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Directorate D: Government Finance Statistics (GFS) and quality
Unit D-2: Excessive deficit procedure (EDP) 1

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FINAL FINDINGS

EDP dialogue visit to Romania

19-20 June 2013

Executive summary

Eurostat undertook an EDP dialogue visit to Romania on 19-20 June 2013.

This EDP dialogue visit was carried out in order to review the implementation of ESA95 methodology and to ensure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are correctly implemented in the Romanian EDP and Government Finance Statistics data. The main aims of the dialogue visit were: (1) to discuss institutional issues, data sources and revision policy, (2) to follow-up the previous EDP visits and the EDP notifications, (3) to discuss the delimitation of general government (4) to review the implementation of accrual principle, notably the recording of taxes (5) to review the recording of specific government transactions and (6) to discuss some current issues as Rompetrol and the Creation of a Restitution Fund.

Eurostat discussed with the Romanian statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the improvements undertaken since the last EDP dialogue visits, which took place on 11-13 July 2011 and on the 26-27 of September 2011. As far as the split of responsibilities is concerned, there have been no changes compared to the previous EDP visits: the NSI remained the main responsible for the EDP notification and for the compilation of non-financial accounts, while the Ministry of Finance (MoF) compiles EDP tables 2 and the National Bank compiles financial accounts and tables 3 EDP with some input related to the public debt from the MoF. The existence of formal agreements between the institutions involved in the compilation of EDP statistics was also discussed. It was indicated that the Protocol for co-operation between the Ministry of Public Finance (MoF), the NSI, the National Bank of Romania (NBR) and the National Commission of Prognosis (NPC) will be up-dated during the next months in order to include all new developments in terms of data sources, procedures and exchange of information between the four institutions involved¹. The Romanian statistical authorities pointed out that a new Convention with the Court of Audit should be also signed soon. This Convention is meant to strengthen the co-operation between the Court of Audit and the Statistical Authorities and to increase the reliability of data at central and local level².

Regarding the completion of the new EDP Inventory of the methods, procedures and sources used to compile actual deficit and debt, Eurostat considered the state of play of the current version and agreed with the Romanian statistical authorities on an indicative planning.

The status of implementation of the action points agreed during the EDP dialogue visits of 11-13 July 2011 and 26-27 of September 2011 was also discussed. During the July 2011 EDP visit, 38 actions points were concluded with the Romanian statistical authorities. Other 14 operational conclusions were agreed with the Romanian statistical authorities during the September 2011 ad-hoc EDP visit. The vast majority of the actions points as well as of the operational conclusions have been entirely implemented by the Romanian statistical authorities. The Romanian statistical authorities confirmed during the visit that the action points with continuous character are being monitored.

¹ The final version of the protocol was sent by the NSI to all the other institutions and should be signed in January 2014.

² The convention was already signed.

Eurostat made an overview of the April 2013 EDP reporting. Eurostat received the EDP tables and the EDP questionnaire for the April 2013 Notification as well as all the required additional documentation on time. During the meeting, Eurostat reopened the discussion on some issues raised during the notification period and clarified some outstanding questions related to the B9 of other central government bodies; other accounts receivable/payable; trade credits; EU financial corrections; EU advance payments and statistical discrepancies.

As far as the sector delimitation is concerned, Eurostat discussed extensively with the Romanian statistical authorities several concerns on the practical implementation of the market/non-market test, as well as on the assessment of qualitative criteria in the classification of units. The exhaustiveness of the questionnaire on government controlled entities classified outside general government, as well as the progress made with regard to the significant number of public companies which are not submitting accounting statements, were also reviewed with the Romanian statistical authorities.

Eurostat discussed the implementation of the accrual recording of taxes and, in particular, the time lag used for recording the tax refunds. The detailed discussion on taxes was mainly generated by the changes introduced by the Romanian statistical authorities with regard to the time lag used for the corporate profit tax which was extended from one to three months due to the fact that the amounts collected in February and March referred to the previous year. Therefore, Eurostat verified whether the time lag used for other taxes is appropriate and corresponds to the economic reality. In the context of tax issues, the financial impact of Directive 2010/45/EU on the state budget revenues was also discussed.

As regards the recording of specific government transactions, Eurostat examined with the Romanian statistical authorities the recording of capital injections into public corporations, the recording of guarantees, as well as debt assumptions, debt cancellations and debt write-offs. A special attention was given to the recording of dividend payments of public companies to the state budget and to the superdividend-test. Regarding government claims, Eurostat analysed together with the Romanian statistical authorities the nature of the foreign claims as well as whether the loans granted by government to state companies in the period 1995-1997 are still recoverable. In the context of PPPs projects, the Romanian statistical authorities confirmed that, for the moment, there are no PPPs projects either at central or at local level. Nevertheless, there are three planned infrastructure projects which will be further discussed with Eurostat when sufficient information is available. The general recording of court decision, as well as current cases of court decisions with impact on EDP data, were revised with the Romanian statistical authorities.

Other on-going cases with possible impact on deficit and debt figures were also examined with the Romanian statistical authorities, notably the recording in government accounts of the sale of Rompetrol bonds, the creation of a restitution Fund, as well as the implementation of ESA 2010.

Eurostat welcomed the constructive discussions which took place during the EDP visit, as well as the extensive explanations provided by the Romanian statistical authorities. Eurostat also appreciated the cooperation demonstrated and the detailed documentation provided prior to the dialogue visit.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Romania on 19-20 June 2013.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit of Unit Excessive deficit procedure (EDP) 1. Eurostat was also represented by Mr Luca Ascoli, Ms Camelia Jüttner and Mr Colin Stewart. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Romanian Statistical Authorities were represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bank of Romania (NBR).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are correctly implemented in the Romanian EDP and Government Finance Statistics (GFS) data.

The main aims of the dialogue visit were: (1) to discuss institutional issues, data sources and revision policy, (2) to follow-up the previous EDP visits and the EDP notifications, (3) to discuss the delimitation of general government, (4) to review the implementation of the accrual principle, notably the recording of taxes and to review the recording of specific government transactions.

Eurostat appreciates the amount and quality of the information provided by the Romanian statistical authorities prior to the mission and considers that the discussions were transparent and constructive.

1. Statistical capacity issues

1.1 Institutional responsibilities in the framework of the compilation and reporting of EDP and government finance statistics

The National Statistical Institute (NSI) is responsible for the EDP notification in Romania.

As far as the split of responsibilities for GFS compilation is concerned, there have been no changes compared to the previous EDP visits: the NSI is responsible for the compilation of non-financial accounts, while the Ministry of Finance (MoF) compiles EDP tables 2 and the National Bank compiles financial accounts and EDP tables 3 with some input related to the public debt from the MoF. It was claimed that there are no discrepancies between EDP tables and national accounts since, when a problem occurs, it is immediately jointly discussed between the responsible actors and solved. Prior to the EDP visit, the Romanian statistical authorities informed Eurostat that they were on the way to up-date the protocol for the co-operation among the Ministry of Public Finance (MoF), the NSI, the National Bank of Romania (NBR) and the National Commission of Prognosis (NPC), regarding the development of the National System for Government Finance Statistics, in accordance with the requirements of the revised Council Regulation (EC) No 479/2009 and in order to include

all new developments in terms of data sources, procedures and exchange of information between the four institutions involved. During the EDP visit, the Romanian statistical authorities explained that the institutions would also discuss the new responsibilities and tasks generated by the future implementation of ESA 2010 as well as the implementation of an IT system providing direct access for the NSI and the NBR to the data sources of the Ministry of Finance. Eurostat asked when this up-dated version of the protocol would be completed and sent to Eurostat. The Romanian statistical authorities expected to have it finalised at the end of July or August 2013. It was also confirmed that a Convention with the Court of Audit should also be signed in September. This Convention is meant to strengthen the co-operation between the Court of Audit and the Statistical Authorities and to increase the reliability of data at central and local level.

While discussing institutional arrangements, Eurostat expressed some concerns about the insufficient amount of human resources employed by the NSI for the compilation of annual and quarterly non-financial accounts for general government, for the EDP notifications and for the monitoring of relevant methodological issues. The Romanian statistical authorities explained that they increased the team with two persons who should be trained in order to be fully operational. Another increase in human resources is not foreseen in the near future. The Romanian statistical authorities also pointed out that it was very difficult to find qualified people for such a specialised domain and that for new recruits extensive training is needed. The envisaged solution to receive temporary experts from other compiling institution such as the National Bank is in practice difficult to implement, due to the fact that the people working there are not specialised in non-financial accounts. Nevertheless, the Romanian statistical authorities mentioned that the lack of resources could be partly compensated by IT developments.

In addition to the institutional arrangements, a brief overview on progress regarding upstream issues was made. However, as an Upstream Dialogue Visit was foreseen for August 2013, it was decided that any detailed discussions should be undertaken at that time.

Findings and conclusions

Action point 1:

Eurostat took note of the current arrangements and institutional responsibilities for the compilation of EDP tables and welcomed the forthcoming revision of the Memorandum of Understanding (Protocol) of the institutions involved in EDP reporting³.

³ The action point dealt with as a specific action point in the UDV report (see action point 2).

Action point 2:

A number of upstream-related issues, emanating from the Upstream Dialogue Visit (UDV) that had taken place in 2011, were briefly reviewed, including issues relating to the foreseen IT system for GFS and cooperation between the NSI and the Supreme Audit Institution (SAI). It was agreed however, that these issues, along with others, would be taken up in detail during the follow-up UDV which was foreseen to take place later in the year. *Deadline: UDV to take place in 28-30 August 2013*⁴.

1.2 Data sources and revision policy

- **EDP inventory**
- **Revision policy in the EDP context**

EDP inventory

Background

Council Regulation (EC) No 479/2009 as amended specifies in Article 9 that “Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and underlying government accounts”.

A new EDP Inventory format was approved by the CMFB in June 2012. The new Inventory is composed of the main document and several annexes⁵ containing different information (list of general government units by subsector and NACE codes, bridge table between public accounts items and ESA95 codes and different questionnaires). The Inventories are to be published by the end of 2013.

The NSI sent a first draft of the Inventory at the end of March 2013. At the end of May, a first assessment including Eurostat’s comments on the draft were sent to the Romanian National Institute.

Discussions

During the mission, Eurostat mentioned that, as communicated in the comments provided to the first draft of the Inventory, the inventory was not exhaustive enough. There were missing parts, or parts insufficiently answered. Eurostat also said that there were sometimes contradictions in the information provided.

The Romanian statistical authorities acknowledged that due to lack of time, some parts of the inventory were incomplete. It was also explained that the inventory was compiled by different persons from different institutions, therefore the quality and the style of the document varied from part to part. Nevertheless, it was agreed with the Romanian statistical authorities that they would take into account the comments provided by Eurostat and improve the current version.

⁴ UDV took place as foreseen on 28-30 August and a separate report with recommendations and action points is to be published on the Eurostat GFS website.

⁵ The annexes will be used only for internal needs and will not be published, except the list of general government units by subsector and NACE codes, which will be published at the same time as the EDP Inventory.

The indicative planning was discussed and it was agreed that an improved version should be sent in September 2013, in order to have sufficient time to improve the draft if necessary until Mid-December, when the Inventories of all Member States should be published on Eurostat's website⁶.

Eurostat also mentioned that if important changes in the data sources, methods and/or procedures used for GFS compilation occur, Eurostat should be informed in due time and the EDP Inventory should be updated accordingly.

Findings and conclusions

Action point 3:

The Romanian statistical authorities will update and publish the list of government controlled entities together with the new EDP Inventory. Eurostat also asked the statistical authorities to include all individual units in the questionnaire and not group of units, as currently it is partially the case. *Deadline: November 2013*⁷.

Revision policy in the EDP context

Background

Prior to the June mission, the Romanian statistical authorities provided to Eurostat a description on the implementation of the revision policy used for annual GFS data. According to this information, in the context of March EDP notifications, only the data on public institutions are final. For public companies classified in central government subsector, data are half-finalised, and, for the units classified in the local government subsector, data are provisional (estimated). The financial statements are collected by the Ministry of Finance at the end of May. After the final financial statements are processed and validated, the information is transmitted to the NSI. Due to the differences between half-finalised and estimated figures provided in March, and the final figures provided in the context of the October EDP notifications, revisions for annual non-financial government accounts are common. Nevertheless, revisions between the October and April notifications are rather exceptional.

Other reasons for revisions of deficit and debt figures are updated data sources, reclassification issues, elimination of errors, court decisions and methodological changes.

Discussion and methodological analysis

In 2012, in order to improve the data quality between notifications, the Ministry of Finance issued a government ordinance in order to oblige the companies classified inside central government to send a set of data before the April Notification. During the discussions in the meeting, Eurostat welcomed the ordinance, pointing also out that, from the figures provided during the last notifications, it seemed that there were still significant revisions between the April and October figures related to B9 of some companies included in S1311 despite the implementation of the new ordinance. The Romanian statistical authorities explained that the differences are mainly due to the fact that data reported by companies for the April

⁶ The inventory was sent to Eurostat and since Mid-December is published on Eurostat's website.

⁷ Action point completed.

Notification were based on the checking balance sheet, elaborated by each company until the 25th January 2012. This checking balance sheet is still a provisional one. Differences between the versions are also resulting from the fact that some transactions are recorded at a later stage in business accounting, as for example transfers of assets for free from the company to the state, or finished investments not approved by the technical departments not registered in the business accounting until their final approval.

The Romanian statistical authorities also claimed that the financial statements are audited between January and May each year by independent auditors or/and by the Court of Audit, therefore final recommendations are included in the audited balance sheets.

Nevertheless, despite these inevitable changes in figures between the April and October Notifications, the Romanian statistical authorities appreciated that the quality of data increased significantly due to the government ordinance. The compulsory annexes completed by companies in the framework of this ordinance, in addition to the figures from P&L account, provide very useful information on subsidies, disposal of assets, arrears, etc. Due to the positive results, the Romanian statistical authorities stated that they would like to extend the requirements of the same ordinance also to local companies, which were not covered by the MoF Order, in order to improve the quality of estimates at local government level as well.

Eurostat also asked some additional questions on the revision policy regarding the correction of errors. As a general rule, once an error is detected, it is corrected as soon as possible.

2. Follow-up of the previous EDP dialogue visit

Background

The previous EDP dialogue visits to Romania took place on 11-13 July 2011 and 26-27 September 2011. During the July 2011 EDP visit, 38 actions points were agreed with the Romanian statistical authorities. Other 14 operational conclusions were agreed with the Romanian statistical authorities during the September 2011 ad-hoc EDP visit.

The vast majority of the actions points, as well as of the operational conclusions, have been entirely implemented by the Romanian statistical authorities. Nevertheless, during the June 2013 EDP visit, Eurostat checked together with the Romanian statistical authorities whether the action points to be continuously implemented are still being monitored.

In this context, Eurostat questioned whether the Romanian statistical authorities were continuing to take into account the consumption of fix capital for the calculation of the 50% test for some specific units which were considered as economic owners of non-financial assets, without having nevertheless these assets on their balance sheet⁸. The Romanian statistical authorities claimed that they had not applied this rule for the 50% test performed in 2012 and previous years, but that they would implement it when performing the 50% test in the future. The Romanian statistical authorities recalled also that as the main companies which were in this situation were already included in the general government sector; therefore the possible impact on the sector classification should be negligible.

⁸ We are referring here to action point 5 from the 2011 July SDV visit as follows: “Regarding the units which are considered as economic owners of non-financial assets which are registered in the balance sheet of the state budget (and not in the balance sheet of the company), the NSI will complete the 50% test (including CFC) for 2010 for all companies. For Transelectrica, Romsilva, Patrimoniului de Stat and Aeroporturi Bucuresti the test will be performed for the whole reporting period. The results will be sent to Eurostat”.

Eurostat asked also for confirmation regarding the implementation of action point 7⁹ of the 2011 July SDV visit, which required the use of market prices for the calculation of consumption of fixed capital. The Romanian statistical authorities confirmed that they were actually using market prices.

The implementation of action point 8 on the compilation of non-financial and financial accounts separately for the state budget, local budget, central as well as local public institutions partially or totally financed from own revenues and for each social security fund was extensively discussed, and is presented under part 3.1.6. “Statistical discrepancy”.

Eurostat reopened the discussion on the possible accumulation of payables on subsidies¹⁰. The Romanian statistical authorities reconfirmed that in the Romanian public accounts the subsidies, regardless whether on production or on products, are both classified as current transfers, and recorded on a cash basis. Therefore, it is not possible for companies to record these amounts as revenue in their business accounts until the money is transferred from the state budget to their accounts.

In this context, the Romanian statistical authorities also confirmed the fact that by law, it is not possible to record subsidies which are not paid. If the amount of subsidies exceeds the amounts planned by government, a budgetary rectification takes place, and a new budget is voted in Parliament.

Regarding the implementation of action point 24¹¹ and the progress made to ensure consistency in non-financial and financial intra-governmental flows, the Romanian statistical authorities reported that efforts were made to improve the recording of receivables/payables relating to the transfer of EU flows from the central to the local level, as well as on the recording of consistent data by the Health Insurance House and Hospitals.

3. Analysis of the EDP tables: follow-up of the April 2013 reporting

3.1 Overview of the April 2013 EDP reporting

Background

Eurostat received the EDP tables and the EDP questionnaire for the April 2013 Notification on time. Three requests for clarification followed the April 2013 EDP notification. The main issues discussed with the Romanian statistical authorities were:

- Net borrowing/net lending of other central government bodies
- Other accounts receivable/payable
- Trade credits

⁹ “Eurostat invited the NSI to use market prices of the assets instead of the currently used 2003 prices, for calculation of consumption of fixed capital”.

¹⁰ We are referring here to action point 22 from the 2011 July visit as follows: “The Romanian statistical authorities will provide to Eurostat a note explaining rules on time of recording of payables on subsidies, their reporting in the balance sheet and will investigate whether there might be/have been cases of cumulating of payables on subsidies due to unavailability of funds in the state budget and/or in the main local government units”.

¹¹ Action point 24: “The Romanian statistical authorities will provide a note on future measures and steps which will be taken in order to ensure consistency in non-financial and financial intra-governmental flows, including receivables/payables relating to the transfer of EU grants passing via the state budget to the local budget (and are to be reflected in financial accounts and EDP T3).”

- EU financial corrections
- EU advance payments
- Statistical discrepancy

3.1.1. Net borrowing/net lending of other central government bodies

Eurostat noticed during the April 2013 Notification a significant difference between the B9 of the company CFR Infrastructura, classified in the general government sector, and its financial results recorded in the P&L account. In the P&L account the company recorded losses of 703 million, nevertheless the B9 of the company was positive, with 182 million. In this context, Eurostat analysed during the notification period the reasons for these differences and the reconciliation between the P&L account figures and the compilation of net borrowing/net lending of the company. In order to have a better overview on how exactly the figures were reconciled, the NSI sent a table where each item from the P&L account was translated into B9 items. The reconciliation table referred to the figures of CFR Infrastructura for the year 2011.

Due to the complexity of this exercise, it was agreed with the Romanian statistical authorities to further discuss the process of reconciliation during the June EDP 2013 mission.

Discussion and methodological analysis

It was noticed during the discussions that, for the calculation of B9, additional information to the P&L account was needed, notably from annexes 2 and 3. These annexes are provided by the companies together with the P&L account figures. Annex 2 provides information on inventories and subsidies for investment. Annex 3 includes an overview on the situation of the fixed assets of the company (intangible and tangible assets), as well as whether advance payments were done for the acquisition of assets, or whether assets were acquired, sold, transferred or revaluated. In this context, it was concluded that annex 2, in particular, was extremely important for the calculation of B9 because it offers an exact picture on the total amount of subsidies received by companies from the state budget as well as from external loans, grants or other sources. Not all these subsidies are recorded in the P&L account.

Eurostat noticed that, in principle, the reconciliation table was correct, and the significant differences between the B9 and the P&L account figures were mainly due to the fact that subsidies for investment (D92) were not recorded in the P&L account. For some companies, these grants represent the main source of revenue and the reason for a positive B9.

It was also agreed with the Romanian statistical authorities that the reconciliation table provided as regards CFR Infrastructura would be updated in order to be used in the future as a generic reconciliation table between the Profit and Loss account and the calculation of B9 for all the companies.

In order to monitor the B9 and P&L account figures for major companies, Eurostat recommended to the Romanian statistical authorities to provide on a systematic basis a table showing the profit or the losses of a company as well as its B9. This will constitute a good source to better observe potential big discrepancies and eventually, in case of significant differences, to recheck the figures.

In order to have a better overview of the amounts of subsidies received by companies and the other figures relevant for the compilation of B9, Eurostat asked to receive the annexes 2 and 3 for the major companies.

Findings and conclusions

Action point 4:

The Romanian Statistical Authorities will send to Eurostat detailed information on the different items included in the reconciliation table between the Profit and Loss accounts and the calculation of B9 of CFR Infrastructura. *Deadline: End of August 2013*¹²

Action point 5:

The Romanian Statistical Authorities will provide to Eurostat a table showing the profit or the loss from operating activity, from the Profit and Loss account, and the B9 used for EDP purposes for the major companies classified into general government for the period 2009-2012. The same information will be sent to Eurostat in the context of each April EDP notification, starting from 2014. *Deadline: End of August 2013*¹³

Action point 6:

The Romanian Statistical Authorities will provide to Eurostat annex 2 and 3 used for the calculation of B9, for the major public corporations classified inside general government. *Deadline: End of August 2013*¹⁴

3.1.2. Other accounts receivable/payable

Eurostat noticed, during the April 2013 notification, a decrease in payables (F71) due to purchase of goods and services by public corporations of 1 030 million for the year 2012. During the Notification, Eurostat required further information on this decrease. The Romanian statistical authorities provided a detailed table showing the decrease in payables by individual companies. The main reason for the global decrease in payables concerned CFR Infrastructura.

During the mission, Eurostat further investigated the significant decrease in payables by CFR Infrastructura. The Romanian statistical authorities explained that the decrease in payables was due to the payment of energy bills towards private energy suppliers, as well as to the cancellation of payables, related to fines and penalties due to accumulation of unpaid bills by CFR Infrastructura towards private energy suppliers. It was confirmed by the Romanian statistical authorities that the cancellation of payables due to fines and penalties had been recorded as revenue in the accounts of CFR Infrastructura, as a positive capital transfer in the company's account coming from private energy suppliers.

During the discussions, Eurostat pointed out that, according to the information available, this cancellation of payables does not have the nature of a mutual agreement, but was, rather a unilateral action taken by government. Therefore, the transaction should be recorded as a revaluation rather than as a capital transfer D99.

¹² Action point implemented.

¹³ The first part of the action point was implemented. Eurostat will further monitor the regular transmission of the table in the context of April notifications.

¹⁴ Action point implemented.

Eurostat further added that similar cases of debt cancellations were recorded also in other Member States in the past. In this context, Eurostat proposed to analyse the case taking into account the recording of comparable transactions in other Member States in order to insure a homogenous treatment among countries.

Regarding the accumulation of payables, Eurostat claimed during the discussions that, in a recent report of the Fiscal Council¹⁵ for 2012, the cumulated arrears (payables) of public corporations owned by government were seen as a serious budgetary problem, notably due to the fact that the majority of payables were due to government or social security funds (taxes and social contributions). Eurostat underlined, that if the government provides funds to companies, for the repayment of their debt, this should be recorded as a non-financial transaction, as a capital transfer (D9), increasing government deficit for the amounts provided to companies classified outside the government sector, in accordance with the recording proposed in the ex-ante advice letter on the recording of restructuring schemes of public companies¹⁶.

In this context, Eurostat asked whether the Romanian statistical authorities were aware of possible restructuring schemes of public companies. The Romanian statistical authorities confirmed that such cases of repayment of debt existed also in 2013. It mainly refers to the repayment by government of the debt of two companies classified inside general government (CN Huilei and Termoelectrica) as well as to an increase of the capital of CFR Infrastructura. All these transactions were recorded as expenditure in the working balance.

Findings and conclusions

Action point 7:

Eurostat will analyse the case of the cancellation of payables, related to fines and penalties due to the accumulation of unpaid bills by CFR Infrastructura to private energy suppliers and inform the Romanian statistical authorities on how the operation should be recorded. In this context, the Romanian statistical authorities provided Eurostat with the related government ordinance, as issued by the Ministry of Transport. *Deadline: Eurostat reply: 12 July 2013*¹⁷.

3.1.3. Trade credits

The analysis of trade credits is gaining more and more importance by Eurostat. As a consequence, data on trade credits (AF.71L) in the EU Member States have already been published by Eurostat since October 2012 jointly with the EDP press release.

Due to the high amount of trade credits recorded in Romania (almost 3% of GDP), Eurostat required prior to the mission further additional information on the nature and structure of the trade credits. The breakdown provided by the Romanian statistical authorities showed a decreasing tendency in the accumulation of trade credits at central governmental level, and a significant increase of trade credits at social security level.

¹⁵ The Fiscal Council is an independent authority established by the Fiscal Responsibility Law in 2010, which aims to support the Government and the Parliament in designing and implementing the fiscal policy and to promote the transparency and sustainability of public finances.

¹⁶ The ex-ante advice letter was published in 2011 on Eurostat's website.

¹⁷ Action point completed.

Discussion and methodological analysis

During the EDP visit, Eurostat investigated whether the Romanian statistical authorities were applying Eurostat's decision on trade credits. The Romanian statistical authorities confirmed that the decision was implemented at the level of all government sub sectors. Nevertheless, the Romanian statistical authorities reported that there were no concrete cases of renegotiation of trade credits which might have acquired the nature of loans . However, for the moment, the decision of Eurostat was not implemented for public companies classified inside general government. Therefore, the Romanian statistical authorities agreed to further investigate whether such renegotiation cases were in place in the case of public companies classified inside general government.

Regarding the significant amount of trade credits recorded in S1314, Eurostat noticed that the stock of trade credits mainly referred to current transfers related to health care, covering the so-called arrears of the health care insurance towards hospitals and pharmacies. Nevertheless, the Romanian statistical authorities informed Eurostat that some measures were taken in order to find the necessary resources to reduce the arrears in the health sector, through a claw-back tax, by way of Government Emergency Ordinance No. 77/2011. The amounts collected from this tax were used only for medicine arrear payments. This measure will continue to be applied in 2013 together with Directive 7/2011, which has been implemented by Law 72/2012. For this purpose, an amount of 3,5 billion lei has been allocated for the payment of arrears. As a consequence, the Romanian statistical authorities informed Eurostat that they were expecting a decrease in the stock of trade credits in S 1314 in the near future.

Findings and conclusions

Action point 8:

The Romanian Statistical Authorities will inform Eurostat on the steps which will be taken in order to apply Eurostat's decision on trade credits, also to public companies classified inside general government. *Deadline: October 2013 EDP notification*¹⁸.

3.1.4. EU advance payments

During the April 2013 EDP notification, Eurostat noticed a significant amount recorded in EDP Table 2A under "other accounts receivable" as "payment from state budget on behalf of EU". Eurostat required further additional information on the newly introduced item and on the nature of these amounts. The Romanian statistical authorities explained that these amounts represent advance payments paid from the state budget on behalf of the EU, to final beneficiaries. These payments were made by the Romanian authorities in order to cover the delay in the EU reimbursement due to pre-suspension of some EU programmes and to ensure the necessary cash flow towards final beneficiaries. The legal basis for these kinds of advances is constituted by the Government Ordinance no.64/2009, art. 11, item c. and they are granted, through the management authorities, to both public and private beneficiaries. Nevertheless, the Romanian statistical authorities explained that these amounts were expected to be reimbursed by the EU, in accordance with the existing procedures, approximately in 2-3 months.

¹⁸ Action point implemented.

During the April 2013 EDP Notification, it was agreed that these advances could be treated as a financial transaction. Nevertheless, if the amounts are not fully reimbursed, financial corrections should be applied and the part not reimbursed treated as a non financial transaction.

In this context Eurostat required, prior to the visit, a detailed note on the reimbursement of advance payments by government on behalf of the EU to final beneficiaries in 2012, including a table with the amounts already reimbursed from the total amount of 834 million paid by government on behalf of the EU.

Discussion and methodological analysis

The Romanian statistical authorities provided information on the total amounts of grants received from the EU until 31 May 2013 for different programmes, without explicitly specifying how much had been already reimbursed by the EU. During the discussions, the Romanian statistical authorities confirmed that all the amounts related to advance payments had been reimbursed, except for the programme POS CCE. For this programme, the EU reimbursements were still suspended.

In this context, the Romanian statistical authorities explained the circuit of EU funding. The advance payments were granted by the Certifying Authorities to the Managing Authorities in order to pay the final beneficiaries. At the level of the Certifying Authorities, the information on the amounts transferred to each Managing Authority is very detailed and the Romanian statistical authorities stated that the Managing Authorities are closely monitoring the amounts granted to final beneficiaries.

The Romanian statistical authorities claimed that, for the moment, no financial correction was applied with regards to the advance payments made. In case of non-reimbursement or only partial reimbursement for the POS CCE programme, the amounts will be recorded as a non-financial transaction at the time of the decision.

3.1.5. EU financial corrections

The recording of EU financial corrections was extensively discussed with the Romanian statistical authorities during 2013¹⁹. Eurostat provided also an ex-ante advice letter²⁰ on the time of recording of these corrections in the government accounts. Prior to the visit, Eurostat required a detailed note on the recording of financial corrections in 2012, on the institutions involved in the calculation of the corrected amounts, as well as information on the impact of these corrections in the following years.

The EU corrections were not included in the working balance in 2012, but recorded in Table 2A under “Other adjustments” (763.9 million lei) as well as in Table 3B in the row “Other financial assets (F.1, F.6 and F.7)” (EU Funds corrections) as a reduction in “Other accounts receivables (F7) of government from the “Rest of the world “sector.

¹⁹ The European Commission sent in October 2012 a note to the Romanian Government on the fact that a financial correction between 10% and 25 % should be applied for several EU programs due to irregularities found in the management of EU projects.

²⁰ The advice letter is published on Eurostat website under:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/RO-Rec._of_fin.corr._rel._to_EU_funds.pdf

During the discussion, Eurostat asked for further details on the institutions involved in calculating the corrections. The amounts of the financial corrections were calculated based on government decisions and legal acts with the contribution of the Certifying Authorities, the Managing Authorities and Ministry of European Funds. Regarding the impact of the corrections in the next years, the Romanian statistical authorities confirmed that the future corrections will mainly impact 2013 and only marginally the following years and will be recorded at the moment when the amounts are known, respectively when the payments are done for those projects to which corrections are to be applied. The Romanian statistical authorities pointed out during the discussions that the amounts calculated as financial corrections had not been audited by internal or external auditors; therefore the revision of the amounts already calculated was still possible.

Eurostat reopened the discussion on the so called ‘preventive corrections’ already applied by the Romanian statistical authorities before the suspension of EU payments. The Romanian statistical authorities explained that both, the Certifying Authorities and the Managing Authorities, could signal possible problems in the implementation of the EU programmes. In such cases, a preventive correction is applied until the uncertainties are clarified and the final beneficiaries are not fully reimbursed until the situation is clarified.

3.1.6. Statistical discrepancy

In the context of the technical visit of June 2011, the Romanian statistical authorities compiled for the first time, separately, the B9 and the B.9f for individual companies. As a result of this compilation, a large discrepancy has been identified between the financial and non-financial accounts. The process of monitoring statistical discrepancies is very important, as it may indicate an error in the financial or in the non-financial accounts. Errors at individual level, as it is the case for companies classified inside general government, could lead to a possible incorrect compilation of the deficit and/or debt figures at general governmental level. Therefore, since the October 2011 EDP Notification, the Romanian statistical authorities have compiled the B.9 and B.9f separately for individual units and groups of units, and provided for each notification a table with the respective discrepancies.

In this context, Eurostat welcomed the useful documentation on discrepancies sent prior to each notification since October 2011. The tables including the B9 and B9f for the major public corporations included in general government (around 30 corporations) as well as for group of units as district heating units, airports and other 5 different divisions groups, allow a very good monitoring of the compilation of the financial and non-financial accounts. In case of big discrepancies, a case by case analysis can be undertaken. . During the visit, Eurostat raised the issue of the possibility for the Romanian statistical authorities to compile also the B9 and B9f for state budget, local budget, central and local public institutions partially or totally financed from own revenues and for each social security fund²¹. The Romanian statistical authorities claimed that this compilation would be very time consuming and, in

²¹ The discussion relates to action point 8 from the July 2011 EDP visit: “The NSI and the NBR will compile non-financial and financial accounts for each individual public “corporation” classified in the government sector. The compilation of accounts on an aggregated basis would be acceptable only for the group of district heating units and airports, as it was proposed by the NSI. The NSI and the NBR will also compile non-financial and financial accounts separately for the state budget, local budget, central as well as local public institutions partially or totally financed from own revenues and for each social security fund”. This action point was only partially completed. Further discussions with the Romanian statistical authorities took place. At the end, it was agreed that the implementation of the second part of the action point would be postponed.

addition, there are not enough data sources available, notably for the compilation of B9f. In the light of the information provided, Eurostat stated that it would be further reassessed whether a separate compilation for the above mentioned entities was indeed needed. Nevertheless, it was agreed that the tables for the other separate units would be provided by the Romanian statistical authorities in the framework of each EDP notification.

4. Methodological issues and recording of specific government transactions

4.1 Delimitation of general government

4.1.1 Application of market/non-market rule

Background

The sector delimitation was extensively discussed with the Romanian statistical authorities in the last years during the EDP visits as well as during the EDP notifications periods. In Romania, institutional units as railways, ports, metro, airports, public hospitals, public TV and radio, universities and districts units are all included in general governmental sector. Currently, there are 592 units classified in the central government sector, 9156 units in the local government sector and 11 units in the social security sector.

Changes in sector classification since the last EDP dialogue visit

Prior to the EDP June 2013 mission, Eurostat requested a detailed list of all units included in central government, local government and social security funds as well as a separate list with newly created units, new units reclassified in S13 or units removed from S13 since the last EDP visit in 2011.

From the documentation provided, it was concluded that, since the last EDP dialogue visits in 2011, there were no new units created at central or local level. Nevertheless, during the June 2013 visit, the Romanian statistical authorities claimed that there were in fact two newly created units since 2011, which are operating in the field of the restructuring of mine sector.

There were no new units reclassified into S13. Nevertheless, two units were removed from S13 in 2012; the National Property Fund, due to the fact that the government lost the control on the unit and the majority of shares and S.C Transport Maritim si de Coasta –CFR Ferry-Boat S.A, which merged with CFR Marfa, a unit classified in S11.

During the visit, the Romanian statistical authorities confirmed that the list with all the units classified inside general government is published on the NSI's website. Nevertheless, the full list of government controlled units classified outside government is not made available to the general public.

4.1.2. Practical implementation of the market/non-market test

Background

All the public companies controlled by government are annually tested for the 50% criterion. In 2011, the Romanian statistical authorities applied the market/non-market test for all public companies for the period 2007-2010, reclassifying 27 public companies in central government (S1311) and 68 public units in local government (S1313).

The 50% test is implemented by the National Institute for Statistics (NIS) and is based on the annual financial statements of the unit. The units are selected from the Statistical register, which is updated twice per year. The 50% test is applied based on the ratio between operating incomes minus operating subsidies, on the one side, and operating expenditures, on the other side. In 2012, the Romanian statistical authorities performed the 50% test for the year 2011, nevertheless without including new units inside the general governmental sector. During the June 2013 visit, the Romanian statistical authorities confirmed that they would perform the 50% test for the 2012 financial year in August 2013, as the final financial statements for 2012 should be available only in July 2013.

Discussion and methodological analysis

During the June 2013 discussions on the implementation of the 50% test, Eurostat expressed some concerns about the fact that the Romanian statistical authorities were basically only focusing on the quantitative criteria (market/non-market test) for the sector delimitation and were not sufficiently taking into account qualitative criteria as whether the unit operates in a competitive environment, one-to-one relation to government etc. Information on qualitative criteria is not directly accessible for the National Statistical Institute and should be officially required from the Ministry of Finance. Eurostat insisted on the importance of the qualitative criteria, notably in the context of the ESA 2010 implementation. In ESA 2010, both qualitative and quantitative criteria are taken into account for the classification of units. Eurostat claimed that, in the light of ESA 2010, it should be essential to analyse also other criteria; whether a unit was providing services only to government or also for other units; whether a unit was facing also other competitors; whether the prices of the public corporation were market prices or similar to the prices provided by other private corporations. Eurostat also recalled that, in the light of ESA 2010, the interest paid by the unit should be considered as expenditure, and therefore the situation of companies having big liabilities should be reconsidered once ESA 2010 is implemented.

Regarding the concrete results of the 50% test of the units, Eurostat claimed that the results of the test were sometimes questionable, moving from 91% to 10% from one year to another, as it was the case for the SC Compania Nationala a Metalelor pretioase si neferoase Remin SA, or from 118% to 58% by Societatea Comerciala Carfil SA, or from 323% to 73% by Regia Autonoma de Distributie Termica. In this context, Eurostat asked whether the National Statistical Institute was monitoring the cases when there was a sudden increase or decrease in the figures related to the market/ non-market test in order to check whether the results of the test were reliable. The Romanian statistical authorities explained that the implementation of the test was automatically performed by an IT program; nevertheless, if the results were very different in consecutive years, the units were checked on individual basis.

The National Statistical Institute also explained that they created a list with units which were closely monitored because the results were close to 50% and therefore susceptible to possible reclassification. For reclassification purposes, the Romanian statistical authorities are normally applying the three-years rule. Eurostat recalled that the three-years rule did not exist in stricto sensu. The Manual for government deficit and debt specifies that the 50% criterion should be applied by looking over a range of years: only if the criterion holds for several years or holds for the present year and is expected to hold for the near future, it should be applied²². In this context, Eurostat recommended that in cases where the results of the unit was below 50% for a single year and it was predictable that the unit would also remain under 50% during

²² See MGDD, edition 2010, pg. 14

the following years, the units should be reclassified on an annual basis.

This would be the case, for instance, if the unit is in process of closing down, or if there is a clear decreasing trend, year after year, or, if the Ministry of Finance would inform the NSI that this would be the case. In all other cases, the three-years rule could still be implemented. Eurostat also raised some other questions regarding the concrete implementation of the 50% test, and particularly, whether capital transfers were included among sales or whether the subsidies on production and on products were taken into account for the calculation of the 50% test.

Eurostat pointed out that the cases where public units use government assets, being the economic but not legal owners of the assets, should be carefully analysed when performing the 50% test, as the amortisation costs should be included as expenditure.

As regards the situation of public companies which are not submitting accounting statements²³, this issue was already widely discussed during the 2011 EDP dialogue visit. The Romanian statistical authorities explained that no progress was done concerning this matter due to the fact that the legal requirements to definitively close down a company were very time consuming and expensive. Therefore, lots of companies remain in bankruptcy or liquidation process for years. Prior to the mission, the Romanian statistical authorities had provided exhaustive information on the amount of liabilities of all companies being in liquidation, insolvency or bankruptcy process in 2011. The total amount of liabilities of the 11 companies in liquidation, 53 in insolvency and 45 companies in bankruptcy is not very high (around 1% of GDP). The Romanian statistical authorities also re that despite the significant number of units not submitting accounting statements, the possible impact on government's deficit and debt figures of these units is negligible.

Findings and conclusions

Action point 9:

The Romanian Statistical Authorities will perform the 50% test annually for public companies and will classify all public companies which are not complying with the 50% test inside government, unless given proof that this non-compliance is just temporarily due to exceptional reasons. This implies that the reclassification of units inside government will no longer be based on consecutive non-compliance of three years. The results of the test for 2012 data should be communicated to Eurostat by the end of August²⁴. *Deadline: Continuously.*

Action point 10:

The Romanian Statistical Authorities will check cases where a public unit, although not being the legal owner of some assets, receives the economic benefit of it, without paying a fee for its use to government. In such cases, the depreciation cost of assets should be imputed to the public unit and taken into account for the 50% test. This should also include cases where an amount paid by the public unit to government would not even cover the depreciation costs, which are registered in the balance sheet of the state budget (and not in the balance sheet of

²³ At the level of central government, out of 794 units, 440 (55% of the total) are not submitting accounting statement. The reasons for this are, as explained by the Romanian statistical authorities, that these entities are in bankruptcy or under liquidation process.

²⁴ Action point implemented.

the company). The NSI will complete the 50% test (including CFR Infrastructura) for year 2012, for all companies. The results will be sent to Eurostat for the next notification²⁵.

4.1.3 Government controlled entities classified outside general government

The compulsory questionnaire on government controlled units classified outside general government was provided by the NSI on time, at the end of December 2012; more than 1200 units were included in the questionnaire. The total amount of liabilities of these entities for the reference year 2011 were around 12% of GDP.

Eurostat mentioned under the questionnaire's line "Units included under IMF list", the Romanian statistical authorities included also non-financial institutions as Posta Romana and Oltchim. During the discussions, it was clarified, that the IMF list related only to financial institutions and it did not refer to the list of units monitored by IMF in the framework of some international agreements. The Romanian statistical authorities confirmed that they would update the list accordingly.

Findings and conclusions

Action point 11:

Eurostat invited the Romanian Statistical Authorities to update the list of government controlled entities including the 2012 data. The list will also be corrected for the non-financial companies not being part of the MFI list²⁶. *Deadline: End of December 2013*

4.2 Implementation of the accrual principle

4.2.1 Accrual taxes and social contributions. Corporate Profit Tax. VAT taxes

Changes since last EDP dialogue visit

Background

The Romanian statistical authorities provided, prior to the mission, a note on the recording of taxes and social contributions including also a description of the recent changes for the corporate profit tax recording method. For taxes and social contributions, cash data were used. The accrual calculations based on cash data are done by the budget department of the Ministry of Finance. In general, the simple time adjusted cash method is used for the calculation of taxes. Data are collected by the National Agency of Fiscal Administration (ANAF). The time lag is one month for taxes and social contributions, except for the profit tax, which has a time lag of three months.

Discussion and methodological analysis

During the April 2013 notification, the Romanian statistical authorities informed Eurostat that the time lag for the corporate profit tax was extended from January to March (from one to three months). Eurostat expressed its concern about the unexpected implemented changes and

²⁵ Action point implemented.

²⁶ Action point implemented.

recalled that according to CR 2516/2000, Member States should always inform and seek Eurostat's agreement for changes to the method of recording of taxes. The Romanian statistical authorities confirmed that in future they will inform Eurostat on possible future changes related to taxes on time.

During the April 2013 notification, Eurostat took note of the fact that the time lag of one month used for several years before the entering into force of the Government Ordinance 30/2011, was not correct, as amounts paid in February and March (and partly in April) referred to the previous year. It was agreed with the Romanian statistical authorities that the profit tax figures for 2009, 2010 and 2011 should be revised and a time lag of three months introduced. The revenues for year T-1 coming from profit taxes for 2009, 2010, 2011 and 2012 should include the revenues from April (year T-1) to March (year T).

During the EDP 2013 mission, Eurostat discussed in detail with the Romanian statistical authorities the implementation of the time adjusted cash method for all taxes. The discussions had, as a starting point, the updated version of the "Questionnaire on taxes and social contributions"²⁷.

The Romanian statistical authorities had provided, prior to the mission, an updated version of the questionnaire, nevertheless without completing part III, which provides information on the methods used for tax refunds, tax credits, interest charged for arrears, etc. In order to have extensive information on all tax related issues, Eurostat recommended that the Romanian statistical authorities update the questionnaire including the required information also for part III. In addition to the corporate profit tax, the discussions focussed also on the recording of other taxes as follows:

1) Value added tax (VAT)

For the VAT collection, the time adjusted method with a one month lag is used. Nevertheless, for the VAT collected on imports of goods, no accrual adjustments are made, the cash being equal to accrual, due to the fact that the VAT taxes are paid at arrival. The Romanian statistical authorities explained that there are also the so called "amounts deducted from VAT" which represent amounts transferred from the central to the local budget due to the fact that all VAT revenues were recorded in the state budget and then partially transferred to the local budget.

For VAT refunds, the same time lag is used as for VAT collection. In this context, Eurostat asked whether the Romanian statistical authorities were aware of significant delays in the repayment of tax refunds, notably due to delays caused by fiscal inspections. The Romanian statistical authorities claimed that there were only small amounts to be paid as refunds due to fiscal inspections; therefore there was no need to extend the time lag for VAT refunds. In general, in 95% of the cases, the average period for VAT reimbursement was 45 days.

2) Personal Income Tax

Personal income tax on wages and salaries of the current year (t) is adjusted by the January receipts. The Romanian statistical authorities explained that due to the flat tax of 16% for all income level, there were no refunds related to income taxes.

3) Excise duties

For excise duties, generally the one-month lag is applied, except excises collected from the sale of energy where no adjustment is done.

²⁷ This qualitative questionnaire used by Eurostat in all Member States offers an overview on the different methods used for tax calculations for all kind of taxes as well as tax refunds.

4) Tax on use of goods

In general, a one month time lag is applied. Nevertheless, for gambling tax or tax on prospecting and exploration of mineral resources, the taxes should be paid annually until 31 December of the current year.

5) Tax on foreign trade and international transactions (customs duties).

For taxes on foreign trade and international transactions no adjustment is done.

6) Tax on property

The tax on property is paid in two instalments within the year, on 31 March and on 30 September. Therefore, revenue on an accrual basis is equal to revenue on a cash basis.

The Romanian statistical authorities claimed that data regarding taxes were available for each individual tax, as well as for social contributions, on a monthly basis.

4.2.2 Financial impact of Directive 2010/45/EU

Background

Directive 2010/45/EU applied in Romania since January 2013 gives the possibility to the Member States to apply a cash accounting scheme for the payment of VAT. The directive allows companies with an annual turnover of 500 000 euro to pay VAT to the competent authority when they receive the payments for a supply. Theoretically, this optional scheme should have a positive effect on the cash flow of the small and medium companies (SMEs) and be applied only for the period of economic and financial crisis.

The delayed payments may impact the first and last years of the implementation, with less tax revenue in the first year and more at the end of the period.

Discussion and methodological analysis

Before the implementation of Directive 2010/45/EU, the Romanian statistical authorities estimated that the negative effect on the revenues due to the implementation of the Directive and the delays in VAT collection should be neutralized by a positive cash flow effect in the retail sector and also by the implementation of Directive 2011/7/EU on late payment in 2013, which obliges public administrations to pay suppliers in a maximum of 30 days (or 60 days for specific cases such as the health sector) for all new contracts signed after 1 March 2013.

Prior to the mission, Eurostat required further information on the actual effect of the VAT cash accounting scheme on the revenues collected in the first quarter of 2013. The Romanian statistical authorities explained that the VAT cash accounting scheme had not created a temporary gap in budgetary revenues; on the contrary, the VAT revenues increased in the first quarter of 2013. It was agreed that the Romanian statistical authorities would keep Eurostat informed on the possible future impact of this Directive on government revenue.

4.2.3 EU flows

Background

In 2010, the Romanian statistical authorities provided to Eurostat an explanatory note describing the recording of all flows related to the EU in non-financial accounts and financial accounts, as well as in EDP T2 and T3 with regard to the received advances, reimbursements of expenditure, expenditure on behalf of the EU, expenditure financed from the EU advances, and contributions to the EU budget. Since 2008, the Romanian statistical authorities have recorded the total value of projects with EU financing in the state budget in a separate chapter “Projects with financing from external post accession fund” (including national and EU financing). In order to eliminate the negative impact of national payments on behalf of the EU, the amounts reimbursed by the EU to the state budget are recorded in a separate chapter. For projects which are financed from the state budget, but not yet reimbursed by the EU, a receivable (F7) is recorded in the state budget.

In the case of local government, the differences between the EU advance payments and expenditure made on behalf of the EU are recorded as receivables or payables, in such a way that there is no impact on the local government deficit/surplus.

Prior to the mission, a description of the recording of EU flows in national accounts and recording in the EDP tables was provided by the Romanian statistical authorities.

Discussion and methodological analysis

There are seven agencies involved in receiving EU funds and seven management authorities (MA) which monitor and control amounts granted to final beneficiaries. Eurostat asked whether all the agencies and management authorities were classified in the sector S1311 or also in the local government sector S1313. It seems that all the units responsible for EU flows are classified at central government level.

EU funds are detailed on the central/local and social security level and are recorded in the execution account of the public institutions. In general, the expenditures made on behalf of the EU - the national contribution for final beneficiaries which are public entities as well as the transfers made by government to non-government units, NGO, farmers, etc - are recorded in the government financial statements. The Romanian statistical authorities explained that on the basis of the national classification codes, it was possible to identify from the financial statements the final beneficiaries (E.G. ministries, public entities from central /local or social security level), as well as to distinguish between advance payments and reimbursements.

The EU funds are recorded in the working balance of government on the revenue side, the amounts to be reimbursed for the expenditure made in the current year but also in the previous year but not yet reimbursed; on the expenditure side, the expenses on behalf of the EU where beneficiaries are public entities as well as the national co-financing.

4.3 Recording of specific government transactions

4.3.1 Capital injections into public corporations

Background

The Romanian statistical authorities provided, prior to the mission, a document on the implementation of the capital injection test as well as an exhaustive list with all the units benefiting from capital injections treated as capital transfers.

Discussion and methodological analysis

A vast majority of the capital injections are recorded as non-financial transactions. From the documentation provided, Eurostat noticed a constant decrease of the capital transfers provided by government over the last years from 6271 million in 2009 to 4050 million in 2012. All the units benefiting from capital transfers are classified in S13.

Regarding the capital injections made at local government level, the Romanian statistical authorities confirmed that all the capital injection in S1313 were treated as government expenditure and recorded as capital transfers (D99). The Romanian statistical authorities explained that capital injections were treated as financial transactions only in cases when the government was acting as a private shareholder, expecting a sufficient rate of return for its investment or when the company is profitable. The capital injections recorded as financial transactions in shares and other equities are negligible and mainly concerns Guarantee Funds and the Regional Development Bank. A split of the capital injections treated as capital transaction is provided by the Romanian statistical authorities for each notification, in the EDP Questionnaire Table 10.2. No figures were provided for 2012, and the Romanian statistical authorities confirmed that there were no capital injections recorded as financial transactions in 2012. During the discussion, Eurostat noticed a capital injection into the Black Sea Trade and Development Bank in 2011. Nevertheless, from the information available in the bank's financial statements, it seems that the bank has faced some impairment in the loan portfolio. Therefore, following the MGDD rules, this aspect should be considered when judging the treatment of further capital increases which should be treated as capital transfers at least up to the amounts of losses incurred. The Romanian statistical authorities confirmed that they would take into account this aspect in the future.

Eurostat asked whether the Romanian statistical authorities had more concrete information on possible capital injections into loss-making companies classified in S11, as Oltchim or CFR Marfa. The Romanian statistical authorities claimed that there were no such concrete transactions for the moment.

4.3.2 Guarantees

The recording of guarantees was extensively discussed with the Romanian statistical authorities during former EDP visits. The Romanian statistical authorities confirmed that government payments due to guarantee calls were recorded as government expenditure. They also confirmed that they were strictly following the so called 3 calls rule and were regularly recording an assumption of the outstanding debt, after the third guarantee call in a row. For several big public corporations, the debt guaranteed by government had been assumed at inception, due to clear evidence that the government would be responsible for its repayment. The Ministry of Finance disposes of very detailed data sources on guarantees. For some

companies, the guarantees paid by government were recorded as expenditure already in the working balance. The data available cover not only central government, but also local government. Prior to the mission, the Romanian statistical authorities provided a very detailed table on guarantees. Eurostat observed an increase in the guarantees provided to private companies. Nevertheless, Eurostat also noticed that the data provided prior to the mission was not consistent with the data provided in the EDP questionnaire Table 9.1. During the discussions, Eurostat investigated the reasons for these differences. It was explained that the differences were due to the fact that in EDP questionnaire Table 9.1 the data on guarantees was non-consolidated, including also the guarantees provided by government to companies classified in the general government sector. In the context of this mission, the data on guarantees were consolidated.

Findings and conclusions

Action point 12:

The Romanian Statistical Authorities will correct the amounts related to the total amounts of guarantees recorded under the EDP questionnaire Table 9.1 in order to ensure consistent recording with the documentation provided prior to the mission. *Deadline: October 2013 EDP notification*²⁸

4.3.3 Debt assumptions, debt cancellations and debt write-offs

The Romanian statistical authorities confirmed during the mission that there were no cases of debt cancellations, debt assumption and write-offs for the period 2009-2012.

Nevertheless, in 2009 a foreign claim cancellation towards Mongolia was recorded in EDP Table 2A, under the position "Other adjustments".

4.3.4 Recording of dividend payments of public companies to the state budget. Superdividend-test

Discussion and methodological analysis

During the last notifications, Eurostat raised the attention to persistent problematical issues related to the recording of dividends.

The first issue relates to the distribution of dividend payments. In principle, the dividends paid during year N are linked to the profit of year N-1. Nevertheless, during the October 2012 notification, the Romanian statistical authorities explained that the dividends paid to government in 2011 also include dividends from previous years, as the national legislation allows this practice. It was agreed with the Romanian statistical authorities that, in national accounting, the dividends paid to government should be strictly compared to the profits of year N-1 and not to the cumulated profit of previous years. All the dividends which exceed the profits of year N-1 should be recorded as super-dividends and treated as a financial transaction without impact on deficit (withdrawal of equity F.5). In this context, Eurostat asked during the mission whether the Romanian statistical authorities could confirm that the dividend payments were strictly linked to the profits of the previous year. The Romanian

²⁸ Action Point implemented.

statistical authorities confirmed that they were indeed following the rules. They also confirmed that the proceeds from sales of assets and the revaluation gains were included under dividends, whereas receipts from privatisation were excluded. Eurostat noticed that the figures on dividends for 2011 provided prior to the mission differed from the figures provided in the EDP Questionnaire Table 10.1 from October 2012 Notification. The Romanian statistical authorities said that reasons for the differences could result from the fact that one document included just dividends paid by the companies classified in S11 and the other document included also dividends paid by companies included in S13 or private companies. Nevertheless, they committed to look to the reasons for these discrepancies and to try to reconcile the figures from the two documents.

The second issue discussed concerned the correct recording of dividends in the state budget and in the company's account. During the 2011 EDP visit, Eurostat noticed that the National Property Fund paid dividends to the state budget. Nevertheless, this operation was recorded in the state budget as revenue, but not as expenditure, in the companies' accounts. Due to the fact that the company was classified in S1311, the incorrect recording affected the B9 of general government. The Romanian statistical authorities claimed during the discussions that the situation mentioned above was exceptional. The National Property Fund was the only company classified in S13 which paid dividends to government. In the meantime, there were no more such cases, the company mentioned before is classified now in S11.

Superdividend-test

During the 2008 EDP visit, the NSI explained that data on dividends recorded in national accounts were based on budget reporting data sources. Individual data by companies which paid dividends to government were not available at that time. Nevertheless, since 2011 the NSI has been able to provide the amounts of dividends per individual unit. It was confirmed that data related to the profit of a company, to the government participation in the company as well as to the amounts of dividends paid by the company²⁹ were compiled by the Ministry of Finance. On the basis of these data, the National Statistical Institute performs the superdividend test for all the companies paying dividends classified in S.11 or S.13. From the information provided prior to the mission, Eurostat noticed that the superdividend recorded in 2012 was very small compared to the previous years. The Romanian statistical authorities confirmed the figure.

4.3.5. Foreign claims

Information on total government and foreign claims are provided to Eurostat systematically for each notification in EDP Questionnaire, Table 8.

The Romanian statistical authorities provided, prior to the mission, extensive information on the amounts of foreign claims and total claims split up in different financial instruments. From the documentation provided, Eurostat noticed that the foreign claims were recorded as trade credits (F7) and not as loans (F4). During the mission, the Romanian statistical authorities explained that these foreign claims referred to trade credits granted before 1989 during the former communist regime. Eurostat reminded that in EDP questionnaire Table 8, only claims which referred to loans (AF.4/F.4) or other accounts receivable (AF.7/F.7) on guarantees should be recorded. Therefore Eurostat recommended that the claims which referred to trade credits should be excluded from the questionnaire. Regarding the consolidation, Eurostat

²⁹ The dividends are mainly collected by the Office for privatisation (OSPI) and then transferred to the state budget.

asked whether the figures on claims recorded in EDP questionnaire Table 8 were consolidated between subsectors or only within the same sector. The Romanian statistical authorities explained that they consolidated the figures at sector level, as well as at subsector level. Regarding the data sources, the main data sources for the foreign claims are the balance of payments and international investment position statistics.

Findings and conclusions

Action point 13:

The Romanian Statistical Authorities will exclude from the EDP Questionnaire Table 8, the foreign claims recorded as trade credits, providing in the EDP Questionnaire Table 8 only the claims which relate to loans (F4). *Deadline: October 2013 EDP notification*³⁰

4.3.6. Reimbursement of loans from companies to state budget

During the October 2012 Notification, Eurostat investigated the reimbursement of loans granted by government to state companies in the period 1995-1997 and asked for further details on the probable reimbursement of these loans.

According to state budget execution, the loans granted for the whole period of 1995-2009 amounted to 537,1 million lei. From this amount, 389 million lei were reimbursed in the last years. The remaining 148,1 million lei are still to be reimbursed. Despite the fact that the amounts to be reimbursed are not significant, the issue of reimbursement of loans constituted a good platform for investigating how the government was monitoring the repayment of the loans provided. The Romanian statistical authorities explained that, within the Ministry of Finance, there is a department specialised in monitoring and evaluating the performance of loans. If the loans provided by government are in default they are cleared out from the government balance sheet.

The Romanian statistical authorities explained also that the government is providing a so called on-lending to companies. This means that the Ministry of Finance is contracting long term external loans from official creditors as the European Investment Bank or government agencies, at a favourable interest rate, and lends them to companies. The repayments of principal of these loans are made by companies from their own resources. These kind of loans provided by government to companies do not have any impact on net lending/net borrowing (B.9), the drawings on these credits and the principal repayments being recorded in Table EDP 3B under the positions "Loans (F.4), Increase (+)/Reduction (-)".

4.3.7 PPPs

In May 2012, the Romanian statistical authorities requested ex-ante advice regarding the classification of a concession project for the southern section of Bucharest External By-pass and for A1 Bucuresti-Pitesti and A2 Bucuresti-Constanta motorways. Due to the fact that the necessary background information was not yet available, as for example the final contract with the terms and conditions of the foreseen concession project, Eurostat was not able to provide a preliminary advice on the correct classification of the project.

³⁰Action Point implemented.

During the mission, Eurostat asked the Romanian statistical authorities whether there were any new details on the project and whether the tender documentation was finalised and the assignment procedure launched. The Romanian statistical authorities informed Eurostat that the project was still not finalised and that they were expecting a new law framework on PPPs.

They confirmed that, whereas for the moment there were no PPPs projects either at central or local level, there were three further planned infrastructure projects. Nevertheless, the Romanian statistical authorities expressed the intention to contact Eurostat when they have available information on these projects.

Action point 14:

The Romanian Statistical Authorities will analyse and provide information to Eurostat on the three planned PPPs/Concessions. *Deadline: when available*

4.3.8. Court decisions with impact or possible impact on EDP data

In 2012, there were two advice letters concerning the recording of court decisions. One concerned the “Recording of payment obligations established by Court decision with retroactive effect” and the other “Recording of payments related to the reimbursement of social contribution incorrectly calculated in 2011-2012”. Both advice letters were implemented by the Romanian statistical authorities.

Regarding the “Recording of payment obligations established by Court decision with retroactive effect”, Eurostat recalled during the mission that the letter specified that there were still some amounts to be imputed in the future, due to inflation indexing. Such amounts, as they are determined on a yearly basis after calculating an appropriate inflation coefficient, have to be recorded on a cash basis in those future years in which they are paid. In this context, Eurostat asked whether the Romanian statistical authorities were already aware of other possible amounts which were recently determined by court decision. The Romanian statistical authorities mentioned that, as it is reflected in EDP tables 2C and 2D, the deficit for 2012, but also for the following years until 2016 would be affected by the Court decision in accordance with Law 230/2011 which deals with the recognition of wage rights towards persons working in the budgetary sector.

5. Other issues

5.1. Rompetrol

Background

The Rompetrol issue was already discussed with the Romanian statistical authorities during the 2010 EDP mission. The Romanian government was holding bonds issued by the oil company Rompetrol. The bonds were received by government as an exchange for a fiscal claim due to unpaid taxes of 2.4 bill RON (about 0.5% of GDP) in 2003, with the condition to be redeemed by the company in 2010.

In 2010, Eurostat discussed with the Romanian statistical authorities whether the operation of 2.4 bill RON should be recorded in national accounts as a financial transaction or as tax revenue.

Discussion and methodological analysis

During the mission, the Romanian statistical authorities summarised chronologically the situation of Rompetrol and how the different transactions were recorded in the government and companies accounts. The Romanian statistical authorities confirmed that the bonds were received by government as an exchange for fiscal claims due to unpaid taxes, but that these fiscal claims were not recorded in the government accounts and nor was the acquisition of bonds.

Eurostat recalled during the mission that in ESA terms, in general, it is not possible to record as revenues in the government accounts the amounts received for selling bonds/shares, even if they originally relate to a fiscal obligation of the company. These transactions should be recorded as financial transactions, with no impact on the deficit.

Action point 15:

The Romanian Statistical Authorities are invited to send an ex-ante request to Eurostat in relation to the recording of the Rompetrol transactions, providing full information on the case. Based on the information provided in the meeting, Eurostat took the view that the conversion of the shares into cash should be recorded as a financial transaction, with no impact on the deficit³¹.

Creation of a Restitution Fund – possible impact on government accounts

Eurostat was informed before the mission that a new restitution law was on the way to be issued in 2013. The new legal framework sets up a new procedure to compensate persons whose assets, notably fixed assets, were abusively expropriated by the former communist regime. The planned law mainly envisages providing restitutions in kind. Nevertheless, the law foresees also a possible restitution through financial compensation.

During the mission, the Romanian statistical authorities claimed that the new restitution law was already voted in the Parliament. Nevertheless, for the moment, it is very difficult to assess the impact of the law on government accounts. Eurostat pointed out, that in principle, the restitution in kind should not have an impact on the net lending/net borrowing of general government but affects the net worth. Nevertheless, for the restitution through financial compensation, a negative impact on the net lending/net borrowing should be taken into account. In this context, the Romanian statistical authorities ensured Eurostat that further details on the possible impact of these transactions on government accounts would be provided when information will be available.

Action point 16:

The Romanian Statistical Authorities will provide further information on the nature and proposed recording of the transactions related to the Restitution Fund. *Deadline: when available.*

³¹ The Romanian statistical authorities considered that the view on the recording of the above-mentioned transactions provided by Eurostat during the mission was sufficient so far, agreeing with the treatment proposed by Eurostat during the visit.

5.2. Consistency between EDP tables and ESA95 tables

No Issue

5.3. Other issue related to ESA 95 tables

Concerning the latest transmissions of tables 2, 9, 11 and 25 for Romania, Eurostat noticed that:

- Data quality was improving at each transmission;
- Corrections asked are generally made promptly;
- Replies to the EDP questions are most of the time relevant and comprehensive.

The main outstanding issue remains the availability of COFOG level II data. At present and despite the progress made in the latest transmission of Table 11 with the provision of additional groups, Romania is the only country not providing data for all COFOG groups.

Eurostat recalled that, although this level of detail remains voluntary until the end of December 2014, the Romanian statistical authorities should be able to provide the future mandatory provision of COFOG II level in 2014. The Romanian statistical authorities claimed that they were aware of these requirements; nevertheless, for the moment, despite the efforts done, it would be impossible to provide the detailed data on time.

5.4 Any other business

Implementation of ESA 2010

Eurostat asked the Romanian statistical authorities about the actual plans regarding the implementation of ESA 2010.

Eurostat pointed out that, although ESA 95 was still in force, some Member States were already trying to use the new ESA 2010 to back up methodological decisions. In this context, the Romanian statistical authorities replied that they already completed the questionnaire sent by Eurostat on the impact on the ESA 2010 deficit and debt figures, and were starting to think of other aspects of its implementation. Eurostat recalled that data for the EDP notification should be transmitted, according to ESA 2010, only from October 2014 and asked the Statistical Institute to send data for the April 2014 EDP notification still under ESA95 terms.

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