After in 2017 the FOB-CIF commercial deficit registered a weight of 6.9% in GDP, it will follow an ascending trend, reaching the level of 7.3% in 2018 and of 7.6% in 2019.

Table 1: Evolutions at global level

	2017	2018	2019
Economic growth, world economy (%)	3.8%	3.9%	3.9%
Economic growth - EU (%)	2.4%	2.3%	2.0%
Economic growth - Euro zone	2.3%	2.4%	2.0%
Inflation rate - EU	1.7%	1.9%	1.8%
Brent crude oil price (\$/barrel)	52.8	62.3	56.2

Source: IMF and European Commission

2.2. CYCLICAL EVOLUTIONS AND CURRENT PERSPECTIVES

2.2.1. CURRENT PERSPECTIVES

In the year 2017, the economic growth was of 6.9%, thus ensuring the premises of Romania drawing closer to the level of development and welfare of other European states. The economic growth was due to **domestic demand**, however, compared to previous years, in 2017, qualitative improvements were recorded within its structure.

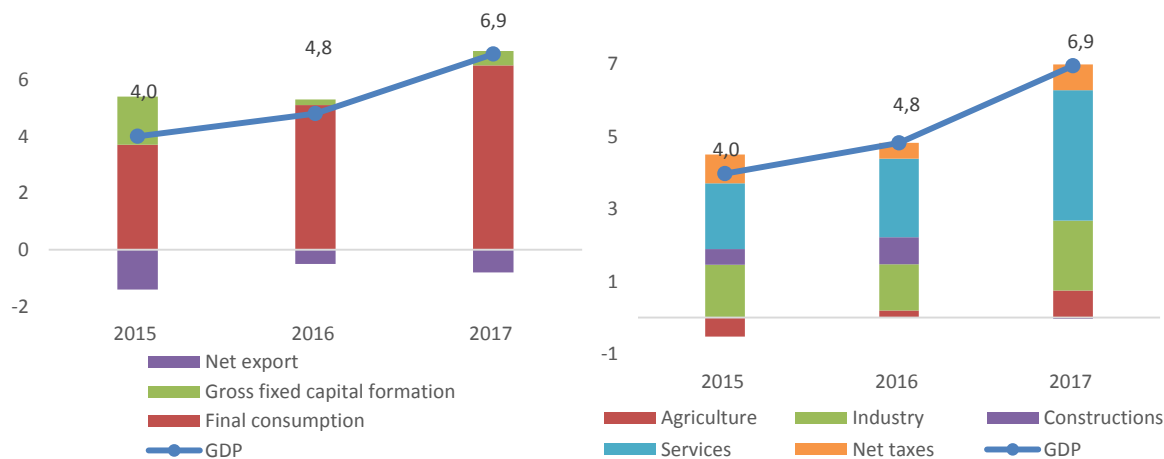
In the year 2017, the **gross economy investments** (gross fixed capital formation) increased by 4.7% compared to 2016, year in which they reduced by 2%. Also significant is the fact that net investments from the national economy (which represent a part of the GFCF as they are only those made by the budgetary sector and the trading companies) have increased by 6.4% in 2017 compared to 2016. In 2016, net investments reduced by 3.3%.

In 2017, the final consumption increased by 8.4%, and the population's consumption by 10.2%, however, the latter was not the only growth engine as in 2016. As opposed to the year 2016, when the population's consumption had an exclusive contribution to the economic growth, in 2017, its contribution was completed by the **positive contribution of investments (gross fixed capital formation)**. In 2017, the total final consumption contribution was of 6.5% of the economic growth. By comparison, in the year 2016, the consumption contribution was of 5.1% to a GDP increase of 4.8%.

Therefore, in 2017, the population's consumption had a lower contribution in relation to the economic growth than in 2016.

The goods and services export increased in real terms by 9.7%, while the goods and services import increased by 11.3%. These evolutions led to the **net export** registering a negative contribution to the 0.8 percentage points increase of the gross domestic product.

Chart 1: Contributions to the real growth of the GDP



Source: National Institute for Statistics

From the point of view of internal demand, **industry represented the engine of this evolution**, with a contribution to the real growth of the gross domestic product of 1.9 percentage points. The “Trade, transport and storage, hotels and restaurants” branch had a contribution of 1.5 percentage points. The added value by the industry increased by 8%.

Concurrently, **agriculture has substantially contributed**. The gross added value of this branch has increased by 18.3% compared to 2016, the contribution being of 0.7%.

A second defining element, is represented by **the evolution of modern services, with the high gross added value, respectively IT and scientific and technical services**. The “Information and communication” branch recorded a dynamic of 10.9% and a contribution of 0.6%. The “Professional, scientific and technical activities; administrative services activities and support services activities” branch increased its gross added value by 9.9%, which meant a contribution of 0.7 percent to the 6.9% economic growth.

Altogether, it can be appreciated that four branches (industry, agriculture, information and communication, as well as scientific and technical services) have ensured almost 57% of the economic growth (3.9 percent of 6.9%).

Inflation recorded a modest increase as annual average in 2017, of 1.34%, while the annual inflation was of 3.32% at the end of the year. The more accentuated increase of inflation at the end of 2017 was primarily due to certain increases in prices in the second half of the year, having as basis external causes such as the increase in the price of oil barrel on the international markets, the increases in prices for certain food products (eggs and butter) or the depreciation of the national currency in relation to the European one. The measure to increase the fuel excise duty in two stages, September 15th and October 1st, 2017, is also added to these causes.

In march 2018, the annual inflation was of 4.95%, based on the increase of food goods prices by 4.01% and that of non-food goods by 6.57%. Compared to December 2017, the consumption prices have registered an increase by 1.37% in March, determined by the 1.74% increase in the prices of food goods.

In 2017, **employment**, according to the National Accounts data, increased by 2.6%. The number of employees in the economy increased by 3.0%, representing 75% of the employed population. This increase was due, especially, to the evolution of industry and services, where the number of employees increased by 3.8% and respectively 3.0%. The unemployment rate, according to AMIGO, decreased from 5.9% in 2016 to 4.9% in 2017.

2.2.2. CYCLICAL EVOLUTIONS

Romania has re-established, in sustainable conditions, its growth potential, strongly affected by the economic-financial crisis, the GDP dynamic returning to value of over 5%

annually, starting with 2018. These estimates have been determined by using the common European methodology agreed upon by all 28 member states.

The prognosed evolution of the potential GDP is the result of certain positive contributions to all production factors, the most important being that of the total factor productivity, followed by the important contribution of the capital stock.

Table 2: The contribution of factors to the growth of the potential GDP

Contributions - percentage points -					
	Potential GDP (%)	Capital	Labor	TFP	Output Gap (%)
2016	4.3	0.8	0.3	3.1	-2.0
2017	4.7	0.9	0.5	3.2	0.1
2018	5.2	1.1	0.9	3.2	0.9
2019	5.4	1.3	0.8	3.2	1.2
2020	5.3	1.5	0.5	3.2	1.6
2021	4.9	1.7	0.0	3.1	1.7

Note: Differences when summing up, where applicable, are due to rounding offs

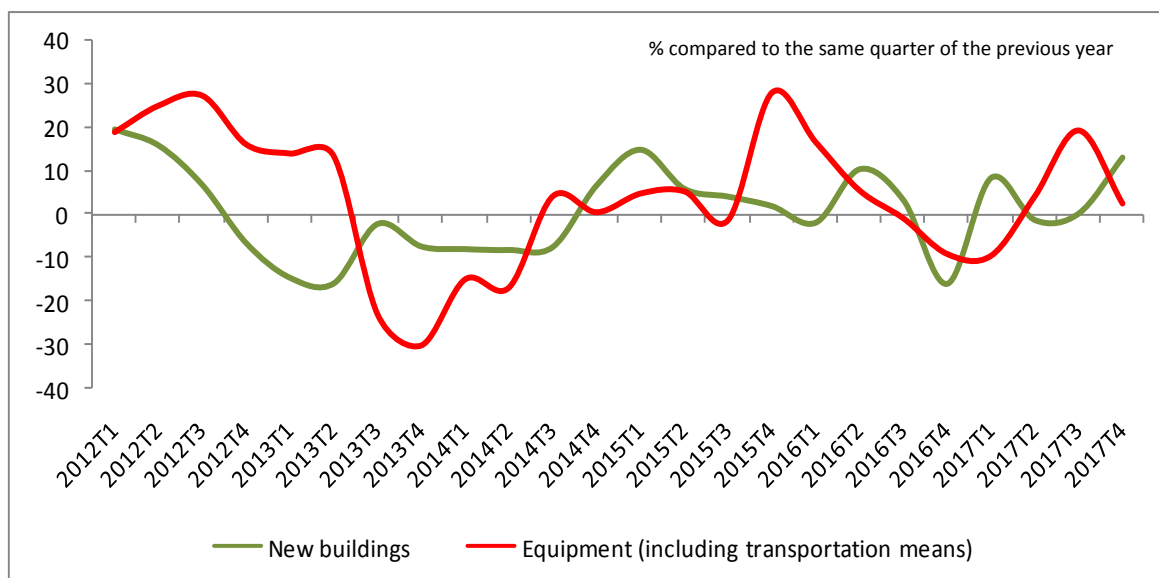
Source: National Commission for Strategy and Prognosis

The output-gap, the difference between the GDP and potential GDP levels expressed as a percentage of the potential GDP, was closed in 2017. Internal estimates show that, starting with the year 2018, the output-gap is within positive territory, however, it shall stabilize in 2020-2021, after which it is expected to registered on the closing trajectory.

The 4.7% increase of the gross fixed capital formation in 2017 determined a slight improvement of the contribution of the capital stock to potential growth. In **perspective, a significant increase of the capital stock contribution to the real growth of the potential GDP is expected, from 0.9 percentage points in 2017 to 1.7 percentage points at prognosis horizon.** This evolution is the result of two main factors.

The first factor, of extensive nature, is given by the investment in infrastructure foreseen within the Governing Program, funded by increasing expenditure with investment from the general consolidated budget and by accelerating the absorption of European funds, as the end of the scheduling period draws nearer. The second factor of the gross fixed capital formation and, in consequence, of the capital stock is represented by the net favorable evolution of investments in machineries and means of transport, which, as opposed to investments in construction, have a greater multiplying effect and a significant positive impact upon the total factor productivity, as well. The favorable evolution of investments in production equipment was noticed in the larger part of the time subsequent to the economic crisis, with the exception of a short period at the end of 2013 and the start of 2014.

Chart 2: The evolution of net investments in the national economy



Source: National Institute for Statistics, National Commission for Strategy and Prognosis

Besides the structure of investments in the national economy which is favorable to technical progress and therefore to the total factor productivity, the labor productivity in Romania positively influences the sustainability of economic growth.

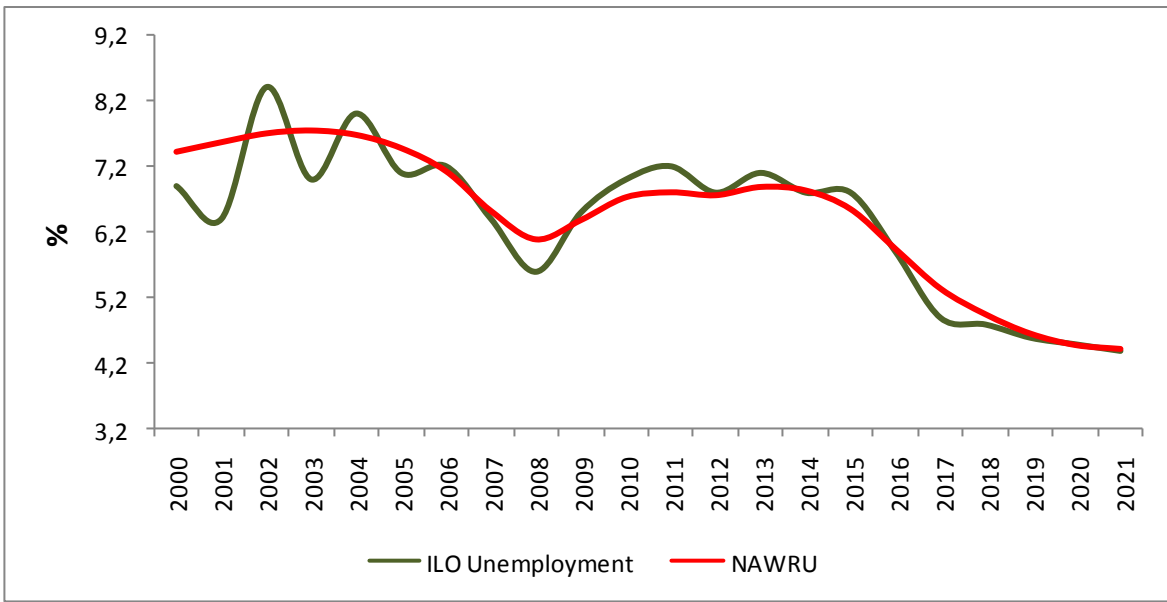
	2010	2011	2012	2013	2014	2015	2016	2017
Labor productivity* (%)	-2.5	2.9	6.4	4.4	2.3	5.3	5.8	4.2
TFP contribution to potential growth (percentage)	0.8	0.9	1.8	2.2	2.4	2.9	3.1	3.2

* determined by means of the Employed Population according to the National Accounts
Source: National Institute for Statistics, National Commission for Strategy and Prognosis

Another positive characteristic of the reprisal of economic growth can be observed on the labor market since 2015, when unemployment reduced significantly, which demonstrates the inclusive character of the economic growth. As such, the unemployment rate, according to BIM, decreased to 4.9% in 2017 from 7.1% in 2013.

Also significant is the fact that the ILO unemployment rate was close to the NAWRU rate (Non Accelerating Wages Rate of Unemployment), indicator which shows the sustainability of the labor market. **Moreover, in view for 2021, an unemployment rate of 4.4% is estimated, in the context in which NAWRU, estimated with the aid of the common European methodology, reaches the same level. It can thus be said that Romania's economy shall function in the medium term at full employment.**

Chart 3: Unemployment rate evolution



Source: National Institute for Statistics, National Commission for Strategy and Prognosis

2.3. MEDIUM TERM SCENARIO

The macroeconomic framework for the Convergence program has considered: **(i)** the positive impact of the measures provided within the Governing Program upon the business environment and upon the population's purchasing power; **(ii)** the European and global context, emphasized within the European Commission's winter prognosis, characterized by the decreasing tendency of uncertainties; **(iii)** the economic-social achievements of 2017 and the first few months of 2018. As a result, it is expected that Romania's economy continue to perform, the gross domestic product following to increase on average by 5.6% annually, slightly above potential, following the deceleration tendency of the rhythm from 6.1% in 2018 to 5% in 2021.

In 2018, an economic growth of 6.1% is estimated, based exclusively on internal demand. Within it, it was estimated that gross investments (gross fixed capital formation) shall increase by 7.9%.

Table 3: GDP components

	2017	2018	2019	2020	2021
Real GDP	6.9	6.1	5.7	5.7	5.0
Final consumption	8.4	6.3	5.6	5.3	4.9
- Private consumption expenditure	10.1	6.5	6.1	5.8	5.5
- Public consumption expenditure	0.7	5.5	3.5	3.3	2.3
Gross fixed capital formation	4.7	7.9	8.4	8.6	7.4
Exports of goods and services	9.7	7.4	6.9	7.1	6.9
Imports of goods and services	11.3	8.5	8.0	7.9	7.8

Source: : National Commission for Strategy and Prognosis

For 2019 – 2021, it is estimated that the Romanian economy shall increase at a more sustained pace, with an average annual rhythm of 5.5%. The internal demand (consumption and investments) shall continue to represent within this interval the primary engine of economic growth.

Private consumption expenditure will increase on average by 5.8% yearly, in the context of improvements seen on the labor market. The gross fixed capital formation shall register an accelerated growth rhythm (8.2% annually), on account of the improvement of the investment climate by means of measures considered, as well as of funding conditions both from budgetary sources and from structural and investment funds.

The medium-term economic growth shall create the employment improvement conditions, especially with regards to number of employees. As such, it is estimated that the total employment will gradually increase until 2021, the structure changing in favor of the employees whose share is estimated to be close to 79% in 2021 compared to 75% in

2017. Thus, the unemployment rate, according to AMIGO, shall gradually decrease, from 4.9% in 2017 to 4.4% in 2021.

For the year 2018, the average annual rate of the inflation is estimated to reach 4.3%. The highest level is due to a base effect, respectively the exhaustion of statistical effects of the reduction of the VAT rate by 1 p.p. and eliminating the over-excise duty on fuels starting with January 1st, 2017.

For the period 2018-2021, the inflation rate, estimated both as annual average and at the end of the year, shall register, in the absence of shocks, a decreasing tendency, reaching 2.5% (annual average) in the year 2021.

2.4. THE BALANCE OF THE EXTERNAL SECTOR

In 2017, the increase in goods exports was 9.1% compared to 2016, while imports increased by 12.2%. Under these circumstances, the commercial FOB-CIF deficit increased by 29.9% compared to the one recorded in the year 2016.

In the first two months of 2018, Romania's exports increased by 11.6%, while imports registered an increase of 13.9% compared to the corresponding period of 2017. As such, the FOB-CIF commercial balance closed at the end of February 2018 with a deficit of EUR 1.7 billion, 31.6% larger than that of the comparison period of the previous year.

It is estimated that export will remain in 2018 a component of demand, which shall support Romania's economic growth. As such, for year 2018, an increase by 8.7% of goods export is estimated, and an increase by 9.4% of goods import. On the whole, the forecast for 2018 shows that commercial deficit will have a share in the GDP of 7.3%.

For the interval 2018-2021, average annual increases of the exports of goods of 8.6% and of 9.1% for imports are estimated. The share of FOB-CIF commercial deficit in the GDP will reach the level of 8.0% in 2021. It is estimated that commercial exchanges with the Member States will intensify, so that the share of exports of goods towards the EU will increase from 75.8% in 2017 to approximately 79% in 2021, and the share of imports of goods shall reach 75.2% in 2021 from 75.8% in 2017.

In 2017, the current account of the balance of payments registered a deficit 77% greater compared to that of 2016, reaching a share in the GDP of 3.4%. The funding of the current account was performed in proportion of 72.7% through direct foreign investments, which reached the value of EUR 4.6 billion and were 1.4% greater compared to 2016.

Table 4: The balance of the external sector

% of GDP	2017	2018	2019	2020	2021
1. Net balance, compared to the rest of the world	-2.2	-1.4	-0.9	-0.3	-0.1
<i>Of which:</i>					
- goods and services balance	-2.1	-2.0	-1.9	-1.7	-1.6
- primary and secondary income balances	-1.2	-1.1	-0.9	-0.9	-0.8
- capital account	1.2	1.8	2.0	2.3	2.3

Source: National Commission for Strategy and Prognosis

In the first 2 months of 2018, the current account of the balance of payment registered a deficit of EUR 172 million, compared to a negative balance of EUR 72 million had in the similar period of 2016, due to the increase of the negative balance of the commercial balance.

In 2018, the current account deficit of the external balance of payment was expected to reach a value of EUR 6.3 billion, representing 3.1% of the GDP. Direct foreign investments shall cover over 77% of the current account deficit.

On medium term, the level of the current account deficit will be maintained at a value between EUR 6.3 billion and EUR 6.0 billion, with a weight in GDP of 3.1% in 2018 and 2.4% in 2021. In the period 2018-2021, the weight in the GDP of the net balance with the rest of the world, considering the capital account as well, shall continue to be negative, with an ascending trend, in the context of a high contribution to the capital account.

2.5. STRUCTURAL REFORMS

2.5.1. Structural reforms in the field of State-owned companies

The Ministry of Energy continues the restructuring process with the purpose of rendering effective the activity of the Societatea Complexul Energetic Oltenia S.A. (Oltenia Energy Complex Company J.S.C.) and of Compania Nationala a Uraniului S.A. (National Uranium Company J.S.C.), as well as the reorganization process of the Societatea Complexul Energetic Hunedoara S.A. (Hunedoara Energy Complex Company J.S.C.).

With regards to Complexul Energetic Oltenia, a restructuring plan was approved at the end of 2016 for the period 2016-2020 which aims at rendering its activity more effective in order to increase the company's attractiveness for investors.

Furthermore, the company initiated a series of investment projects with the purpose of modernization and alignment to the environmental norms. In 2018, the project aiming at the capital repair of the no. 5 group at Rovinari shall be commence, and it shall continue the major investments initiated in 2017.

Regarding Compania Nationala a Uraniului S.A. (CNU), we underline that it is undergoing restructuring as to render it efficient, after the granting of a saving aid for the Compania

Nationala a Uraniului SA (CNU) was authorized by means of a decision of the European Commission. As such, the company elaborated and notified the European Commission of a Restructuring Plan, plan which is currently under revision, following that it contains a series of operational, technical, technological and environmental restructuring measures.

With regards to the situation of Societatea Complexul Hunedoara S.A., negotiations with the European Commission are ongoing with the purpose of granting a General Economic Interest Service (GEIS) type state aid, service which shall be performed by the viable assets of two units within the complex, aid which could be attributed until the end of 2024. Concurrently, the assets which shall contribute to ensuring this GEIS shall benefit from modernization investments.

Furthermore, the Government is considering initiating a primary public offer for the sale of a 10% pack of newly issued shares at SPEEH Hidroelectrica S.A., respectively 15% newly issued shares at Societatea Complexul Energetic Oltenia S.A., by increasing share capital.

Simultaneously, we underline that, upon request from the Ministry of Energy in its position of majority shareholder within the general shareholders meetings at SNGN Romgaz S.A., OIL Terminal S.A. Constanta and Conpet S.A. Ploiesti, the initiation of the recruitment and selection of Board Members was approved, in accordance with provisions under Law 111/2017 for the approval of G.E.O. no. 109/2011 regarding corporate governance of public enterprises, with subsequent amendments and completions, the procedure is to be developed by the Companies' Board of Directors, by means of the remuneration and nominalization committees and with the assistance of an independent expert, specialized in human resources recruitment. Furthermore, as public supervisory body, and with the purpose of improving the management of state-owned enterprises, the Ministry of Economy has finalized the selection of members of Boards of Directors/Supervisory Boards for the five companies: SNTGN Transgaz, Cuprumin SA, SN a Sării SA, SN a Apelor Minerale and Plafar SA.

2.5.2. Measures in the field of education

The main objectives which are considered and for which a series of measures have been adopted are the following:

- Ensuring equal chances of access and participation to relevant and inclusive education - Implementation of the guaranteed social package for education.
- Ensuring quality at all education and vocational training levels.
- The diversification of entrepreneurial education opportunities (entrepreneurial programs from primary school to university level).
- Developing financial mechanisms which are equitable from a geographic point of view as to ensure an adequate level of funding for all regions, correspondent to the specific needs of educational system beneficiaries.

- Expansion of access to early education, including for the pre-preschool education component.
- Revaluing vocational and technical education, by means of information and awareness measures regarding the opportunities offered by this form of training.
- Facilitating access and increasing participation to vocational training programs, including by developing the dual vocational education and the tertiary non-university education (post-secondary education).
- Implementing measures of attracting and/or maintaining qualified, competent and motivated human resources within underprivileged schools/schools with atypical teaching methods, who are capable of offering quality education and of ensuring academic inclusion, measures which are co-funded from the European Social Fund within POCU (Human Capital Operational Program), Call for projects no. 5 the “MOTIVATED PROFESSORS WITHIN UNDERPRIVILEGED SCHOOLS” program.

2.5.3. Structural measures within the field of social services and employment

Within the field of social services, the Government proposes to accelerate the policies, programs and interventions reforming programs through an integrated, harmonized and coordinated approach of said elements.

The Government’s concerns, as initiator of social policies and promoter of social rights, aims at changes of mentality, of approaching the system, as well as transforming it into a proactive system. Such a measure can be realized by shifting the focus from assistance granted in a passive manner to the individual, to building alternative measures, which means potentiating the role of the individual, of the family, decreasing the dependence of people in distress, as well as promotive active aging.

In 2017, a series of legislative measures and amendments were planned, mainly referring to the consolidation of the capacity of public social assistance services of supplying quality social services, which are accessible and adequate to the individual needs of the vulnerable people from the community, as follows:

1. The amendment of the legislative framework of social assistance for the elderly.
2. The revision of the cost standards for care services given to the elderly at their home and in residential centers, in order to update the amounts thereof, as well as to elaborate the separate costs for care services in residential centers according to the degree of dependence.
3. The approval by means of government resolution of three framework-regulations for the organization and functioning of the public social assistance services and of the indicative personnel structure and establishing transitory terms, necessary for

the local public administration authorities in order to adopt the normative acts necessary for compliance with provisions under the law.

4. The amendment and completion of laws related to social assistance services for the purpose of legislative harmonization, including with the law on local public finance, with that related to public-private partnerships, as well as in order to revise the sanctions in the field of social services.

One of the key directions within the social services field is represented by the creation of community integrated intervention teams by developing an integrated approach regarding providing services, establishing local multidisciplinary teams of specialists and of inter-sectorial cooperation, investment in hiring a large number of better-trained specialists within the social sector, improving coordination in the field of social services.

In the field of employment, legal provisions were introduced for the **establishment of the profile of the person** in search of a job, in order to establish the level of employability, namely: “easily employable”, “medium employable”, “difficult to employ”, “very difficult to employ”, levels which indicate the degree of difficulty with regard to insertion on the labor market. These services may also be performed by service providers in the public or private sector, accredited in accordance with the law.

The Government of Romania adopted measures of **stimulation of workforce mobility**, which mainly refer to granting mobility premiums (employment premium and installation premium). As such, three types of subsidies were regulated, meant to stimulate the use of employment opportunities in one area by the labor offer available in another area: the employment premium, the installation premium and the relocation premium. At the same time, the Government of Romania’s concern of establishing certain targeted activation measures also includes the regulation of non-taxable activation premiums of RON 500.

Following the assessment of the data resulting from the implementation of the National employment program approved for 2015, it was considered that **the measures for stimulating employers** who hire a series of special social categories are not sufficiently stimulating, because the amounts granted are not incentive. As such, the Government of Romania increased the amount of the subsidies granted to employers. Furthermore, the equalization of the amount of the subsidy awarded to the employers who employ graduates of certain educational institutions, regardless of graduation level, was instituted.

In order to support **internal mobility**, the National Mobility Plan was adopted, by means of which the administrative-territorial units eligible for the measures included in the mobility package - the employment premiums and the installation premiums - were established. The integrated programs which will be elaborated for these disadvantaged

areas, financed from European funds and the national budget, seek to encourage investments, local development and the demand for new jobs.

ANOFM (National Employment Agency) and the Ministry for European Funds initiated the implementation of the “INTESPO - Registration of Youth within the Public Employment Service Registry” project starting with the fourth quarter of 2017, project which aims at increasing the number of inactive NEETs young individuals registered within the Public Employment Service as to provide personalized support measures.

Furthermore, the insertion premium was introduced by means of Law no. 250/2017 regarding the approval of Government Emergency Ordinance no. 6/2017 for the amendment and completion of certain normative acts. The insertion premium is granted in the amount of RON 1,500 to graduates of educational establishments and graduates of special schools, with a minimum age of 16, who, within 60 days from graduating, register at employment agencies and are hired with full-time for a period greater than 12 months. The granting of the insertion premium does not exclude the granting of unemployment benefits to young individuals who are not employed within 60 days from having graduated.

2.5.4. Measures in the road sector field

For the road sector within LIOP (Large Infrastructure Operational Program), OS 1.1 (Increasing mobility for the development of road transportation on the central TEN-T road network), OS 2.1 (Increasing mobility on the TEN-T road network) and OS 2.2 (Increasing accessibility of areas with low connectivity to TEN-T road infrastructure), 29 projects have been submitted amounting to a total eligible value of EUR 1,456.5 million. Of these, 14 staged projects were contracted, worth a total eligible value of EUR 738.05 million.

Until quarter I/2018, a number of 4 staged projects were sent to COM (total eligible value of EUR 610.39 million) and 2 new projects (for the construction of the “Campia Turzii - Ograda - Targu Mures Highway” and “Sebes - Turda Highway” - total eligible value of EUR 672.64 million). COM approved the funding of 5 of these projects.

It is estimated that, in the second half of 2018, another five new projects (Braila Suspended Bridge, Transilvania Highway, Bucharest bypass Highway, Pitesti - Craiova Highway and Sibiu - Pitesti Highway) shall be sent to COM.

2.5.5. Measures in the railroad sector

For the railroad sector within LIOP (Large Infrastructure Operational Program) OS 1.2 (increasing mobility in central railway sector) and OS 2.7 (Increasing the sustainability and quality of railroad transportation), 9 projects have been submitted amounting to a total eligible value of EUR 2,260.7 million, the only one new project (whose funding received approval from COM) being “The rehabilitation of the railroad section km. 614 – Gurasada – Simeria”.

Investment projects for the development and modernization of the railroad infrastructure placed on the central and global TEN-T network (the Trans-European Transportation Network) are at different implementation states or preparation stages, as well as for the acquisition of the ERTMS system (European Railroad Traffic Management System) associated to the modernized railroad infrastructure and train station modernization.

Within the Mechanism for Interconnecting Europe (ERR), in the railroad sector, 2 funding contracts have been concluded for work amounting to EUR 1,335.64 million for the railroad sectors Brasov - Apata, Cata - Sighisoara and Apata - Cata. Furthermore, 4 funding contracts (EUR 18.84 million) were concluded for the funding of feasibility reports for the following railroad sections: Predeal – Brasov, Craiova – Drobeta Turnu Severin – Caransebes, Craiova – Calafat, Port Constanta.

2.6. THE IMPACT OF EUROPEAN FUNDS UPON PUBLIC FINANCES

With regards to the scheduling period 2014-2020, Romania has over EUR 43 billion available, in accordance with the Multi-annual financial framework for 2014-2020, of which the allocation for European Structural and Investment Funds (ESIF) is of approximately EUR 31 billion. The allocation for the cohesion policy, funded within ESIF, is of approximately EUR 23 billion (Regional OP; Large Infrastructure OP; Competitiveness OP; Capital OP; Support OP; Administrative Capacity OP; Initiative for SME OP).

As such, at the beginning of March 2018, the contracting rate associated to the ESIF operational programs was of 38%, 2581 funding contracts being concluded, amounting to a total of approximately EUR 10.9 billion, of which EUR 8.6 billion EU contribution.

Until today, the European Commission was requested the amount of approximately EUR 1.24 billion, for the following ESIF operational programs: Large Infrastructure OP (EUR 953.7 million), Competitiveness OP (EUR 86 million), Regional OP (EUR 27 million), Initiative for SME OP (EUR 93 million), Administrative Capacity OP (EUR 25.5 million), Technical Support OP (EUR 49.5 million), Human Capital OP (EUR 3.9 million).

As a result of submitted payment applications, reimbursements to the European Commission were performed in the amount of approximately EUR 1.1 billion, as follows: for Large Infrastructure OP (EUR 858.2 million), Initiative for SME OP (EUR 83.8 million), Regional OP (EUR 24.2 million), Administrative Capacity OP (EUR 21.3 million), Technical Support OP (EUR 44.6 million), Human Capital OP (EUR 3.5 million) and Competitiveness OP (EUR 77.5 million).

With regards to the coordination of the current scheduling exercise 2014-2020, we enumerate a series of legislative/institutional measures with horizontal character, promoted with the purpose of increasing the absorption degree and improving European funds governance:

- monitoring the launch of call for projects for all funding lines, as to prevent/identify the delays compared to the proposed calendar and the impact of said delays upon the implementation of each OP, as well as in order to take certain measures necessary as to recover the delays. The total budget for the calls launched until now is of EUR 21.8 billion, which represents 78% of the total allocation of approximately EUR 27.7 billion available for all 7 ESIF operational programs - Large Infrastructure OP, Human Capital OP, Competitiveness OP, Regional OP, ISME OP, Administrative Capacity OP and Technical Support OP.
- expediting the assessment process by all management authorities/intermediate bodies, by using the fund available through the Technical Support Operational Program, respectively, from the technical support axes of the OP.
- observing procedural terms of assessment, selection and contracting, as well as the analysis of the possibility of reducing some of them.
- accelerating the implementation of projects already approved for funding, by supporting beneficiaries throughout the entire development of the investments, by:
 - Eliminating differences regarding private co-funding for the private law legal entity beneficiaries/partners without a patrimonial purpose by establishing the same cap for all operational programs, of at most 2%;
 - Introducing the option of simplified costs at the level of the OP;
 - Granting pre-funding for all categories of eligible expenditure, respectively for all projects implemented by local public authorities and private beneficiaries, regardless of the European fund which funds them;
 - Supporting local authorities as to ensure the personal co-funding share (2%) or of non-eligible expenditure, by means of the possibility of contracting loans from privatization income, within the amount of LEI 500,000, from the MPF.
- improving of the implementation of large infrastructure projects, so as to avoid any more blockages and delays.
- amending GEO no. 40/2015 regarding the financial management of European for the scheduling period 2014-2020, with subsequent amendments and completions, with the purpose of:
 - increasing the contracting percentage to at most 300% of the allocation, depending on the targeted operational program;
 - extending the possibility to perform payments within the projects covered by the primary budget holder, based on the approval in principle of the

LIOP management authority, which have the public procurement contracts concluded, but whose funding contracts have not been concluded with the management authority;

- creating the legal basis for granting the approval in principle, according to art. 11 of GEO no. 40/2015, by the Intermediate Transport body, for projects funded within the LIOP Priority Axes 1 and 2;
- defining the pre-funding percentage for beneficiaries who are granted funding subject to state aid/MINIMIS (a single stage payment of at most 40% of the project's eligible public contribution).
- monitoring the fulfillment of recommendations formulated within the audit reports with regards to designating management authorities, taking into account the different levels of intervention, such as the institutional framework, the procedural framework, inter-institutional cooperation and the computer system.
- implementing technical support provided by the international financial institutions, as to improve the management of the European Structural and Investment Funds (ESIF).
- significantly reducing the administrative load at the level of the solicitors/beneficiaries by using the electronic system in the relationship with them, including the electronic transmission of funding requests by means of MySMIS2014.
- the integrated approach to informing the general public and the potential beneficiaries with regards to the funding possibilities offered by ESIF and ensuring total transparency with regards to the implementation of European projects and programs.
- horizontal training of the (potential) beneficiaries ESIF, by using funds available through Technical Support Operational Program, in the identification and elaboration phase, but also project implementation, predominantly in the public procurement field, as to prevent errors identified in applying procedures regarding public procurement within projects.
- initiating legislative amendments in accordance with European regulation.

The difficulties faced in the increase of the absorption rate have had different causes, of which we can mention:

- delays in the process of designating operational programs management authorities, determined by changes in the institutional architecture, which involved successive amendments within documents in the accreditation pack, as well as the lack of specific expertise within the development of the computer system;

- the delay of the decision regarding the implication of intermediate bodies within the management of certain programs;
- significant delays in the assessment process for projects submitted within the launched call for projects, mostly due to the lack of specific expertise;
- the lack of certain mature infrastructure projects, which can be funded within the scheduling period 2014-2020;
- repeated amendments of the solicitor's guides and of funding procedures.

3. THE BALANCE OF THE GENERAL CONSOLIDATED BUDGET AND OF THE DEBT

3.1. THE POLICIES STRATEGY

The budgetary deficit policy continues to directly support economic growth within the margin permitted by the Treaty on the Functioning of the European Union (TFEU), respectively an ESA budgetary deficit of under 3% of the GDP.

Starting with the year 2016, the budgetary policy is influenced by the fiscal loosening measures started in 2015-2016 with the purpose of stimulating economic growth (the new fiscal code and the salary increases and of certain social assistance rights) and continued by means of the measures provided under the Governing Program, already adopted in the year 2017, through which measures were regulated in the field of salaries of personnel in the budgetary sector, legislation in the field of social rights, legislation in the field of pensions, legislation in the field of taxation regarding the income tax and social contributions.

Therefore, based on the measures listed above, in the year 2016, the ESA budgetary deficit registered an increase toward the maximum permitted value (3% of the GDP) and marginally decreased to 2.9% of the GDP in 2017.

In structural terms, a deviation from the Medium Term Budgetary Objective (MTO) established for Romania at 1% of the GDP is recorded, but with the perspective of reentering a convergence trajectory toward the MTO starting with the year 2019.

The significant adjustment of the structural budgetary deficit is planned to start in the year 2019, when the structural balance shall improve by approximatively 0.5 p.p., rhythm which shall be sustained in the year 2021, as well.

The deviation from the MTO, however, is produced by maintaining, throughout the entire scheduling horizon, a sustainable level of the public debt of under 38% of the GDP.

3.2. BUDGETARY FISCAL POLICY IN 2017-2018

The budgetary projection for the year 2018 and in the medium term has as basis the provision under the Fiscal-budgetary Strategy for 2018-2020.

In 2017, the weight of total revenues in GDP, in ESA terms, was of 30.5%, with 1.1 percentage points more reduced compared to the previous year.

Within the structure, the reduction of the weight of revenues in GDP, in ESA terms, is due to the reduction of income from production taxes and import by 1 p.p. and that of current income taxes and corporate tax by 0.4 p.p., while incoming payments from social contributions have increased by 0.6 p.p.

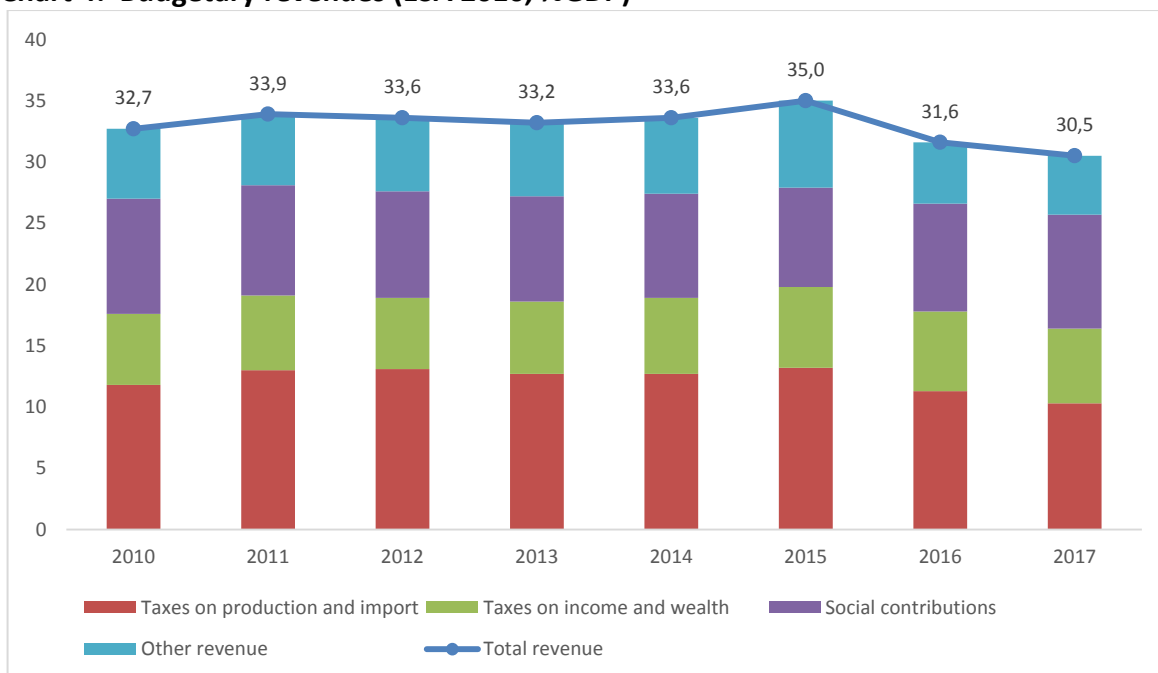
In the case of taxes on production and imports, these evolution were primarily due to measures implemented in the VAT scope (reduction of the standard rate by 1 p.p.), in the field of excise duties (eliminating the 7 eurocents excise duty in the first half of 2017) in the context in which the population's consumption registered a nominal increase of 13%.

With regards to the reduction of the weight of incoming payments from income taxes and corporate taxes, this is determined by the decrease in income from corporate tax. The dynamic of the income tax as inferior to the advance of the salaries fund from the economy (the average gross salary increased by 15.9%, and the average number of employees by 3.1% in 2017 compared to the previous year), especially due to the elimination of the taxation of income from pensions under the RON 2,000 cap. Simultaneously, social contributions have registered an accelerated dynamic in line with that of the economy salaries fund. The income from other current taxes (especially non-fiscal) have maintained their weight in the GDP at 3.6% in 2017.

Table 5: The primary fiscal measures with impact on the budgetary revenue in 2017

	Estimated impact (RON millions)
Primary Fiscal Code measures (2015):	-6,118
Reduction of the standard VAT rate from 20% to 19% as of January 1, 2017	-2,200
Elimination of the construction tax as of January 1, 2017	-1,000
Elimination of the 7 Eurocents excise duty and the increase of the excise duty from RON 430.71/1000 cigarettes in 2016 to RON 435.58/1000 cigarettes in 2017	-2,886
Additional measures	
Non-taxation of pensions:	
- exemption of pensions below RON 2,000 from the personal income tax	-1,200
- non-taxation with the CASS (health insurance contribution)	-900
Change of taxation of income from transfer of real estate properties from one's personal patrimony (personal income tax for the State and local budgets)	-300
Elimination of maximum cap of 5 average gross medium salaries for the payment of the CAS (social insurance contribution)	1,100
Change of taxation share of microenterprises to 1% for those with one or several employees, setting the cap at EUR 500,000	-429
Distribution of a share of at least 90% of the net profit obtained in the form of dividends/payments to the State budget for national companies and companies with full or majority State-owned capital	800
Distribution in the form of dividends/payments to the state budget of amounts distributed in previous years to other reserves and used as personal funding source according to GEO no. 29/2017	2,250

Chart 4: Budgetary revenues (ESA 2010, %GDP)



Source: Ministry of Public Finances

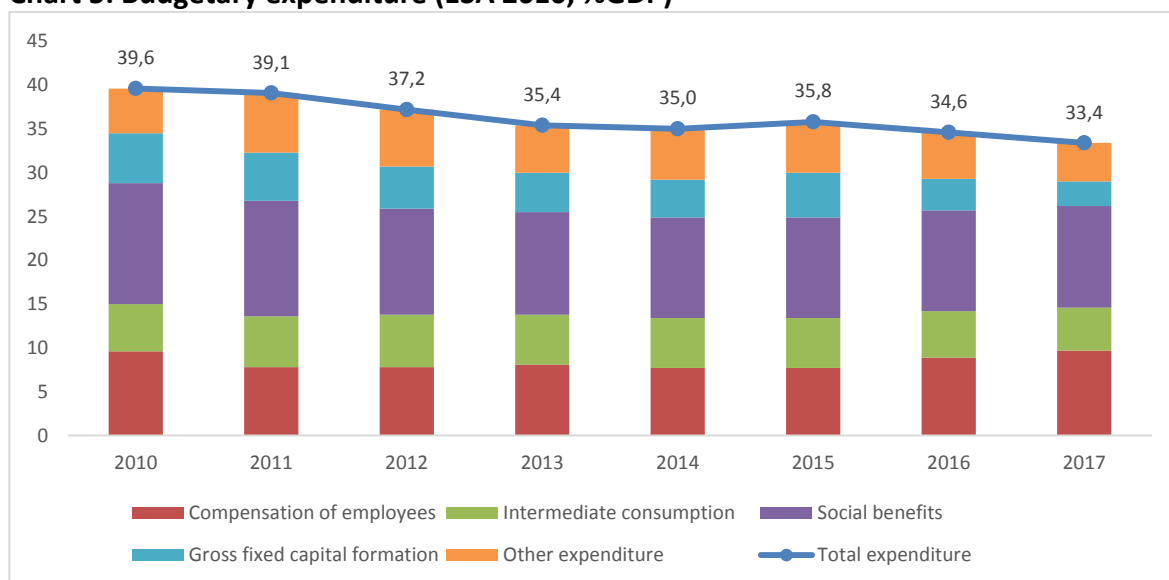
Concurrently, the weight of total revenues in GDP, in ESA terms, was of 33.4% of the GDP, with 1.2 percentage points more reduced compared to the previous year.

The personnel expenditure in ESA terms increased by 1.5% as weight in GDP compared to last year reaching 9.7% of the GDP, due to the application, as of July 1, 2017, of the provision under Framework-law no. 153/2017 regarding the salaries of personnel paid from public funds, but also of other measures of salary increases, such as: application, as of August 2016, of provisions under G.E.O. no. 20/2016 for the amendment and completion of Government Emergency Ordinance no. 57/2015 regarding the salary of personnel paid from public funds in 2016, prorogation of certain terms, as well as certain fiscal-budgetary measures and for the amendment and completion of certain normative acts, as well as the salary increases granted in 2017, respectively the increase by 15% of salaries in healthcare and education as of January 1, 2017, of personnel paid from public funds from the public institutions and authorities of the local public administration which benefit from the 20% increase as of February 1, 2017, the increase of the country gross minimum wage guaranteed from RON 1,250 to RON 1,450 from February 1, 2017, the increase by 30% of salaries of personnel in national libraries and nation museums as for June 2017, the increase by 15% of the office pay of military personnel as for June 2017, the increase by 10% of office pay of police personnel as of October 1, 2017,

Expenditure with social assistance have increased by 0.1 percentage points, primarily, in the context of increasing the pension point in 2 stages during 2017. Expenditure with goods and services have decreased by 0.5 p/p/, and interest expenditure have decreased by 0.2 p.p.

Concurrently, the gross fixed capital formation has decreased by 0.8 percentage points to the level of 2.8% of the GDP in 2017.

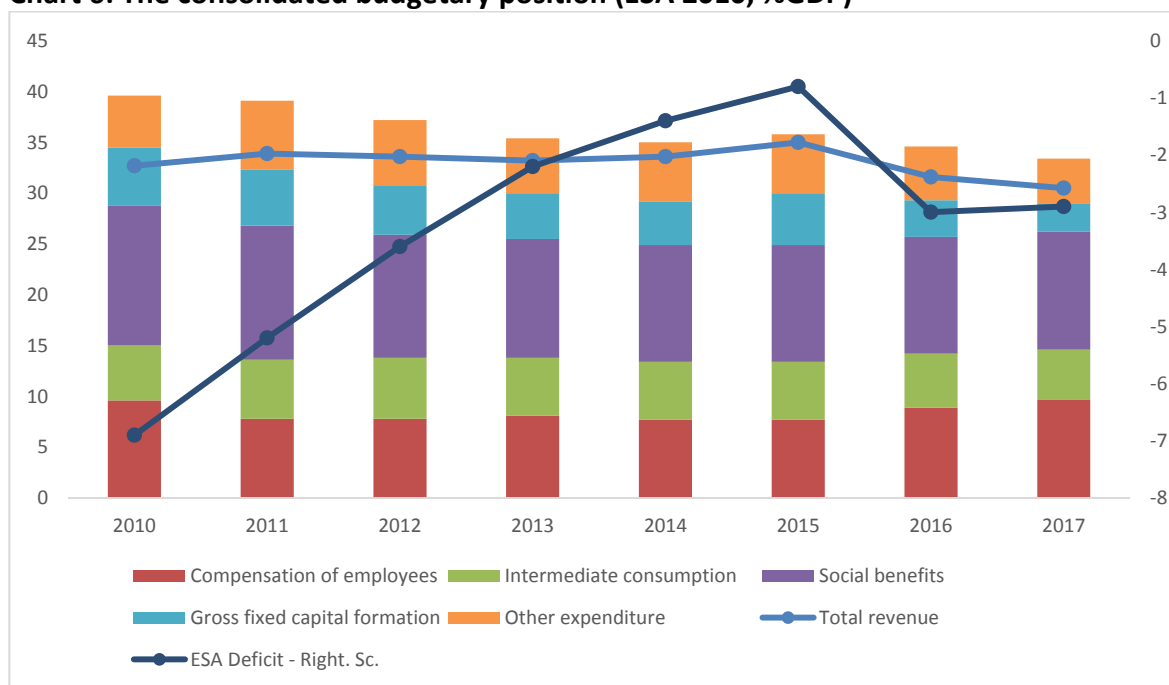
Chart 5: Budgetary expenditure (ESA 2010, %GDP)



Source: Ministry of Public Finances

The budgetary deficit calculated according to the ESA methodology was on the limit of the reference level of the Stability and Growth Pact, registering a level of 2.9% of the GDP in 2017. The deficit marginally decreased to the value registered the previous year, accommodating the fiscal loosening measures, as well as those of salaries and pensions increase.

Chart 6: The consolidated budgetary position (ESA 2010, %GDP)



Source: Ministry of Public Finances

According to operative data (the CASH methodology), ***the execution of the general consolidated budget within the first three months of 2018 registered a deficit of RON 4.5 billion***, respectively 0.48% of the GDP.

The general consolidated budget revenue, amounting to RON 66.4 billion, representing 7.2% of the GDP, are 11.5% greater, in nominal terms, compared to the same period of the previous year.

Significant increases are registered compared to incoming payments from social insurance contributions (+31.1%). Starting with February, incoming payments from social securities contributions were positively influenced by the new legislative conditions regarding the transfer of contribution from the employer to the employee, regulated through GEO no. 79/2017. The positive trend of the realized macroeconomic indicators, as well as the gross average salary and the number of employees in the economy, generate superior payments from social security contributions. In February 2018, compared to the same month of the previous year, the average gross and net salary registered growth rhythms of 32.8%, respectively of 11.2%, superior to those from January. This evolution is in line with the National Prognosis Commission (NPC) projection for the year 2018 and therewith reflects that employers have increased, on average, the gross salary in order to maintain the net salary at least constant, under the new legislative conditions regarding the transfer of contributions from the employer to the employee.

The receipts from VAT in the first 3 months were of RON 13.3 billion, which represents an increase of 2.2% compared to the same period of the previous year. The receipts from the value added tax were negatively influenced by the increase of tax reimbursements in the first quarter of the year 2018 compared to the first quarter of 2017.

Receipts from excise duties have been in the amount of RON 5.8 billion (0.6% of the GDP), 2.6% greater than the same period of the previous year. In structure, the evolution of receipts from excise duties is as follows:

- excise duties for all energy products have presented a positive evolution (+17%), the evolution of car fuels retail, within specialized stores, increased by 3.9% in the first two months of the year, compared with the same period of the previous year.
- excise duties of tobacco products have presented a negative evolution (-5%).

Decreases by 14.9% of receipts from salary and income taxes have been registered on account of the reduction, as of January 1, 2018, of the share of the income tax from 16% to 10%, measure which has reflected in receipts as of February 2018.

The corporate tax has decreased by 3.3% compared to the first quarter of the previous year, influenced by the facility granted with regards to the reduction by 5% of the corporate/income tax of micro-enterprises associated to the fourth quarter of the 2017 fiscal year, for companies which opt for the payment in stages of the VAT.

Receipts from non-fiscal income have increased by 17%, and those from property taxes and charges have increased by 4.5% compared to the same period of the year 2017.

The amounts from the European Union within the performed payments account are of RON 4.3 billion.

The general consolidated budget expenditure are in the amount of RON 70.8 billion, with 22.1% greater than the first three months of the previous year, the quarterly provision being achieved in proportion of 90.3%, respectively RON 7,627.9 million under the scheduled level.

The personnel expenditure are 18.1% larger than those of the same period of the previous year, the increase being determined by the salary increases granted in 2017, but also by the salary increase in the budgetary sector as a result of the application of Framework-law no. 153/2017 regarding the salary of personnel paid from public funds.

Goods and services expenditure have increased by 12.5% compared to the same period of the previous year. Significant increases are registered both at the level of the local budgets, as well as at the level of the sole national insurance fund budget and the budget of public institutions funded from personal income and budgetary subsidies.

The subsidies granted in the first three months of 2018 have increased by 25.7% compared to the same period of the previous year. The increase is primarily determined by the payments performed (RON 1.4 billion) as to support agricultural producers and by the subsidies granted to support public railroad passenger transportation and subway transportation.

Interests, as a percentage of the gross domestic product, continue to remain at the same level as that of the same period of the previous year, respectively 0.3% of the GDP.

Social assistance expenditure have increased compared to the previous year by 11.8%, being primarily influenced by the increase by 9% of the pension point as of July 1, 2017, reaching RON 1,000, the increase and amendment of the manner of establishing the monthly allowance for childcare and the insertion incentive.

Investment expenditure, which include capital expenditure, as well as those associated to the development programs funded from external and internal sources, amounted to RON 4.9 billion, almost 3 times more than the same period of the previous year.

The primary fiscal amendments as of 2018

In the field of corporate tax

- Combating aggressive fiscal planning and erosion of the taxable basis by means of ensuring equitable and efficient competition conditions for all corporate tax paying taxpayers, these are encouraged to declare their fiscal obligations in a transparent manner. This perfecting of the legislative framework for the taxation of profit corresponds to approaches at the level of the European Union, as they

have been expressed within “Directive 2016/1164 of the Council regarding the establishment of norms against practices of avoidance of fiscal obligations which have a direct effect upon the functioning of the internal market”, the transposition of which was as such performed within the national legislation.

- The consolidation of receipts within the field of corporate tax, by expanding the taxation basis, in which sense the reduction of expenditure generated by the debt transferring operations have been limited.
- Starting with the year 2018, the employment requirements for Romanian legal entities within the micro-enterprises category have been amended: i) increase of the level of income earned until December 31 of the previous fiscal year from EUR 500,000 to EUR 1,000,000; ii) elimination of the requirement regarding earning income from consultancy and management in proportion of 20% of total income; iii) elimination of activities for which the taxpayers do not apply this taxation system (Bank Deposit Guarantee Fund, Investors Compensation Fund, Private Pensions Guarantee Fund, Insured Guarantee Fund).
- Micro-enterprises which have subscribed a share capital of at least RON 45,000 and have at least 2 employees, may opt, only once, to apply the provisions under title II “Corporate tax”, starting with the quarter in which these conditions are cumulatively fulfilled, the option being definitive.

In the field of income tax

- The reduction of the income tax share from 16% to 10%.
- The increase in the gross monthly salary depending on which the personal deduction is granted, as well as the increase of the level of personal deductions, in fixed amount, granted to persons who have income from salaries and associated to salaries of up to RON 1,950 and the increase of personal deduction granted degressively to natural persons who earn income from salaries and associated to salaries of up to including RON 3,600.
- The simplification of reporting obligations of natural persons, by combining 7 statements within a single statement and performing payments at any moment throughout the year until the deadline of March 15, of the year following the one in which the income was made.

In the field of mandatory social security contributions

- The reduction of the total share of mandatory social security contributions with a total of 2 percentage points.
- The level of contributions has decreased by 2 two percentage points, so that, from a total of 39.25% of contributions paid for a gross salary, 37.25% are paid. Of the total of 22.75% of contributions due by the employer, 20 percentage points have

been transferred to the employee. In total, of the gross salary, 35% are contributions retained by the employer on behalf of the employee, and the contributions remaining for the employer, respectively 2.75% have decreased to 2.25% and they cover unemployment risks, work accidents, medical leave, salary debts. The latter are comprised within a sole contribution, which is called work insurance contribution.

- The amendment of the manner in which CAS and CASS are established, in the case of natural persons carrying out independent activities or other categories of income, in the sense that these persons no longer owe social contributions upon the earned income: i) the calculation basis of the CAS is the chosen income, which is at least equal to the country minimum gross wage; ii) the calculation basis for CASS is the country gross minimum wage.

The optional application of a **VAT** collection mechanism (split payment), and for certain categories of taxable persons, the mandatory application of the VAT split payment mechanism, respectively those who:

- on December 31, 2017, registered fiscal obligations representing VAT, with the exception of those whose foreclosure procedure is suspended, in the amount of over RON 15,000 in the case of large taxpayers, RON 10,000 in the case of medium taxpayers, RON 5,000 for the rest of taxpayers, if these obligations are not paid until January 31, 2018;
- as of January 1, 2018, register fiscal obligations representing VAT, which are overdue, not paid within 60 working days from the tenor, with the exception of those whose foreclosure procedure is suspended, in the amount of over RON 15,000 in the case of large taxpayers, RON 10,000 in the case of medium taxpayers, RON 5,000 for the rest of taxpayers;
- are subject to the national legislation regarding insolvency prevention procedures and insolvency.

The increase of the level of **excise duties** for finely cut smoking tobacco destined to be made into cigarettes and other smoking tobaccos from RON 383.78/kg to RON 398.70/kg.

3.3. MEDIUM TERM BUDGETARY PERSPECTIVES

Compared to 2017, for 2018, an increase by 0.8 percentage points (31.3% of GDP) of budgetary revenue calculated in accordance with the ESA methodology is prognosed, mainly due to the forecasted improvement of the absorption of European funds and of the positive trend regarding collections from social contributions, in the context of the reduction of fiscal revenue by 0.7 p.p. This level is to be maintained relatively constant on medium term, total revenue reaching a level of 32% of GDP in 2021.

In structure, the revenue from current corporate and income taxes are forecasted to decrease from 6.1% of the GDP in 2017 to 4.9% in 2018 as a result of the reduction of the income tax share from 16% to 10%. In the medium term, increases by 0.1 p.p. up to 5.2% of the GDP in 2021 are forecasted, given the forecasted dynamic of the economy salary fund.

It is estimated that revenues from goods and services taxes and charges will register an increase by 0.5 p.p. (to 10.8% of the GDP) in 2018 compared to 2017, primarily, as a result of the evolution of revenues from VAT which will be positively influenced by the VAT split payments mechanism and by the measures regarding the improvement of the collection implemented by ANAF in 2017-2018. In medium term, the collections from these taxes will be maintained as share of GDP to approximatively 10.3% until 2021.

The collections from social insurance contributions in the year 2018 are estimated to increase by 1.5 p.p. of the GDP compared to the year 2017 under the influence of the transfer of social contributions owed by the employer on behalf of the employee, the reduction of the transfer share toward the second pillar and establishing the work insurance contribution in the task of employers at a 2.25% share for salary income and those associated to salaries. In the medium term, the evolution of collections from social insurance contributions is determined by the forecasted increase of the average salary and the number of employees, the income share from this source being forecasted to reach 12.2% of the GDP in 2021.

The total budgetary expenditure are forecasted to increase to 34.3% of the GDP in 2018, in the medium term, there being estimated a comeback in 2021 to the level registered in 2017 (of 33.4% of the GDP). Personnel expenditure as a share in the GDP are increased at the beginning of the prognosis period to 10.3% on account of the application of Framework-law regarding the salary of personnel paid from public funds, and toward the end of the scheduling period, these shall decrease as to create more fiscal space for investment expenditure. The gross fixed capital formation indicates the increase of allocations for medium-term investment expenditure, from 2.9% of the GDP in 2018 to 4.0% in 2021.

The social assistance expenditure shall increase by 0.4 p.p. in 2019 compared to 2018, following that they return to the level registered in 2018 (11.4% of the GDP) until 2021.

The primary fiscal measures with impact on the evolution of budgetary revenue in 2018

	Estimated impact (RON millions)
Reduction of the salary income tax share from 16% to 10% as of January 1, 2018 (according to GEO 79/2017)	-13,538
Reform of social contributions and transfer from the employer to the employee	5,754
Change of taxation share of microenterprises to 1% for those with one or several employees, setting the cap at EUR 1,000,000, optional for those which have 2 employees and capital of at least 45,000 RON	-283
Introduction of the Work Insurance Contribution	5,398
Reduction of the transfer share to the second pillar from 5.1% to 3.75% as of January 1, 2018.	2,100

Concurrently, a series of additional measures have been considered for the year 2018:

Measures regarding budgetary revenue:

- Increasing excise duties for energy products in two stages starting with September 15 and respectively October 1, 2017⁸ (an impact of +RON 2.7 billion).
- Increasing dividends distributed by national companies from 50% to 90%, approved by the Government through the Memorandum from January 30, 2017, measure which applies for the year 2018, as well (an impact of +RON 1 billion).
- Increasing the taxation basis in the case of payments from legal entities due for unemployed persons with disabilities⁹ starting from September 1, 2017 (an impact of +RON 0.7 billion).
- Initiating in 2018 the procedure for the selling of 5G licenses (+RON 1.3 billion).
- Increasing the level of excise duties of cigarettes as of April 1, 2018, from RON 439.94/1,000 cigarettes to RON 448.74/1,000 cigarettes (an impact of +RON 140 million).
- Implementing Directive 2016/1164/EU of the council from July 12, 2016, for establishing norms against practices for the avoidance of fiscal obligations, which have a direct effect upon the functioning of the internal market (ATAD). One of the norms thus established aims at "Limiting interest deductibility" as of January 1, 2018, as a result of the approval of G.E.O. no. 79/2017, an impact of approximatively RON 200 million.

⁸Ordinance no. 25/2017

⁹OUG 60/2017

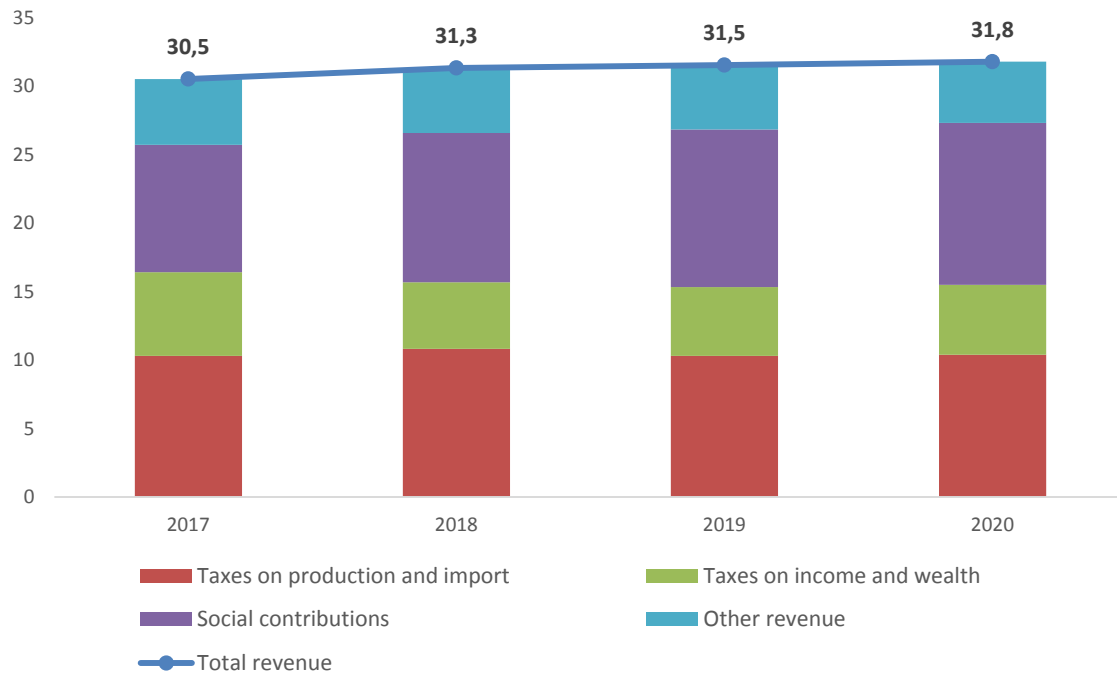
- Introduction of the VAT split payment mechanism¹⁰ as of January 1, 2018, this being mandatorily applied only for public and private companies in insolvency or which register overdue fiscal obligations representing VAT, while the other companies may apply the optional system (an impact of +RON 2.9 billion).
- Measures for the reduction of tax evasion and increasing collection of budgetary revenues, these measures shall bring in 2018 (an impact of +RON 2 billion):
 - The introduction, until the end of 2018, of functional scanning equipment in all customs points as to detect contraband goods and taxation of goods in customs.
 - Additional assessments performed at the level of all GAFD which shall aim the possible practices used with the purpose of hindering the recovery of due amounts.
 - Elaboration of the collection procedure of electronic cash registers to the national supervisory computer system. Unannounced inspections in areas and fields with a high non-compliance risk with the purpose of stimulating the issuance of fiscal receipt by the taxpayers.
 - Rendering efficient of anti-fraud monitoring and control in the field of electronic commerce by developing a legal and procedural framework, the creation of a structure with specialized personnel within the GAFD and development of specific instruments necessary for monitoring.
 - Monitoring, in collaboration with customs bodies of high fiscal risk goods imports, activity which is primarily destined to identify the plans of releasing goods for free movement in Romania without observing associated fiscal obligations.
 - Improvement of risk analysis and selection of taxpayers for fiscal inspection by diversifying the used risk criteria as to identify a target group of taxpayers, respectively an economic branch, an activity or services sector within which reductions of fiscal obligations were identified.
 - Improvement of foreclosure procedures for significant obligors to the general consolidated budget, by investigating the companies affiliated to them, VAT returns, treasury banking transactions, in correlation to the patrimony of natural persons which may have the quality of person which may incur several or patrimonial liability.

¹⁰Ordinance no. 23/2017

Measures regarding budgetary expenditure:

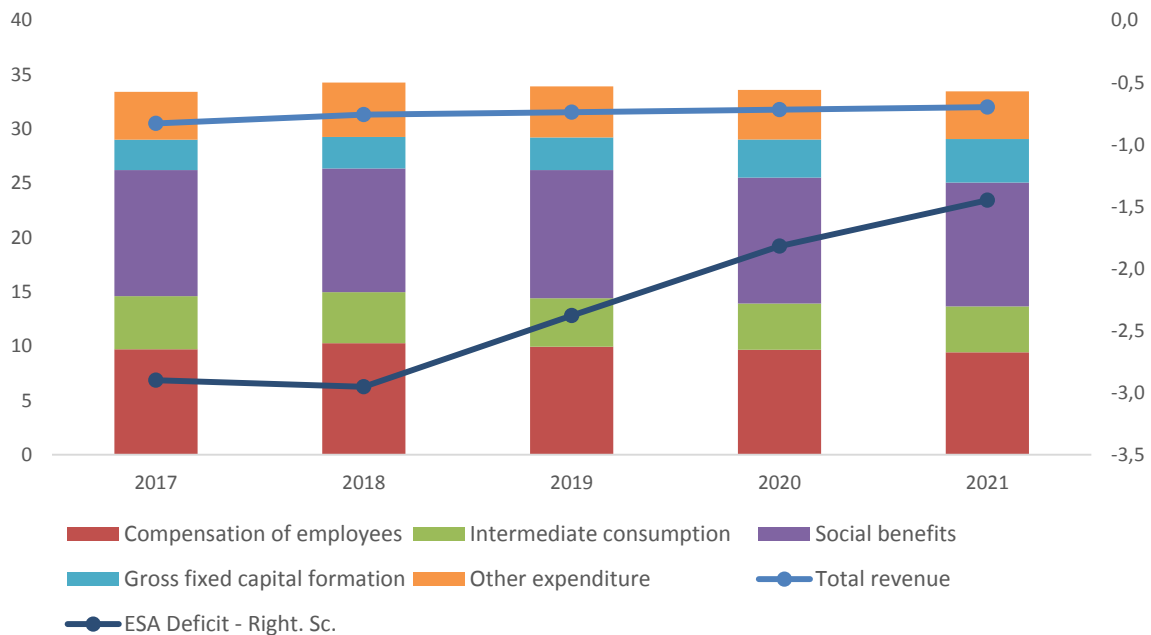
- The suspension of filling vacant or temporarily vacant positions within ministries and institutions under their supervision by means of contest of exam, with the exception of positions approved for filling by means of Memorandum by the Government, until December 31, 2017, measure created through Ordinance no. 3/2017. In 2018, the policy for the filling of vacant position within the central public administration is established through Government Emergency Ordinance no. 90/2017, as follows:
 - one position filled for two vacant positions in 2018;
 - in substantially justified cases, by means of memorandum approved within the Government session, the organization of contests or exams may be approved for other vacant or temporarily vacant posts by substantiating the need and by respecting the personnel expenditure approved in the budget.
- Maintaining special pensions at the level currently established for 2017, and their update shall be performed annually by indexing with the mean annual inflation rate in accordance with Government Emergency Ordinance no. 59/2017.
- With the purpose of reducing functioning expenditure, procurement of automobiles and furniture by the public institutions was prohibited, measures stipulated within Government Emergency Ordinance no. 90/2017.
- Reduction, in 2018, of maintenance and functioning expenditure of institutions by 10% compared to 2017 payments, measure provided under Government Emergency Ordinance no. 90/2017.
- Continuation and expansion of the centralized procurement procedure within the field of medicines and sanitary materials through the Central procurement unit within the Ministry of Health.
- During a subsequent stage, the procurement made by the central authorities with regard to goods and services will be made in a centralized manner, by a central procurement unit. As such, the goods and services expenditure shall decrease in the following period.
- Furthermore, for 2018, by way of derogation from provisions under art. 43 para. (3) of Law no. 411/2004 regarding the privately managed pension funds, republished, with subsequent amendments and completions, the reduction of the contribution transferred to the Second Pensions' Pillar was established, from 5.1% to 3.75%. This measure is related to the transfer of social contributions from the employer to the employee, measure which engages the increase of the gross salary, the nominal contribution being kept at the value from 2017.

Chart 7: Consolidated budget revenues (ESA 2010, %GDP)



Source: Ministry of Public Finances

Chart 8: Consolidated budget position (ESA 2010, %GDP)



Source: Ministry of Public Finances

The estimates regarding the budgetary deficit for the year 2018 do not exceed the 3% of the GDP limit, following that as of 2019, the budgetary deficit adjusts up to 1.45% in 2021. In structural terms, the deviation from the MTO will increase in 2017-2018 and as of 2019 it will enter an adjustment trajectory.

Table 6: General consolidated budget balance (% of GDP)

		2017	2018	2019	2020	2021
		Made	Estimates	Estimates	Estimates	Estimates
ESA	methodology	-2.91	-2.95	-2.38	-1.82	-1.45
balance						
Structural balance		-2.9	-3.3	-2.8	-2.4	-2.0

Source: Ministry of Public Finances, National Strategy and Prognosis Commission

The draft Framework-Law on salaries of personnel paid from public funds

The Parliament of Romania adopted, in June 2017, Framework-law no. 153/2017 regarding the salary of personnel paid from public funds, normative act which has entered into force as of July 1, 2017.

One of the objectives of the framework-law was that of eliminating salary inequities existent within the public salary system. The basis for the elaboration of the Framework-Law on salaries of personnel paid from public funds is represented by the following priorities:

- Increasing small basic salaries with a higher percentage compared to the other basic salaries within the salary grid, so that the ratio between the minimum basic salary and the maximum basic salary within the budgetary sector is reduced to 1 to 12, compared to 1 to 15 as it currently is. Through this measure, the basic salaries found at the base of the salary pyramid shall register an accentuated increase, of about 100%, this increase being more and more decreased for salaries found in the superior part of the salary pyramid;
- The substantial increase of basic salaries for medical personnel, with the purpose of stopping workforce migration, as of March 2018, (physicians and nurses) so that the ER physician shall benefit from the equivalent of EUR 3,600 per month, and the ER resident physician shall benefit from the equivalent of EUR 1,200 per month.
- The faculty personnel in education represents a national priority, and this category shall benefit from an additional salary increase of 20% compared to the other budgetary personnel categories, as of March 1, 2018;
- The substantial increase, of over 100%, of basic salaries, office pay/office salary for the personnel within the national defense, public order and national security sector, especially for positions with a lower level salary, such as the soldier position;
- Establishing the same level of salary for common position existent within occupational families;
- The regulation of the manner of establishing monthly income for personnel paid from public funds within public institutions and authorities of the local public administration, by decision of the local council, county council or the general

council of Bucharest municipality, without exceeding the maximum monthly allowance limit of the position of deputy mayor, monthly allowance of the vice-president of the county council, or, as applicable, of the vice-president of the general council of Bucharest municipality, corresponding to the level of organization.

Improvement of budgetary income collection

With the purpose of improving voluntary compliance, of simplifying the taxpayers' access to the fiscal administration services and reducing the time allotted by the taxpayer as to fulfill its fiscal obligations, in 2017, actions assumed within the Convergence Program 2017-2020 were implemented:

- expanding the "Private virtual space" service to legal entities, as well;
- implementing the concept of a sole counter within a number of 54 fiscal units, for the other fiscal units this action currently undergoing implementation;

Furthermore, the Agency Call-center was developed, by reorganizing the central structure and creating 8 territorial departments destined for this activity, actions necessary as to create a service which shall meet the taxpayers' needs.

The implementation of the "self-service" concept within 42 headquarters of fiscal units, representing approximately 78% at national level.

In 2017, the primary activities carried out in the field of fiscal inspection took into account identifying the high fiscal risk fields and improving risk analysis. Therefore, efforts were made for the improvement and rendering efficient of the selection and scheduling process of fiscal inspection activities with the purpose of strengthening, on the one hand, of the role of territorial fiscal bodies with regards to the selection of taxpayers for fiscal inspection and standardization of selection criteria and, on the other hand, strengthening of the monitoring capacity at central level. Concurrently, the enhancement of the transparency of the fiscal inspection process and improving communication with the business environment was considered, also creating a new section within the ANAF website containing information in this respect.

Also in the year 2017, the anti-fraud structures have acted upon the line of prevention, discovery and combat of tax evasion, the action directions being analysis, investigation and instrumentation, as well as cooperation with law enforcement agencies for cases of organized and systematic fiscal fraud, with significant impact upon the collection of income to the general consolidated budget. Moreover, the fiscal anti-fraud had a determinative contribution to monitoring intra-community procurement, having as main result the increase of voluntary compliance of taxpayers who perform intra-community transactions.

4. THE EVOLUTIONS AND LEVEL OF THE GOVERNMENTAL DEBT¹¹

Governmental debt and governmental public debt management strategy

The governmental debt, in accordance with EU methodology, was 35.0% of GDP at the end of 2017, clearly inferior to the 60% cap set through the Maastricht Treaty. At the end of February 2018, the governmental debt was 35.7% of GDP, of which domestic debt was 17.7% of GDP, and foreign debt was 18.0% of GDP.

The objectives of the Governmental public debt management strategy for the medium term are the following:

- Ensuring the funding needs of the central public administration and of the payment obligations, on account of the minimization of medium and long-term costs;
- Limiting risks associated to the governmental public debt portfolio, and
- Developing the internal Government securities market.

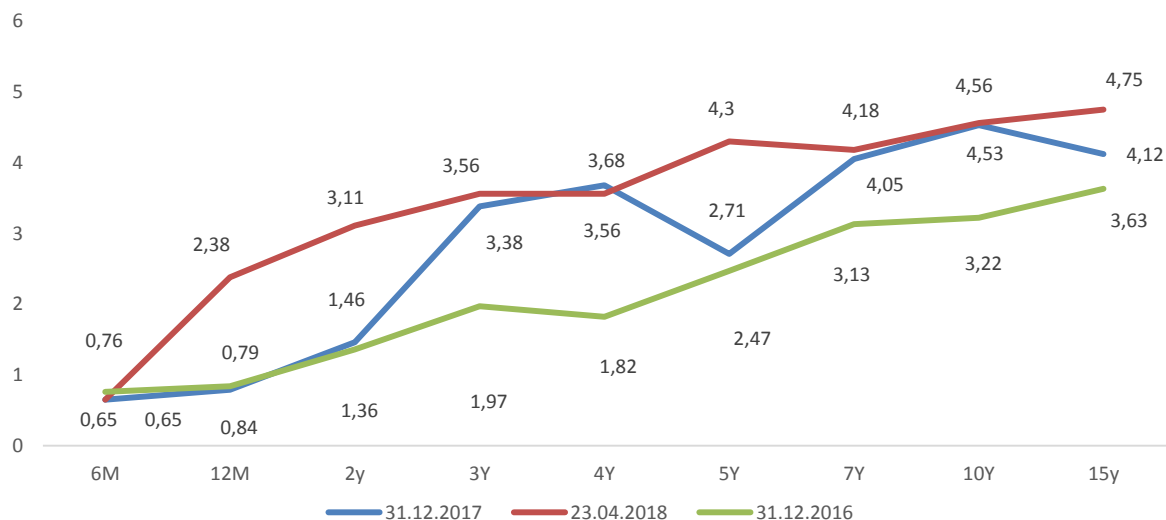
In 2017, internal funding was performed in accordance with the funding plan announced at the beginning of the year by organizing regular auctions of Government securities with maturities between 6 months and 15 years (10 year residual maturity). The monthly mean volume of issued Government securities was of, on average, RON 3.5 billion, being higher in June and July, when Government securities reimbursements amounted to approximatively RON 8-9 billion.

In this context, in the first nine months of 2017, the return of Romanian Government securities followed an ascending trend, subsequently registering a series of increases especially in the medium and long-term maturities segment, result of the restriction of liquidity requirements on the internal market and also of the increase of inflationist expectations.

The non-residents holdings of Government securities issued on the internal market have remained relatively stable throughout the year, at approximatively 16-17%.

¹¹ All the indicators used in this chapter are compliant with EU methodology.

Chart 9: The returns of Government securities on the primary market



Source: Ministry of Public Finances

In the year 2017, the legal and procedural framework associated to the new THESAURUS/CENTENARY Program was created for the segment of natural persons preferring a classic savings instrument offered by the state, such as the one distributed in the past (between 2000-2005) within which Government securities destined for the population in a dematerialized form shall be issued, by means of the operative units of the State Treasury. Currently, there is the intention to expand the distribution network of these instruments to banks and other interested entities. The MPF shall continue the strategy regarding the issuance of Government securities for the population, aiming at diversifying the base of investors in Government securities and the use of wider distribution networks of the savings instruments destined for the population.

With regards to foreign funding, this has been realized, mainly, by means of two Euro-bonds transactions, as follows:

- on April 19, 2017, the amount of EUR 1.75 billion was attracted by an issuance of Euro-bonds in two tranches, of which EUR 1 billion with a 10-year (2.411% return, 2.375% coupon interest rate) and EUR 750 million by reopening tenor 2035 (3.55% return, 3.875% coupon interest rate).
- on October 10, 2017, the reopening of 10-year Euro-bonds launched in April 2017, thus attracting the amount of EUR 1 billion, at the lowest return obtained by Romania for this tenor, of 2.114%, the volume accumulated per this series reaching EUR 2 billion.

In 2018, the gross funding necessary is at approximately RON 75 billion, the total volume of loans to be attracted by the Ministry of Public Finances of the internal and external markets being determined by a level of the budgetary deficit estimated at 2.97% of the GDP and a level of the debt which is to be refunded in 2018 of RON 47 billion.

Considering the reducing of the foreign currency risk objective and that of developing the internal market of Government securities, the budgetary deficit shall be funded in proportion of about 75% from the internal market and in completion from the foreign market.

The indicative volume of Government securities announced for 2018 which are to be issued on the internal market is of approximatively RON 48-50 billion, while the amount which shall be mobilized on the external market is of approximatively EUR 4.5-5.0 billion through issuances of Euro-bonds within the MTN program and through loans from international financial institutions (IFI).

Until today ¹², the MPF has attracted over RON 13.6 billion from the internal market and EUR 2 billion from the foreign markets amounting to a total of RON 23.0 billion, which is the equivalent of a degree of accomplishment of the funding plan in percentage of 30.7%.

The issuance of Euro-bonds, in two tranches of 12 and 20 years amounting to a total of EUR 2 billion, performed on the foreign markets on February 8, once again demonstrated the markets' trust in Romania's economic perspectives, obtaining very advantageous costs within the funding process: for the 12-year, a return of 2.585% was obtained, and for the 20-year, a return of 3.45%.

Furthermore, as to diversify the investors base and to expand the remaining average maturity of the Governmental public debt, the MPF intends to perform early repayment operations, primarily targeting Euro-bonds in USD launched last year with high coupon interest rates and which may be exchanged with new Euro-bonds in USD with long maturities and lower coupon interest rates.

As to improve public debt management and avoid seasonal pressures in ensuring the funding sources of the budgetary deficit and refunding the Governmental public debt, as to reduce the risk of refunding and liquidity, the Ministry of Public Finances has considered maintaining the financial reserve (buffer) in foreign currency at the disposal of the State Treasury, in value equivalent to covering the funding needs of the budgetary deficit and refunding of the public debt for approximatively 4 months.

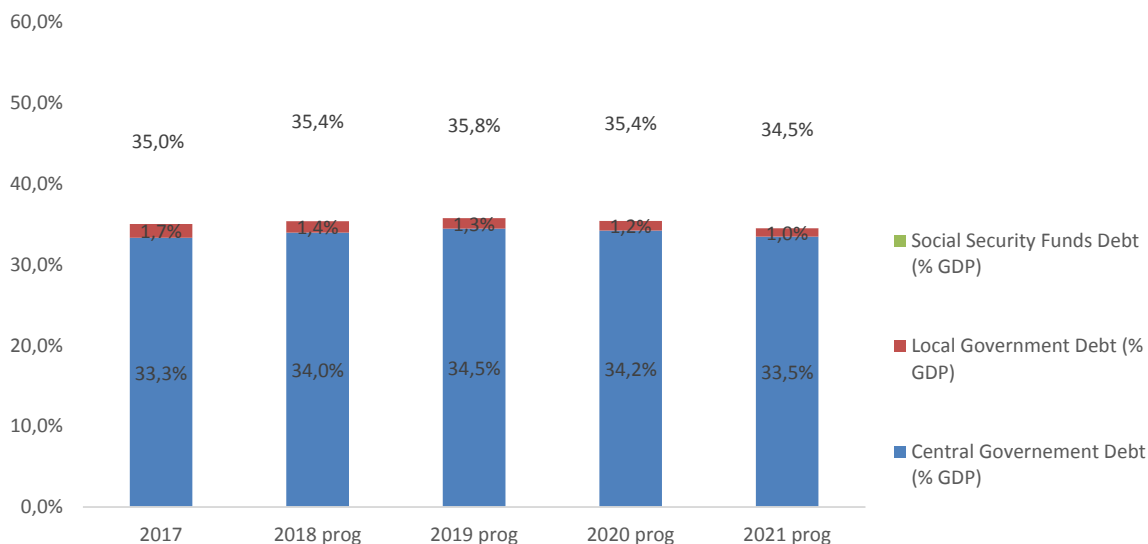
In order to introduce the derivative financial instruments (currency swap and interest rate swap), the Ministry of Public Finance, acting through the General Directorate of Treasury and Public Debt, benefits of technical assistance from the Treasury of the World Bank, within the project themed "Developing the capacity for government public debt management through the use of derivative financial instruments" code SIPOCA 10. The project is financed from the European Social Fund, within the Administrative Capacity Operational Program for 2014-2020 and it is under implementation.

On the basis of the average annual economic growth and of deficits calculated in accordance with the EU methodology of up to 3% of GDP, in the period 2018-2021, we

¹² April 23, 2018

estimate that the weight of gross government public debt will not exceed 38% of GDP, as shown by the chart below.

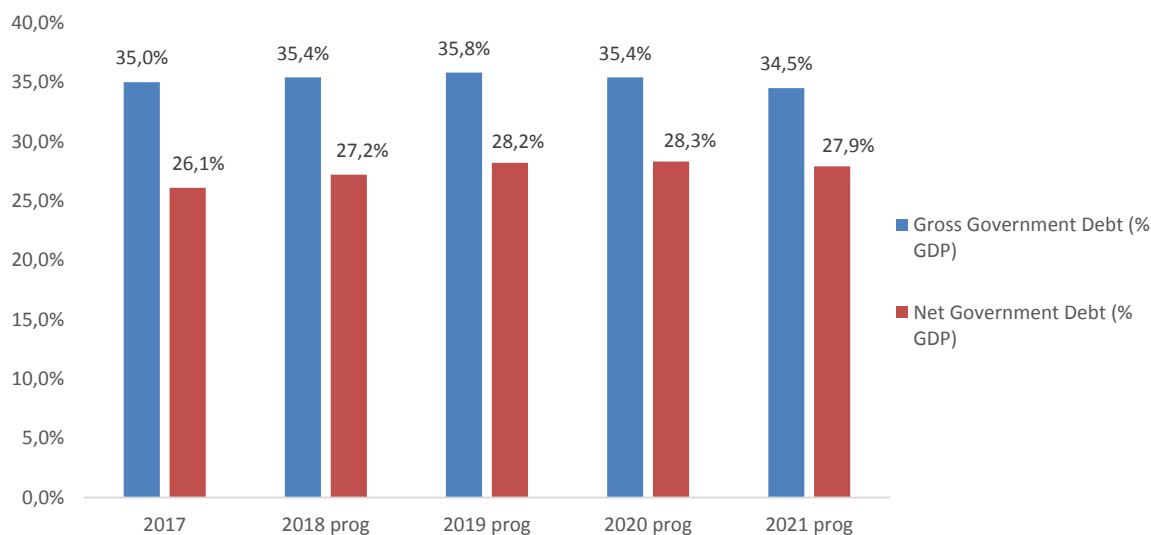
Chart 10: The gross governmental debt according to EU methodology



Source: Ministry of Public Finances

If the liquid financial assets are considered¹³, the level of the net government public debt (representing the gross government public debt minus the liquid financial assets) during the period under analysis will not exceed 29.0% of GDP.

Chart 11: The governmental debt according to EU methodology



Source: Ministry of Public Finances

The factors which influence the change of the share of government debt in GDP in 2018-2021, including the stocks-flows adjustments, are presented in addendum 4.

¹³The financial assets refer to the following instruments: AF1 – gold and DST, AF2 – deposits and cash, AF3- securities, others than shares consolidated at market value, AF5 – shares and other capital shares, if listed at the exchange, including mutual fund shares.

5. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS VERSION OF THE CONVERGENCE PROGRAM

5.1. RISKS

The risks which can affect the real economy and implicitly the economic growth objective are mainly of external nature. The Romanian economy, as part of the European economy, depends on the international economic context and especially on the economic growth in the main commercial partner countries.

In Europe, the risks of deviating from these provisions are generally balanced. The economic growth could exceed short-term expectations, as results from the high level of the trust in economy indicator, as well. In the medium-term, there is a vulnerability with regards to the high prices of international assets, as a result of a reevaluation of risks and adjacent conditions. Risks continue to exist with regards to the uncertainty of the results of the negotiations for Great Britain's leaving the EU, but also with regards to the geopolitical tensions and the tendency to head toward nationalist and protectionist policies.

From Romania's perspective, the impact of Brexit shall have a moderate amplitude, since the commercial relationships between the two countries are of a low intensity. Romania's exports to Great Britain are of almost EUR 2.6 billion (4.1% of the total) and imports are of only EUR 1.7 billion (2.2% of total imports). In this context, it can be considered that Brexit will not represent a significant obstacle in carrying out Romania's international trade activity. Although the procedure of starting the formal process of leaving the EU has already taken place, Brexit will be effectively completed in 2019. This time interval gives Romania the necessary space to adapt from an institutional point of view, as well as with regard to the business environment, to the new arrangements that are to be established following the negotiations with the EU. Furthermore, at European level, the low profitability of the banking system associated to an accentuation of risk fears at global level, may have negative effects upon internal demand which may affect Romanian exports.

At international level, the short-term risk scale continues to be balanced, there existing a potential for certain above-expectations growths. The trust of the business environment and that of the population has maintained its high rhythm during the first part of 2018, and the economic performance indicators suggest that there is a possibility that the growth rhythm remain solid during the following months as well. The expectations regard a more powerful business environment, profitability leading to the extension of investment activity and implicitly of the workforce demand. Additionally, the amortization of investments could favor a return of production, which would imply a potentially greater growth in the following period.

Furthermore, the uncertainty surrounding the USA fiscal reform persists, as does that surrounding the commercial tensions between the USA and China. The risk regarding inflation are associated to the adjustment rhythm of the administered prices, but also to uncertainties regarding the future evolution of the price of oil, as a result of the extension, until the end of 2018, of the agreement between the OPEC member states, as well as other producing states with regards to decreasing production.

Another risk at international level would be constituted by the disturbances and correction on the capital market, which arose as a result of the USA introducing new taxes with regards to steel, aluminum and a series of products from the Chinese market, simultaneously with the Chinese government's announcement with regards to the introduction of new fees for products imported from the USA.

Recent unrest on the financial markets does not eliminate the possibility that the financial indicators be reevaluated in the medium term and as such, vulnerabilities may occur with regards to obtaining returns. Even if the banking activity continues to improve, the risk management policies within the banking sector, as well as those in the financial sector, have an important role. After a global financial crisis, an accentuated loosening of financial regulation and supervision could facilitate the assumption of excessive risks, with negative repercussions upon the global financial stability.

The global medium-term perspective is affected by disturbances as a result of geopolitical tensions, especially in Eastern Asia and the Middle East. For many already severely conflict-affected countries or countries affected by the negative effects of conflict, the prognosis takes under consideration a rough conflict mitigation process, which could lead to delays in the recovery of these economies.

However, all these threats addressed to the European and global stability climate could represent an opportunity for Romania, in the sense of drawing the investors' attention toward an area which present an enhanced security degree and a low taxation level. Romania could attract significant flows of capital by offering to the business environment a favorable climate for performance of the economic activity.

On the internal plan, risks are generally balanced in terms of affecting domestic offer or demand. Domestic risks are counterbalanced by the measures under the Governing program for fiscal loosening and increasing the population's income. There is a risk for part of the additional domestic demand to be covered in an increased proportion through imports, with an impact on the external imbalances.

The risks associated to the inflation evolution are given by the appearance of certain unfavorable meteorological conditions, with effect upon the agro-food product prices, in the context in which it takes into consideration the normal agricultural years. Concurrently, the international events, which amplify recent geopolitical tensions, could lead to a depreciation of the exchange rate.

5.2. THE SENSITIVITY OF BUDGETARY PROJECTIONS FOR DIFFERENT SCENARIOS AND HYPOTHESES

Given that collections from taxes and charges are strongly correlated with the evolution of the employment rate in the economy, of the medium earning and economic growth, the table below presents the impact on the budget revenues of the variation of economic variables considered independent, based on year 2017.

Compared to the basic scenario, the highest risk in case of the decrease of economic indicators is associated with the collections from value-added tax and social insurance contributions.

Table 7: The sensitivity of budgetary projections for different scenarios and hypotheses

Category of taxes and charges	Macroeconomic basis	Macroeconomic basis changes (percentage points)	Income changes (% of GDP) 2017
1. Income tax	Gross average salary	Reduced by 1 p.p.	-0.034
	Employment level	Reduced by 1 p.p.	-0.029
2. Social insurance contributions	Gross average	Reduced by 1 p.p.	-0.081
	Employment level	Reduced by 1 p.p.	-0.083
3. Corporate tax	GDP	Reduced by 1 p.p.	-0.022
4. Value added tax	GDP	Reduced by 1 p.p.	-0.096

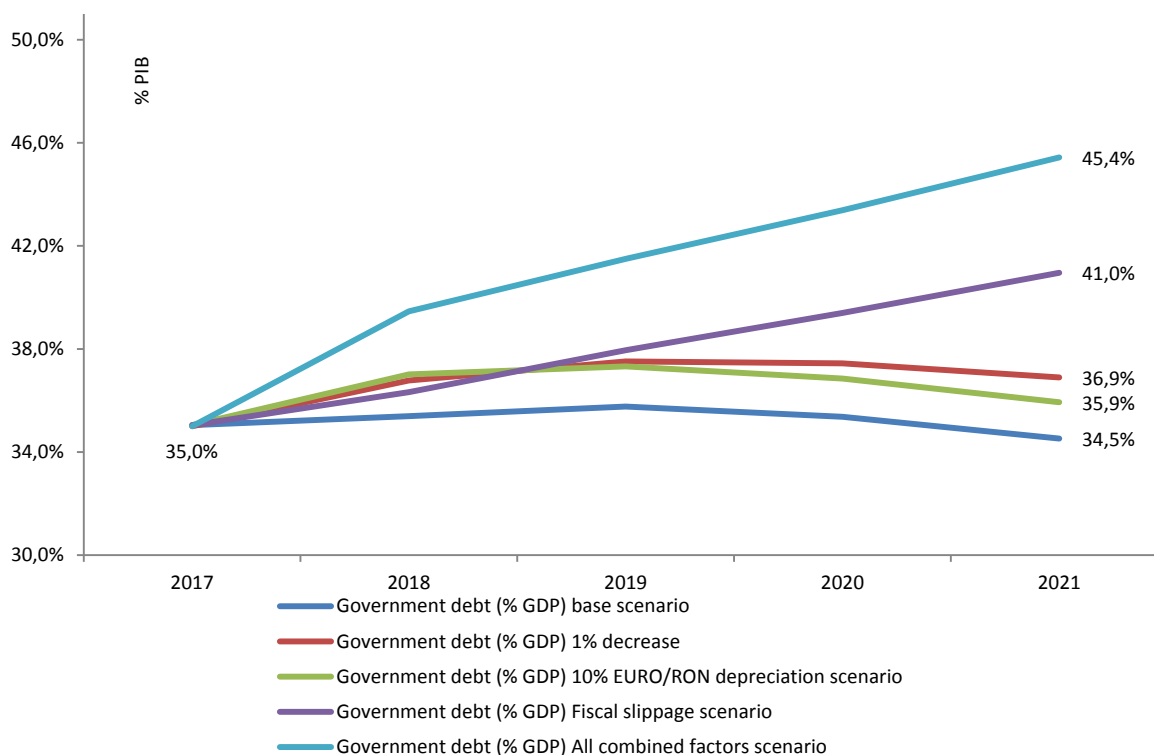
Source: Ministry of Public Finances

5.3. PUBLIC DEBT SENSITIVITY

Public debt sensitivity analysis¹⁴

1. economic growth influence, national currency depreciation influence, as well as the fiscal slippage upon the governmental debt balance, and
2. the influence of the national currency depreciation and of the change of the interest rates upon interest payments.

Chart 12: Governmental debt influencing factors



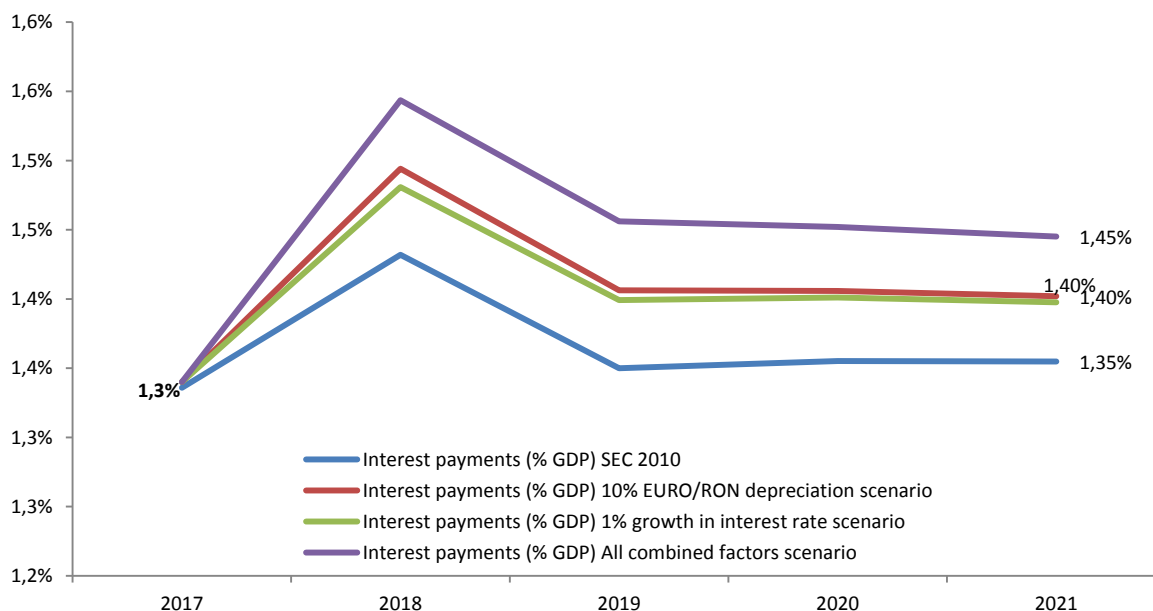
Source: Ministry of Public Finances

In the chart above, it can be noted that the influence of an economic decrease by 1% of GDP would have a negative impact on the indebtedness level, of increase by 2.4% of GDP in 2021, and the depreciation of the national currency by 10% compared to EUR, the main foreign currency in which the Government debt in foreign currency is denominated, would cause the increase of the weight of governmental debt in GDP of up to 1.4% of GDP in 2021. A fiscal slippage transposed into a funding cash deficit of 3.9%¹⁵ of GDP in 2018-2021, would lead to an increase of the indebtedness level by up to 6.5% of GDP in 2021, while the combined influence of these factors upon the weight of the governmental debt in GDP determines an increase of this indicator by 10.9% of GDP in 2021.

¹⁴ All the indicators used in this chapter are compliant with EU methodology

¹⁵ Upon determining this indicator, the winter forecast of the EC was taken into account, which estimates an ESA2010 deficit of 3.9 of GDP in 2018

Chart 13: Influencing factors upon the interest payment



Source: Ministry of Public Finances

In the chart above, it can be noted that the depreciation of the national currency relative to EUR¹⁶ would have a low negative impact on interest payments, in the sense of increasing the weight thereof in the GDP by up to 0.05% of GDP in 2021, while the increase of interest rates by 1% would lead to a more accentuated increase of the weight of interest payments in GDP by up to 0.05% in 2021. The combined influence of these factors upon interest payments would cause an increase of these payments by 0.10% of GDP in 2021.

5.4. COMPARISON WITH THE PREVIOUS VERSION OF THE CONVERGENCE PROGRAM

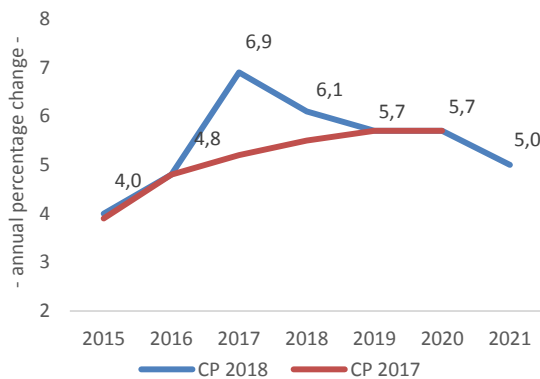
The medium-term macroeconomic development scenario presented within this program differs from the scenario presented within the previous edition of the Convergence Program, respectively the April 2017 edition, with regards to the GDP evolution and that of its components. The differences between the two programs are mainly determined by the revision of the statistical data for the period 2015-2016 and the publication of the provisional data for 2017, as well as by the implications of the measures provided in the Governing Program.

As such, in the previous edition of the Convergence Program, it was estimated that GDP would increase by 5.2% in 2017. The economic results obtained within the economic sectors, that is industry, agriculture and services have lead to an increase of the GDP by 6.9%.

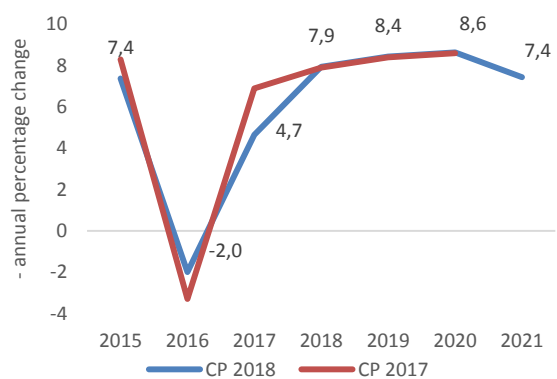
¹⁶ The other foreign currencies in which debt is denominated follow the same tendency of appreciation, as well

For year 2018 and the following years, the forecast considered the positive impact of the measures provided in the Governing Program upon the business environment and upon the population's purchase power. As a result, it is expected that, in 2018, the GDP increase by 6.1% compared to the 5.5% increase forecasted in the previous version, being mainly supported by domestic demand. For 2019 – 2021, it is estimated that the Romanian economy shall register an average annual growth rhythm of 5.5%. The dynamics of the gross fixed capital formation shall register an acceleration, on account of the improvement of the investment climate by means of the considered measures, as well as of funding conditions, both from budgetary sources and from structural and investment funds. Private consumption expenditure will increase on average by 5.8% yearly, in the context of improvements seen on the labor market.

Comparison between the GDP increase prognoses

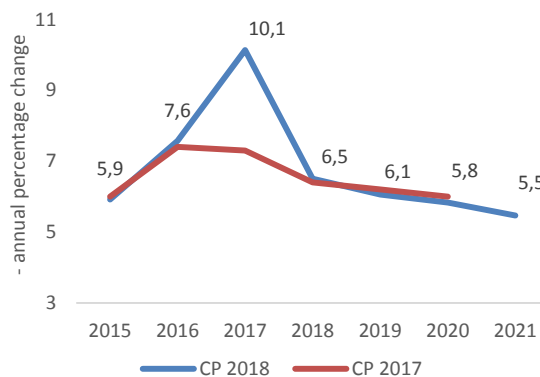


Comparison between the GFCF increase prognoses

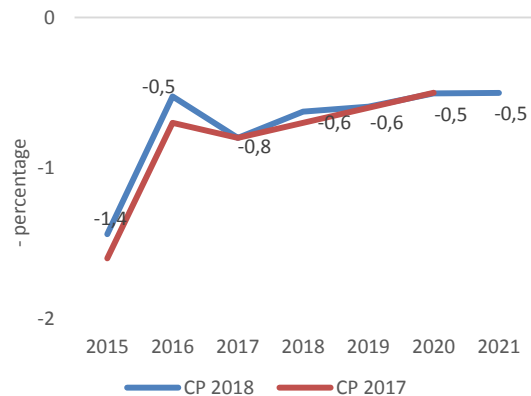


Source: National Strategy and Prognosis Commission

Comparison between the private consumption increase prognoses



Comparison between the net export contributions to the GDP increase



Source: National Strategy and Prognosis Commission

6. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

The viability of the European Union member states' public finances is analyzed once every three years, both in the Fiscal Sustainability Report and in the Population Aging Report, which comprises an economic and budgetary projection for the 28 Member States of the European Union. For Romania, the 2015 reporting exercise didn't identify any risk to sustainability in the short-term, while in the medium term the risk would be low and, over the projection horizon, respectively toward the year 2060, the level of risk was seen as moderate. The updated projections, corresponding to the new exercise (2018, the results of which are about to be published this year) estimate that the weight of the pension expenditures in GDP will remain, all over the projection horizon (2070, as from this new exercise on), below the EU average. Risks would increase if the primary structural balance came back to the values registered in 1998-2012. The level of public debt is forecasted to remain significantly under the reference value of 60% of the GDP. However, consolidation measures could be taken into account as to limit the increase of costs incurred with the ageing of population (especially pension costs).

Compared to the 2015 exercise, within which 26 of the 28 Member States foresaw a total decreasing variation of the budgetary costs related to the ageing of the population compared to the previous exercise (2012), the current round of projections reflects a balanced weight (of course, in the context of the 10 year extension of the prognosis horizon). The general effort among Member States continues to be focused toward adjustments and reforms within the pension, health and social assistance sectors.

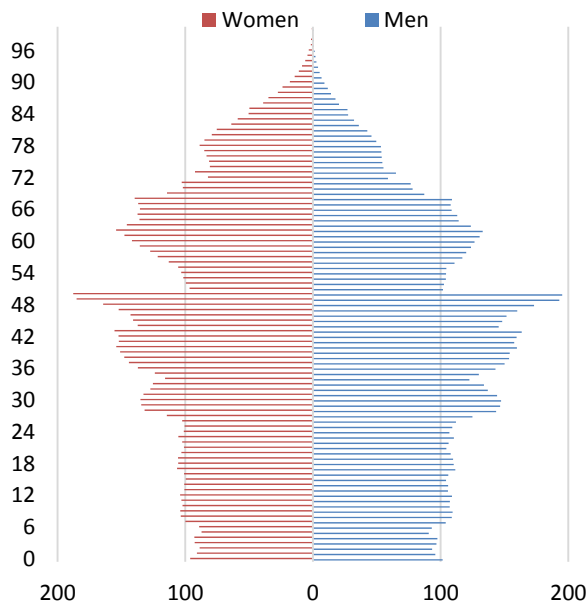
The updated projection of the expenditures exclusively related to the ageing of the population indicates, for Romania, a 2.2 p.p. increase of their weight in GDP between 2016 and 2070 (compared to the 2.1 p.p., variation forecasted within the previous exercise for the period 2013-2060). The European average increase is 1.8 p.p. in both exercises).

Primary expenditure components:

- 0.7 p.p. of the GDP represent the increase of pension expenditures (the European average is 0.2 p.p.)
- 1.2 p.p. of GDP are represented by the increase of health and long-term care expenses (the European average is 2.1 p.p.)
- 0.3 p.p. of GDP are represented by the increase of educational system expenses (the European average is 0.0 p.p.)

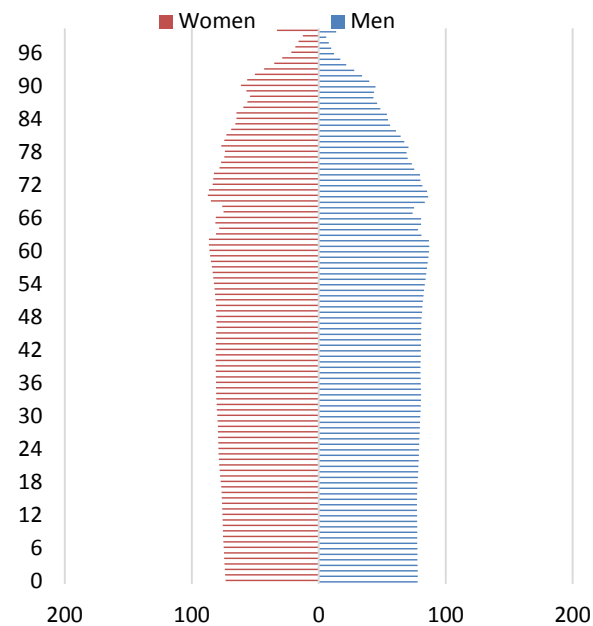
Compared to the evolutions at European level, the pace of the ageing expenditure growth is influenced in Romania by a more pronounced inversion of the age pyramid.

The structure of Romania's population in 2018



Source: Eurostat - EUROPOP 2016 projections

The structure Romania's population in 2080

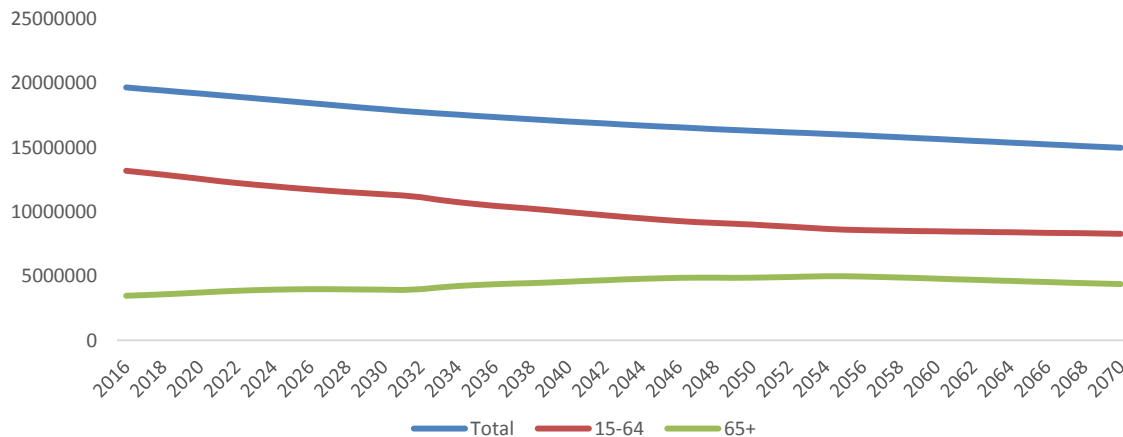


Source: Eurostat - EUROPOP 2016 projections

The demographic changes alter the structure of Romania's population. The amplitude and speed of population ageing depend on the future tendencies with regards to life expectancy, fertility and migration.

The fast ageing process will change the ratio between the population at retirement age and the active population. Consequently, major changes in the age structure and negative implications on the labor market are plausible. The ratio between persons aged over 65 and those at working age (15-64 years) is increasing significantly, which means that in the perspective of the following years, the public pensions system resources will be very diminished, compared to the corresponding expenditures.

Chart 14: Population evolution



Source: Eurostat - EUROPOP 2016

The age composition of the population will be profoundly affected in the period between 2016-2070: the weight of the population at working age (15-64 years) is estimated to register a significant drop of 11.8 percentage points during the prognosis interval, while the weight of the population aged over 65 year will increase during this interval by 11.6 percentage points.

The population ageing process is also a consequence of the low level of fertility: in 2015, the fertility rate was 1.58 children per woman, below the optimal reproduction level. This indicator is estimated to increase, according to Eurostat estimates, to 1.89 in the year 2070.

The results of the demographic projection offered by Eurostat for Romania¹⁷ indicate a significant decrease of the population, 4.7 million people less in 2070, compared to 2016. Although the young population drops as a result of the constantly decreasing number of women at fertile age, there are, however, several positive signs, coming from the increase of the fertility rate.

Table 8: Demographic indicators

	2013	2020	2030	2040	2050	2060
Fertility rate	1.65	1.73	1.79	1.81	1.82	1.83
Total population millions	20.02	19.69	19.00	18.46	17.97	17.44
of which:						
Men	9.76	9.59	9.26	9.02	8.81	8.57
Women	10.26	10.10	9.74	9.44	9.16	8.87
Life expectancy at birth						
Men	70.8	72.8	75.4	77.8	80.0	82.0
Women	77.9	79.5	81.6	83.5	85.1	86.7
Life expectancy at 65 years old						
Men	14.5	15.5	16.9	18.3	19.6	20.8
Women	17.8	18.8	20.1	21.4	22.7	23.9

Source: Eurostat-EUROPOP 2013

According to Eurostat estimates (EUROPOP2016), in Romania, the life expectancy at birth for men is estimated to increase by approximately 12 years during the projection period, from 71/8 in 2016 to 83/6 years in 2070. Life expectancy at birth is estimated to increase by 10 years for women, from 78/9 years in 2016 to 88/3 in 2070, these trends indicating a slight convergence of the life expectancy between men and women. The life expectancy at 65 is forecasted to evolve as follows:

Men 14/8 years (2016) – 22/0 years (2070)

¹⁷ Eurostat – EUROPOP 2013

Women 18/2 years (2016) – 25/1 years (2070)

In the medium and long-term, the evolution of the pension sector is significantly influenced by the demographic perspectives related to the evolution of the natality rate and life expectancy and the inevitable process of population ageing

Table 9: Long-term forecast of pension expenditure

	2016	2017	2020	2030	2040	2050	2060	2070
Pension pillar 1	8.0	7.3	7.3	6.6	7.7	8.7	8.9	8.7
Pension pillar 2	-	-	-	0.2	0.5	0.8	1.0	1.1

Source: National Commission for Strategy and Prognosis

The results, estimated by means of the pension model, indicate an increase of the weight of expenditures associated to pensions in the first pillar, from 8.0% of the GDP in the year 2016 at approximately 9.0% of the GDP at the middle of the 2050-60 decade, followed by a gradual decrease, towards the end of the prognosis period, until the share of the end of the 2040s (8.7%).

Pension pillar 2 will have a more and more significant weight in the total pension expenses, reaching a weight of 1.1% of GDP at the end of the forecast horizon.

The projections included within the Ageing Report 2018, the result of which are presented within this chapter, have been performed before the promotion of the fiscal measures which have entered into force at the beginning of 2018.

The analysis from the perspective of the European Commission's Report regarding Fiscal Sustainability, 2015 edition, confirms the absence of certain short-term significant risks, although some sensitivities related to the net international investment position, public debt and non-productive loans are present. However, considerable risks foreshadow in the medium term. The debt sustainability analysis emphasizes an increase of the debt of up to over 60% of the GDP to the horizon of the year 2026, combined with the risks underlined by the sensitivity tests, especially by the negative shocks which may threaten the primary scale. The simulation of simultaneous shocks to the increase, the interest rate and the primary scale leads to a weight greater than 70% of the public debt in the GDP in 2020. However, it is considered that by means of a convergence toward the Medium Term objective in accordance with the preventive instrument of the Stability and Growth Pact and following the line of the fiscal adjustment indicated by the Commission's Communication regarding the flexibility of the Stability and Growth Pact, Romania's public debt would reduce to 35% of the GDP in 2026. On the other hand, the analysis of the gap indicator of the medium term sustainability draws attention toward the risks related to the unfavorable initial budgetary position and, partially, to the projected public expenses associated to population aging. In conclusion, the European Commission considers that Romania's risks to sustainability are high in the medium term. In the long term, these risks are considered to be of medium level and derive particularly from the unfavorable initial

budgetary position and the increase of the public expenditures associated to population aging, especially those associated to healthcare and long-term care.

7. PUBLIC FINANCE QUALITY

The structural measures for increase of public expenditure transparency, analysis and improvement of their efficiency, modernization of public procurement, prioritization of investments, strengthening corporate governance in State-owned enterprises shall lead, in the medium term, to the improvement of public finance quality.

Efficient management of public investments

A measure to improve public finances is constituted by the optimization of the public expenditure structure by the gradual reorientation from investments integrally funded from national sources toward investment co-funded from EU funds. An important step within this policy is that of budgetary planning and prioritization of significant public investment projects, as to enhance the absorption of EU funds, with the purpose of creating the fiscal scape and supporting economic growth.

According to the existing significant public investment projects prioritization methodology (GEO 88/2013 and GR 225/2014), in 2018, the Ministry of Public Finances submitted to the Government for approval the Memorandum with the following theme: Approving results of the prioritization of significant public investment projects. This has comprised a total of 123 prioritized significant public investment projects, the largest weight had by projects in the transportation sector.

The existing legal framework was improved in 2016 with the purpose of consolidating the ties between the prioritization process and budgeting. As such, the obligation according to which the assignment of budgetary resources shall reflect the score obtained as a result of the application of prioritization principles and criteria, was instituted.

Furthermore, according to the technical support project Improving public investment management (carried out in 2014-2015) World Bank, the rationalization of the public investment portfolio was recommended. In this respect, the Ministry of Public Finances, in collaboration with the Ministry of Transportation, initiated a pilot rationalization exercise as to test the rationalization mechanisms and criteria proposed by the WB. The starting point constituted performing certain evaluations as to identify the projects with weak performances, followed by the implementation of a resolution strategy as to establish the closure, resizing/restructuring or reintroduction for funding of the project within the public investment program.

The Public-private partnership

Given the need to correlate legislation regulating the manner in which certain PPP contracts are attributed with the legislation referring to budgetary deficit and public debt throughout 2017, the Ministry of Public Finances, together with the institutions involved

in this field and other partners in the business field, have elaborated the draft law for the amendment and completion of Law no. 233/2016 regarding the public-private partnership and which was approved by the Government in December 2017 (GEO no. 104/2017 for the amendment and completion of Law no. 233/2016 regarding the public-private partnership).

The primary amendments refer to the inclusion of the possibility of the public partner to contribute to the funding of investments performed from public financial resources as well (others than the European funds), clarifying the NIS analysis/approval and notification mechanisms of PPP projects, particularization of the projects' preparation process, promotion of projects which show economic and financial efficiency, transposition of the best practices with regards to the financial closure of the project.

Until the end of 2018, a new legislative framework regarding the public-private partnership shall be finalized, following that the methodological application norms be elaborated and adopted.

Rendering public expenditure efficient

Pilot expenditure analyses have been performed for the field of transportation, health, education, by means of the Memorandum with the theme: "Approval of the analysis framework for public expenditure and establishing the fields for which efficiency analyses shall be performed throughout the year 2017". For the transportation sector, an initial report was drafted since October 2016, public expenditure inefficient areas having been identified (public investments, subsidies, maintenance, concrete savings options) and efficiency measures. The analysis in the field of transportation shall continue with the elaboration of the final report.

On May 10, 2017, the Inter-ministerial Committee for the analysis and efficiency of public expenditure was created (Resolution no. 397/2017 of the prime-minister), a structure led by the prime-minister (president) and by the minister of public finances (vice-president), which has as objective supporting, at political level, the activities specific to the public expenditure efficiency analysis.

For the fields of health and education, diagnosis analyses, reference terms and measure sheets were elaborated throughout 2017, and until the end of the second quarter of 2018, final reports shall be drafted for the fields of health and education, which shall present measures as to render the activity of the analyzed fields, which shall lead to other possible methods of saving and/or a better efficiency of public funds. The reports shall be submitted for approval to the Inter-ministerial Committee, which shall decide which measures shall be implemented in the following period.

Among the priorities set for the following period is that of drafting a normative act as to integrate the public expenditure analysis process within the public financial management system.

Furthermore, in 2017, the implementation of a technical support project started, project regarding the consolidation of the capacity to perform public expenditure analyses by means of the EC-Structural Reform Support Program (EUR 250,000). Within the project, training sessions were held with experts from a specialized institution (Expertise France) for the representatives of MPF, MNE and MS, as to elaborate the diagnosis analyses, reference terms, measure sheets for the field of health and education, but also a session dedicated to aspects regarding the transparency and communication of the public expenditure efficiency analysis process (for the MPF and GSG representatives).

Throughout 2018, the technical support project shall continue on with activities such as the elaboration a Public expenditure analysis manual, which shall present in detail the practices to be followed within the public expenditure analysis process.

Improving the collection of taxes and charges

The ANAF strategic objective in 2018-2020 imply priority actions with regards to the following: increasing voluntary compliance, reduction of tax evasions and of underground economy, improving relationship with taxpayers, increasing collection efficiency, modernizing the agency.

For the improvement of voluntary compliance, several measures are targeted: creation of technical and procedural conditions for the payment of all fiscal obligations by means of all banking instruments, the modernization of procedures and instruments destined for citizens to register and pay fiscal obligation by constituting and publishing the electronic tax, local tax and other contributions' registry and digitalized fiscal assistance for taxpayers. Moreover, the possibility of granting certain payment easement.

In the field of tax evasions and underground economy, such actions are continued: introduction of the random compliance testing program, development of the structure responsible of natural persons with significant fortune by developing competences and creation of the compliance program, combating customs fraud. With the purpose of increasing efficiency in combating tax evasion and reduction of the underground economy, the main activities in this respect shall be redesigned: development of the prevention position of structures with control attributions; revision of the VAT reimbursement procedure; transformation of foreclosure into an investigative process; consolidation of mutual assistance activities for recovery in the field of tax claims.

In the field of fiscal anti-fraud, the aim is to increase the weight of controls dedicated to the elimination of escapist chains and elimination of "ghost" companies from the system, and the intensification of the use of administrative cooperation instruments with regards to VAT, including multilateral controls. The anti-fraud procedures shall be revised in accordance with the European risk management model. The introduction of the electronic invoice, electronic cash registers with on-line reporting and of electronic

information of taxpayers shall lead to an accelerate de-bureaucratization, but also to a reduction of evasion, especially in the field of commerce.

8. ANNEX

Table no. 1 a – Macroeconomic projections

	Code ESA	2017	2017	2018	2019	2020	2021
		Level ¹⁾ RON billions	Percentage change				
1. Real GDP	B1*g	815.3	6.9	6.1	5.7	5.7	5.0
2. Nominal GDP	B1*g	858.3	12.6	8.3	7.7	7.7	7.1
Real GDP components							
3. Private consumption expenditure	P3	526.4	10.1	6.5	6.1	5.8	5.5
4. Public consumption expenditure	P3	109.3	0.7	5.5	3.5	3.3	2.3
5. Gross fixed capital formation	P51	183.2	4.7	7.9	8.4	8.6	7.4
6. Stock amendment and net acquisition of securities (% of the GDP)	P52+ P53	9.0	0.2	0.0	0.0	0.0	0.0
7. Exports of goods and services	P6	345.8	9.7	7.4	6.9	7.1	6.9
8. Imports of goods and services	P7	358.4	11.3	8.5	8.0	7.9	7.8
Contributions to the GDP growth							
9. Final domestic demand		818.8	7.5	6.7	6.2	6.1	5.5
10. Stock amendment and net acquisition of securities	P52+ P53		0.2	0.0	0.0	0.0	0.0
11. Net export	B11		-0.8	-0.6	-0.6	-0.5	-0.5

¹⁾ The real level of the GDP and its components is in the prices of the previous year.

Table no. 1 b – Price evolution

	2017	2018	2019	2020	2021
	Percentage change				
1. GDP deflator	5.3	2.1	1.9	1.9	2.0
2. Private consumption deflator	2.0	1.6	1.3	1.5	1.8
3. Harmonized index of consumption prices	1.1	3.8	2.8	2.6	2.5
4. Public consumption deflator	19.0	2.6	2.2	1.8	2.3
5. Investment deflator	5.7	1.0	0.8	0.7	0.5
6. Export deflator (Goods and services)	2.9	2.1	-0.3	0.0	0.0
7. Import deflator (Goods and services)	4.4	0.8	-1.4	-1.3	-1.2

Table no. 1 c – Labor market evolution

	CODE ESA	2017	2017	2018	2019	2020	2021
		Level thousand persons	Percentage change				
1. Total employment ¹⁾		8668.2	2.6	2.4	1.8	1.2	1.0
2. Employment , thousands of hours worked ²⁾		15558932	2.7	2.6	2.0	1.3	1.0
3. Unemployment rate -% ³⁾			4.9	4.8	4.6	4.5	4.4
4. Labor productivity ⁴⁾			4.2	3.6	3.8	4.4	4.0
5. Hourly labour productivity ⁵⁾			4.1	3.4	3.6	4.3	4.0
6. Compensation of employees million RON	D1	309352.7	19.5	11.5	10.1	10.5	10.0
7. Compensation per employee - RON		47638.2	16.0	8.1	7.0	7.5	7.2

¹⁾ Total employment , the definition for the internal concept from national accounts

²⁾ The definition from the national accounts

³⁾ The definition harmonized with Eurostat (Labor Force Survey – AMIGO)

⁴⁾ Real GDP per employed person

⁵⁾ Real GDP per hour worked

Table no. 1 d – Sectorial balances

% of GDP	CODE ESA	2017	2018	2019	2020	2021
1. Net balance, compared to the rest of the world	B9	-2.2	-1.4	-0.9	-0.3	-0.1
Of which:						
- goods and services balance		-2.1	-2.0	-1.9	-1.7	-1.6
- primary and secondary income balances		-1.2	-1.1	-0.9	-0.9	-0.8
- capital account		1.2	1.8	2.0	2.3	2.3
2. Net balance of the private sector	B.9	0.7	1.6	1.5	1.5	1.4
3. Net balance of the governmental sector	EDP B.9	-2.9	-3.0	-2.4	-1.8	-1.5
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table no. 2 a– Consolidated budget projection

	CODE ESA	2017	2017	2018	2019	2020	2021
		LEVEL RON MILLION	% of GDP				
Net balance (EDP B9), per sub-sectors							
1. Consolidated budget	S.13	-25,017.6	-2.9	-3.0	-2.4	-1.8	-1.5
2. Central administration	S.1311	-27,111.9	-3.2	-3.4	-2.7	-2.1	-1.7
3. State administration	S.1321	M	M	M	M	M	M
4. Local administration	S.1313	968.8	0.1	0.3	0.1	0.1	0.1
5. Social insurance funds	S.1314	1125.4	0.1	0.1	0.2	0.2	0.2
Consolidated budget (S13)							
6. Total collections	TR	261,450.0	30.5	31.3	31.5	31.8	32.0
7. Total expenditure	TE ¹⁾	286,467.6	33.4	34.3	33.9	33.6	33.4
8. Net balance	EDP B.9	-25,017.6	-2.9	-3.0	-2.4	-1.8	-1.5
9. Interests	EDP D.41	11,466.0	1.3	1.4	1.3	1.4	1.4
10. Primary balance ²⁾		-13,551.6	-1.6	-1.5	-1.0	-0.5	-0.1
11. One-off and other temporary measures ³⁾							
Selected income components							
12. Total taxes (12=12a+12b+12c)		140,277.9	16.3	15.7	15.3	15.5	15.5
12a. Taxes on production and import	D.2	88,291.1	10.3	10.8	10.3	10.4	10.3
12b. Current taxes on income, wealth etc.	D.5	51986.8	6.1	4.9	5.0	5.1	5.2
12c. Taxes on capital	D.91						
13. Social contributions	D.61	80,167.8	9.3	10.9	11.5	11.8	12.2
14. Property income	D.4	7,913.2	0.9	1.0	1.0	1.1	1.1
15. Alte ⁴⁾		33,091.1	3.9	3.8	3.7	3.4	3.2
16=6. Total income	TR	261,450.0	30.5	31.3	31.5	31.8	32.0
Selected expenditure components							
17. Employee remuneration + intermediate consumption	D.1+P.2	125,092.9	14.6	15.0	14.4	13.9	13.7
17a. Employee remuneration	D.1	83,316.8	9.7	10.3	9.9	9.7	9.4
17b. Intermediate consumption	P.2	41,776.1	4.9	4.7	4.5	4.2	4.2
18. Social contributions (18=18a+18b)		99,658.9	11.6	11.4	11.8	11.6	11.4
of which Unemployment aid ⁵⁾		646.0	0.1	0.1	0.1	0.1	0.1
18a. Social contributions in kind	D.6311, D.6312, D.63131	6820.1	0.8	0.8	0.8	0.8	0.8
18b. Social contributions, others	D62	92,838.8	10.8	10.6	11.0	10.8	10.6
19=9. Interests	EDP D.41	11,466.0	1.3	1.4	1.3	1.4	1.4
20. Subsidies	D.3	3,651.5	0.4	0.4	0.4	0.4	0.4
21. Gross fixed capital formation	P.51	24,090.7	2.8	2.9	3.0	3.5	4.0
22. Capita transfers	D.9	4055.4	0.5	0.7	0.8	0.8	0.7
23. Others ⁶⁾		18,452.2	2.1	2.4	2.1	2.0	2.0
24=7. Total expenditure	TE1	286,467.6	33.4	34.3	33.9	33.6	33.4

¹⁾ Adjusted with the net swap flow, namely TR-TE=EDP B9

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

³⁾ The plus sign means the reduction of deficit following *one-off* measures

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

⁵⁾ Includes benefits in cash (D.621 and D.624) and in kind (D.631) related to the unemployment benefits.

⁶⁾ D.29+D4 (different than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8

Table no. 2b – Projections in the situation of preservation of current policies¹

	2017	2017	2018	2019	2020	2021
	Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenues in case of preservation of current policies	261,450.0	30.5	31.3	31.5	31.8	32.0
2. Total expenditure in case of preservation of current policies	286,467.6	33.4	34.3	33.9	33.6	33.4

¹⁾ The projections must start at the time when the Stability or convergence program is elaborated and shows the trend of income and expenditure, assuming „no policy amendment” occurs. Therefore, the figures for X-1 shall correspond to the current data for income and expenditure.

Table no. 2c – Amounts which must be excluded from the reference value of expenditure

	2017	2017	2018	2019	2020	2021
	Level (RON thousand d)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure from EU programs entirely funded from EU funds	4,906.4	0.6	1.1	1.2	1.3	1.0
1.a. of which expenditure such as investments funded from EU funds	4,625.8	0.5	0.8	0.9	0.9	0.8
2. Cyclical expenditure for unemployment aid ¹	-58.5	-0.0068	-0.0022	-0.0008	0.0002	-0.0003
3. Effect of discretionary measures regarding income ²	-2,200	-0.26	0.99	-0.1	0.0	0.0
4. Increase of income imposed by law	0.0	0.0	0.0	0.0	0.0	0.0

¹⁾ The methodology used to obtain the cyclical component of the expenditure that correspond to unemployment aid, as it is defined by COFOG under code 10.5

$$E_t^{UC} = E_t^U \cdot \frac{u_t - NAWRU_t}{u_t}$$

The following formula was used:

E_t^U represents unemployment expenditure and E_t^{UC} represents the cyclical component of unemployment aid expenditure.

²⁾ The increase of revenues imposed by law must not be included in the effect of the discretionary measures related to revenues: the data reported on rows 3 and 4 must be mutually excluded.

Table no. 3– Public administration expenditure, by function (% of GDP)

	CODE COFOG	2016	2020
1. General public services	1	4,4	n.a
2. Defense	2	0,9	n.a
3. Public order and safety	3	2,0	n.a
4. Economic relations	4	4,5	n.a
5. Environmental protection	5	0,6	n.a
6. Residential and community services	6	1,2	n.a
7. Health	7	4,0	n.a
8. Recreation, culture and religion	8	0,9	n.a
9. Education	9	3,7	n.a
10. Social protection	10	12,3	n.a
11. Total expenditure (=item 7=24 in Table 2a)	TE	34,6	33.6

*) data for 2017 are semi-final

Table no. 4 – Governmental debt evolution

% OF GDP	ESA CODE	2017	2018	2019	2020	2021
1. Gross governmental debt ¹⁾		35.0	35.4	35.8	35.4	34.5
2. Government debt change		-2.4	0.4	0.4	-0.4	-0.9
Contribution to the gross debt change						
3. Primary balance ²⁾		-1.6	-1.5	-1.0	-0.5	-0.1
4. Interest ³⁾	EDP D.41	1.3	1.4	1.3	1.4	1.4
5. Stock-flow adjustments		-5.3	-2.5	-1.9	-2.3	-2.4
<i>Of which:</i>						
- Differences between paid interest and accrual ⁴⁾		-0.1	-0.1	-0.1	-0.1	-0.1
- Net accumulation of financial assets ⁵⁾		-0.7	0	0	0	0
<i>of which:</i>						
- from privatization		0	0	0	0	0
- Evaluation effects and others ⁶⁾		-4.5	-2.4	-1.8	-2.2	-2.3
p.m. Implicit interest rate over debt ⁷⁾		4.0	4.4	4.1	4.1	4.1
Other relevant variables						
6. Liquid financial assets ⁸⁾	% of GDP	8.9	8.2	7.6	7.1	6.6
7. Net financial debt (7=1-6)	% of GDP	26.1	27.2	28.2	28.3	27.9
8. Amortization of the debt (existing obligations) as of the end of the previous year ⁹⁾	% of GDP	4.9	4.6	4.2	3.0	2.2
9. Percent of the debt denominated in foreign currency	% of debt	52.0	49.0	45.3	43.7	40.8
10. Average maturity ¹⁰⁾	years	6.2	6.5	-	-	-

¹⁾ Defined in accordance with Regulation 3605/93 (not an ESA concept)

²⁾ According to position 10 in table 2a

³⁾ According to position 9 in table 2a

⁴⁾ The differences regarding interest expenditure, other expenditure and income can be distinguished when they are relevant or if the debt ratio in GDP is over the reference value

⁵⁾ Liquid assets (foreign currency), government securities, assets in third countries, enterprises controlled by the State and the difference between quoted and non-quoted assets can be distinguished when they are relevant or if the debt ratio in GDP is over the reference value

⁶⁾ Changes due to the variation of exchange rates and to operation on the secondary market can be distinguished when they are relevant or if the debt ratio in GDP is over the reference value

⁷⁾ The associated proxy variable is represented by the ratio between the annual interest payments and the debt balance of the previous year

⁸⁾ AF1, AF2, AF3 (consolidated at market value), AF5 (if listed on the exchange; including the shares of mutual funds).

⁹⁾ Indicator calculated on the basis of the debt balance on December 31, 2017

¹⁰⁾ Average remaining maturity .

Table no. 5 – Cyclical evolutions

% OF GDP	ESA CODE	2017	2018	2019	2020	2021
1. Real GDP growth (%)		6.9	6.1	5.7	5.7	5.0
2. Net consolidated balance	EDP B.9	-2.9	-3.0	-2.4	-1.8	-1.5
3. Interest expenditure	EDP D.41	1.3	1.4	1.3	1.4	1.4
4. Temporary and <i>one-off</i> measures ¹⁾		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		4.7	5.2	5.4	5.3	4.9
Contributions:						
- labor		0.5	0.9	0.8	0.5	0.0
- capital		0.9	1.1	1.3	1.5	1.7
- total factor productivity		3.2	3.2	3.2	3.2	3.1
6. Output gap		0.1	0.9	1.2	1.6	1.7
7. Cyclical component		0.0	0.3	0.4	0.5	0.6
8. Cyclically adjusted balance (2-7)		-2.9	-3.3	-2.8	-2.4	-2.0
9. Cyclically adjusted primary balance (8+3)		-1.6	-1.9	-1.5	-1.0	-0.6
10. Structural balance (8-4)		-2.9	-3.3	-2.8	-2.4	-2.0

¹⁾ A plus sign means *one-off* measures of budgetary deficit reduction

Table no. 6 - Differences compared to the previous version

	ESA CODE	2017	2018	2019	2020	2021
GDP growth (%)						
Previous version		5.2	5.5	5.7	5.7	
Updated version		6.9	6.1	5.7	5.7	5.0
Difference		1.7	0.6	0	0	
Budgetary balance (% of GDP)						
Previous version	EDP B,9	-2.9	-2.9	-2.5	-2.0	
Updated version	EDP B,9	-2.9	-3.0	-2.4	-1.8	-1.5
Difference		0	-0.1	0.1	0.2	
Gross governmental debt (% of GDP)						
Previous version		38.0	38.3	38.1	37.6	
Updated version		35.0	35.4	35.8	35.4	34.5
Difference		-3.0	-2.9	-2.3	-2.2	

% OF GDP	2007	2010	2020	2030	2040	2050	2060	2070
Total expenditure								
Of which: Age-related expenditure	13.2	17.0	14.3	14.1	15.8	17.1	17.5	17.3
- Pension expenditure	6.3	9.2	7.3	6.6	7.7	8.7	8.9	8.7
- Social insurance expenditure								
Old-age and anticipated pensions	5.1	7.6	6.3	5.5	6.5	7.5	7.7	7.5
Other pensions (disability, survivor)	1.2	1.6	1.0	1.1	1.2	1.2	1.2	1.2
Occupational pensions (if under the central administration)								
- Healthcare	3.5	3.7	4.4	4.8	5.1	5.3	5.3	5.2
- Long-term care (previously included under "health care")	0.5	0.6	0.3	0.4	0.5	0.5	0.6	0.6
- Education expenditure	4.2	3.5	2.3	2.3	2.5	2.6	2.7	2.8
Other age related expenditure								
Interest expenditure								
Total income								
Of which income from properties								
Of which: from pension contributions (or social contributions, as applicable)	5.9	6.1	5.8	5.4	5.2	5.3	5.5	5.9
Assets of pension funds and reserves								
Of which consolidated assets of the public pension funds (other assets than the liabilities of the central administration)								
Systemic pension reforms¹⁾								
Social contributions directed towards the mandatory private pension system ²⁾	0	0.4	1.5	1.9	2.3	2.5	2.6	2.9
Pension expenditures of the mandatory private pension system ³⁾	0	0	0.1	0.2	0.5	0.8	1.0	1.1
Assumptions								
Labour productivity growth rate (per hour)	2.7	0.7	3.6	3.9	2.7	2.2	1.9	1.7
Real GDP growth	6.8	3.8	3.6	2.7	1.4	1.2	1.4	1.3
Participation rate men (20-64 years)	77.6	78.1	81.4	82.0	80.7	81.0	82.1	82.2
Participation rate women (20-64 years)	59.8	59.9	60.7	60.4	58.0	58.0	59.3	59.3
Total participation rate (20-64 years)	68.7	69.0	71.2	71.4	69.5	69.7	70.8	70.8
Unemployment rate - BIM	6.8	6.8	5.1	5.6	5.9	5.8	5.8	5.9
Population aged 65 year and over, within total population	14.7	15.9	18.7	21.2	24.6	28.9	30.8	29.8

Table no. 7 - Long-term sustainability of public finances

The average rhythms refer to the period between the mentioned years. For the prognosis periods, the rhythms are calculated based on the potential GDP estimated within the exercise of the assessment of the sustainability of public finances 2018.

¹⁾ Systemic pension reforms refer to the pension reforms which introduce a multi-pillar system, which includes a mandatory pillar with total own fund; in 2017, 1.0% of GDP was directed towards pension Pillar II.

²⁾ Social contributions or other income obtained by the mandatory pillar with total own fund, for coverage of pension related liabilities, incurred in accordance with the systemic reform

³⁾ Pension expenditures or other social benefits paid by the mandatory pillar with total own fund, regarding the pension related liabilities, incurred in accordance with the systemic reform

Table no. 7 a- Potential obligations

	% of the GDP	
	2017	2018
Public guarantees*)	2.2%	2.4%
<i>Of which: related to the financial sector</i>	0.0%	0.0%

*) associated to the public administration sector, with the elimination of guarantees granted between entities of

the public administration sector