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IMF Completes Fourth Review Under Stand-By Arrangement for Romania

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Romania's economic performance under a program supported by a 24-month Stand-By Arrangement (SBA). The authorities have indicated that they will continue to treat the arrangement as precautionary and therefore do not intend to draw under it. Completion of the review makes an additional amount equivalent to SDR 430 million (about €500 million, or about US$662 million) available for disbursement, bringing the total resources that are currently available to Romania under the SBA to SDR 1.78 billion (about €2 billion, or about US$2.74 billion).

The SBA was approved on March 25, 2011 (see Press Release No 11/101) in the amount of SDR 3,090.6.1 million (about €3.6 billion, or about US$4.77 billion) and came into effect on March 31, 2011.

Following the Executive Board's discussion on Romania, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, said:

"Romania continues to make good progress under the precautionary Fund-supported program. Policy implementation has remained strong and all program targets were met. After two years of decline, economic growth has resumed and inflation has fallen to historical lows. However, the economic outlook for this year is being weighed down by the declining growth prospects in the euro area. Continued commitment to the economic reform agenda is crucial to help withstand current uncertainties and increase potential growth.

"The authorities remain firmly committed to their 2012 budget deficit target of well below 3 percent of GDP. Continued strict spending discipline is needed to achieve the target. Increased European Union funds absorption and improved capital spending are key priorities. Additional action is required to reform the health care sector and to improve weak tax administration. Structural reforms of State-Owned Enterprises have progressed, but faster implementation of restructuring efforts and enhanced regulation and market-oriented pricing in the energy and transport sectors will be essential to reduce arrears, improve economic efficiency, and boost growth.

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"While risks in the banking system remain significant due to high non performing loans and potential financial spillovers from elsewhere in Europe, sizable capital buffers exist to cushion the impact of any adverse shocks. Continued supervisory vigilance and detailed operational procedures to quickly implement contingency plans remain essential. External financing conditions have eased, although banks' external borrowing remains skewed to the short-term. Inflation continues to decline, but the authorities should be cautious in further monetary easing in light of risks of weakening of the currency and possible capital outflows."

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