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- FINAL FINDINGS -

EDP Mission to Romania

18-19 February 2008

Executive summary

An EDP dialogue visit to Romania took place on 18-19 February 2008. The main aim of the EDP dialogue visit was to assess the existing statistical capacities; to review institutional arrangements in the field of government finance statistics (GFS), including EDP statistics compilation; to analyse the October 2007 EDP notification, particularly the large revisions in revenues and expenditures observed for 2006; to review the sector classification of the Property Fund and the recording of related transaction; to clarify the sector classification of numerous, mainly infrastructure units; to ensure that the provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Romanian EDP notification tables and in national accounts.

Eurostat appreciated the efforts made by the Romanian authorities, with a noticeable progress achieved during 2007 in the field of the compilation of the Questionnaire related to EDP notification tables as well as of the EDP inventory. These deliveries to Eurostat are explicitly foreseen, in addition to EDP tables, by Council Regulation 3605/93, as amended.

The cooperation among statistical authorities is based on a Protocol that establishes the responsibilities of each institution concerning the GFS compilation and data sources provision and which is signed by the President of the National Statistical Institute (NSI), the Minister of the Ministry of Finance (MOF), the Governor of the National Central Bank (NBR) and the President of the National Commission of Prognosis (NCP). An addendum to the Protocol has been recently prepared further specifying the responsibilities of each institution in the field of data circulation and the thematic working groups.

Non-financial accounts for general government are compiled by the NSI; financial accounts for general government are compiled by the NBR. The deficit (EDP B.9) is measured in parallel by the NSI when compiling government expenditure and revenue in ESA Table 2 and by the MOF by way of using the bridge from working balances, i.e. EDP Table 2. EDP tables are officially reported to Eurostat by the NSI.

While discussing institutional arrangements, Eurostat expressed concern for 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 number of personnel involved in the above compilation is much below required standards and practice in other EU Member States.

The analysis of the October 2007 EDP notification was focused on the examination of the large revisions in revenues and expenditures observed for 2006. Eurostat expressed concern in this respect. The Romanian authorities explained that the revisions have been caused mainly by updated data sources and by errors in consolidation, and stressed that it had been an exceptional situation and that measures were taken to avoid a repetition of the problem. The Romanian statistical authorities indicated that the National Statistical Institute and the Ministry of Finance have retained a common and improved consolidation method. Furthermore, in April 2007, some data sources were not available and estimations had to be made. Eurostat took note of a new "emergency ordinance" stipulating shortened deadlines for data reporting by all government units, which would provide the Romanian statistical

authorities more time for data processing and GFS data compilation in the April 2008 EDP notification

Eurostat reviewed the Property Fund issue, confirmed the appropriate classification of the Property Fund inside the general government sector and verified the correct recording of restitutions (government expenditure relating to compensation of claimants at time of "compensation titles" issuance).

As far as the sector delimitation is concerned, Eurostat expressed a general concern about the proper application of the 50% rule by the Romanian statistical authorities. In particular, it seems that no systematic test has been carried out for all big public "commercial" units by the Romanian statistical authorities during the last years.

Eurostat examined a sector classification of numerous institutional units. The sector classification of public hospitals, universities, public TV and radio and Termoelectrica has been acknowledged by Eurostat. However, Eurostat required the Romanian authorities to further examine sector classification of railways, River administration of the Lower Danube Galati, Metrorex, airports and District heating units, and to ensure a proper sector classification for the April 2008 EDP notification.

Eurostat expressed concerns about the correct application of ESA95 rules and the relevant methodological decisions relating to the recording of some specific transactions. The Romanian authorities have been asked to correct recording of UMTS licences, revenues from previous years and military expenditures. In addition, the superdividend test is to be applied, most notably for dividends for 2005 and 2006 and the result is to be incorporated in the April 2008 EDP notification.

As regards other specific government transactions, debt cancellations stipulated by the government act which took place in 2007, are to be carefully reviewed at the occasion of the April 2008 EDP notification (foreign claims and claims against Termoelectrica).

Finally, the Romanian authorities committed themselves to revise the historical data series and to ensure consistent reporting starting with data for 1995, since historical data series are not consistent for the time being.

It should be noted that the Romanian statistical authorities provided revised data in the context of the April 2008 EDP notification and the most outstanding issues have been clarified and solved. Eurostat appreciated all the improvements that have been realised by the Romanian statistical authorities in a short time in order to comply with Eurostat conclusions from the EDP mission. The main follow-up actions which have been carried out by the Romanian authorities are indicated in the final findings under each related item.

Final findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Romania on 18-19 February 2008. The delegation of Eurostat was headed by Mr. Nørlund, Director of Directorate C, National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) participated also in the meeting as observers. The Romanian statistical authorities were represented by the National Statistical Institute (NSI), the Ministry of Finance (MOF) and the National Bank of Romania (NBR). The list of participants is attached (Annex 1).

The previous Eurostat mission to Romania took place on 5-6 March 2007.

The aim of this EDP dialogue visit was to assess the existing statistical capacity and review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting; to analyse information on data sources, particularly data availability for the April EDP notification; to analyse the October 2007 EDP notification and to clarify large revisions of revenues and expenditures; to review issues relating to the sectorization of the Property Fund and to the recording of the restitutions; to clarify sectoral classification of some units (particularly public infrastructure companies); and to ensure that the provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Romanian EDP notifications and national accounts.

Eurostat appreciated very much the requested explanatory notes and financial statements provided by the Romanian statistical authorities prior to the mission.

1. Statistical capacity issues

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

Introduction

The cooperation among statistical authorities is based on a Protocol that establishes the responsibilities of each institution concerning the GFS compilation and data sources provision and which is signed by the President of the NSI, the Minister of the MOF, the Governor of the NBR and the President of the National Commission of Prognosis (NCP).

Non-financial accounts for general government are compiled by the NSI; financial accounts for general government are compiled by the NBR. The deficit (EDP B.9) is measured in parallel by the NSI when compiling government expenditure and revenue in ESA Table 2 and by the MOF by way of using the bridge from working balances, i.e. EDP Table 2.

EDP tables are officially reported to Eurostat by the NSI. All statistical authorities are involved in EDP notification tables compilation: the MOF compiles EDP tables 2; the NBR compiles EDP Table 3; the government debt is compiled by the MOF and is cross-checked by

the NBR; the NSI provides data on GDP and on GFCF and performs a coordination role in GFS compilation, data reconciliation and transmission.

Eurostat inquired about further details on cooperation in the field of GFS, compilation practice, about dedicated human resources and whether a new Protocol, which was being prepared in 2007, has been introduced.

Discussion and methodological analysis

The Romanian statistical authorities informed Eurostat that an addendum to the Protocol has been recently prepared. The aim of the addendum is to further specify the responsibilities of each institution in the field of data circulation and the thematic working groups. The NSI stated that the Protocol should be signed within a few weeks and stressed that the cooperation among institutions is already organised as if the addendum was in place. The Romanian statistical authorities pointed out that the cooperation is very effective. The institutions are in daily contact and all methodological, as well as technical issues, relating to GFS data compilation, are discussed in regular meetings.

As regards the human resources, it was obvious that the staff available at the NSI in the field of GFS compilation is insufficient. In practical terms, only two persons are dealing with compilation of annual and quarterly non-financial accounts for general government (tables 2, 9, 11, 25 of the ESA95 Transmission Programme), and with relating methodological issues. Eurostat stressed the importance of GFS statistics which is one of the most priority statistics and underlined that provision of reliable and quality GFS data including EDP tables refers also to the sufficient human resources.

As far as the compilation practice is concerned, the NSI uses a bridge table for converting data from public accounts items into ESA95 codes, when compiling national accounts for general government. The nature of the transactions reported in public accounts and the bridge table is discussed with the MOF in order to find the most proper classification of items according to ESA95. The result (B.9) from non-financial accounts is compared with the result derived from EDP table 2. Discrepancies between these two results are examined by the NSI and the MOF and are eliminated by the threshold of 0.01% of GDP.

Findings and conclusions

- (1) *The Romanian statistical authorities will send to Eurostat the addendum to the Protocol establishing the responsibilities of each institution (NSI, NBR and MOF) concerning GFS compilation and data sources provisions¹.*
- (2) *Eurostat expressed strong concern for the insufficient amount of human resources employed by the NSI for the compilation of annual and quarterly non-financial accounts, EDP notifications and relevant methodological issues. The number of personnel involved in the above compilation is much below required standards and practice in other EU Member States.*
- (3) *Eurostat asked the Romanian authorities to provide the bridge table between items used in public accounts and in national accounts².*

¹ The Addendum to the Protocol establishing the responsibilities of the NSI, NBR MOF and NCP concerning GFS compilation and data sources provisions has been provided on 30 July 2008.

1.2. EDP inventory and data sources

Introduction

During the last EDP mission in 2007, the EDP inventory based on the Eurostat template was not available. As it had been agreed, the NSI provided Eurostat with completed EDP inventory that was afterwards published on Eurostat website on 28 September 2007.

The information on data sources and methods used for general government deficit and debt compilation, as described in the EDP inventory, as well as other related issues were discussed.

Discussion and methodological analysis

The Romanian statistical authorities stated that they intend to publish nationally the EDP inventory in Romanian as well as in English as soon as it is translated into the Romanian language. The envisaged date of publication is June 2008.

As far as the delimitation of the general government sector is concerned, Eurostat observed some inconsistencies in terminology used and in groupings of units classified in the central government subsector, as described in different parts of the EDP inventory, as well as in other documents. The NSI agreed to uniform the definition of this subsector in all documents.

Findings and conclusions

- (4) *Eurostat congratulated the Romanian statistical authorities for their effort in the field of the EDP inventory completion and encouraged the NSI to translate the inventory into the Romanian language and to publish it into its website as soon as possible. The publication of the EDP inventory at national level is foreseen by the CR 3605/93, as amended³.*
- (5) *Eurostat invited the NSI to update the EDP inventory in order to uniform the definition of the central government sub-sector.*

1.2.1. Data sources by subsectors

The question of data sources availability by subsectors, as described in the EDP inventory, was discussed. This matter was linked to the issue of significant revision of GFS data for 2006 between the October and the April 2007 EDP notifications, which the Romanian authorities explained in terms of updated data sources.

In addition, Eurostat inquired further about related follow-up issues from the previous mission and EDP notifications (technical format of data sources, financial transactions data, and consolidation issue).

² The bridge table between items used in public accounts and in national accounts has been provided on 30 July 2008.

³ The NSI informed Eurostat on 30 July 2008 that EDP inventory has been translated and will be published at the NSI website in August 2008.

a) Central government

Central government consists of the State budget and of other central government bodies: Treasury budget, privatisation bodies, National Company of Roads, Public institutions partially or totally financed from own revenues subordinated to ministries, Own revenue institutions, Property Fund. Basic data sources are on a cash basis.

The Romanian authorities confirmed the information on data availability that was provided during the previous EDP mission in March 2007. They explained that in March, data for the state budget are available but that as far as the Public institutions partially or totally financed from own revenues subordinated to ministries and some other central government bodies are concerned, only data sources for the three quarters of the year t-1 are available. Data sources for the whole year t-1 had been available in May only, therefore for the April 2007 EDP notification, estimations had been done.

Regarding the October 2007 EDP notification, all data sources were available and consequently, data reported in April were revised.

b) Local government

Local government consists of the Local government budget and Institutions partially or totally financed from own revenues. Basic data sources are on a cash basis.

In October 2007, a substantial revision was observed for the Local government working balance (by – 0.25% of GDP). In April, compilation is based on the "operative execution" while in October, almost definitive data are available. Eurostat expressed concern about the reliability of data sources for local government and about future risks of revisions. DG ECFIN stressed the importance of having stable and consistent data for the purpose of forecasts.

The MOF explained that Local government bodies spent significant amounts at the end of the year. These expenditures are financed by loans and it is very difficult to make reliable estimation on the level of these expenditures. At the same time, the MOF stressed that the revision for 2006 was an exceptional situation that would not be repeated in the future.

c) Social security funds

The Social security funds subsector consists of the Social Security Fund, the Unemployment Fund, Public institutions partially or totally financed from own revenues and the Health Insurance Fund administrated by the House of Health. Basic data sources are on a cash basis.

1.2.2. Other issues relating to data sources and compilation practice

a) New administrative rules on data reporting

The Romanian statistical authorities pointed out that a new "emergency ordinance" has been introduced that stipulates new, shorter deadlines for data reporting by general government bodies starting with data for 2007. The rules fixed in this legal document would noticeably speed-up delivery of data and would ensure a complete set of data in time for the April 2008 EDP notification. The NBR explained that according to this legal document, all general government units are obliged to submit data (revenues and expenditures, balance sheets and profit and loss accounts, if relevant) for the year t-1 by the end of February of the year t. Quarterly data are to be submitted within 45 days after the end of the quarter and annual data within 60 days after the end of the year (previously, data were delivered 90 days after the end of the quarter). In addition, reporting units will be penalised through fines in case of late data delivery. Data will be processed using special software elaborated by the IT team that would guarantee verification of data including correlations checks. The Accounting department had

elaborated instructions and had organised trainings for data providers in order to ensure the requested quality of figures. The Romanian authorities stressed that this new administrative procedures would provide more time for data processing and for GFS compilation and would reduce the risk for future revisions.

Findings and conclusions

- (6) *Eurostat took note about the explanations on the new administrative rules stipulating shorter deadlines for data reporting by government units, which would provide the Romanian statistical authorities with more time for data processing and GFS data compilation in the April 2008 EDP notification.*
- (7) *For the purpose of the April 2008 EDP notification, the NSI will provide Eurostat with the list of general government units (or groups of units) indicating the date of availability data sources (revenues and expenditures, balance sheets, profit and loss account, if relevant) for the year 2007⁴.*

b) Technical format of data sources

Regarding the basic data sources availability, the MOF and the NSI indicated during previous EDP missions in 2007 and in 2006 that detailed data sources transmitted by the Accounting Directorate are in the form of a pdf file (instead of an excel format), which required costly, time-consuming and error prone duplications. Eurostat had repeatedly requested quick action in order to make the data compilation process much more efficient.

The NSI stated that some steps had been realised in order to find technical solutions, however data sources for 2007 that will be used by the NSI in the April 2008 EDP notification, will not be available in excel yet and will be recorded into excel sheets manually by the NSI.

Findings and conclusions

- (8) *Eurostat encourages the Romanian statistical authorities to use Excel files, instead of PDF files, for the compilation of GFS, so to make the data compilation process more efficient and potentially less error prone. Taking into account the insufficient human resources of the NSI, effective and urgent actions are to be taken by the responsible Directorate in order to facilitate the NSI with the appropriate technical format of data sources.*

c) Financial transactions data

Eurostat enquired whether the NBR uses data source on direct flows from budgetary reports and to which extent counterpart information is used. The NBR declared that data from the budget reporting are used for the EDP table 3 and the ESA table 6 (financial accounts) compilation as a primary data source. These data are checked with counterpart information. Counterpart information is used mainly for specifying financial instruments classification and could influence only the structure of financial assets/liabilities.

Findings and conclusions

⁴ List of units of general government, indicating availability of data sources for the April 2008 EDP notification compilation, has been provided for the purpose of the risk assessment of possible revision due to updating of data sources for the October EDP notification.

- (9) *Eurostat took note of the explanations provided by the NBR that the primary data sources that are used for EDP table 3 and ESA table 6 (financial accounts) compilation are originated from the budget reporting. Counterpart information is used only for checking purposes and possibly for changes in the structure of financial assets/liabilities.*

d) New accrual accounting system

The Romanian authorities informed Eurostat that there is an ongoing project on a new accrual accounting system that will cover the whole general government sector. Accrual data sources would supplement cash information and would be probably used in 2009 for the first time.

Findings and conclusions

- (10) *Eurostat took note that a new accrual data sources will not be used for the April 2008 EDP notification.*

e) Consolidation issue

The NSI stated that problems with consolidation, which had been discussed during the last EDP mission, have been solved. Due to the lack of proper information, all current transfers were previously recorded as miscellaneous current transfers D.75 and had not been consolidated. This was the reason for different figures reported by the NSI and the MOF. Following bilateral clarifications between the MOF and the NSI, both institutions use now the same approach for data consolidation. The NSI indicated that the different approach in consolidation was one of the reasons for the substantial revision of data on revenues and expenditures between the October and the April 2007 EDP notification.

Findings and conclusions

- (11) *Eurostat took note of the explanation that the NSI and the MOF now use the same approach for consolidation, that the consolidation issue would not cause significant revisions in the future and that both national institutions would report consistent data.*

2. Follow-up of the visit of 3-4 March 2007

Following up on the conclusions of the EDP dialogue visit, which took place on 3-4 March 2007, the Romanian authorities provided Eurostat with almost all requested documents (explanatory notes and data).

The extensive follow-up bilateral contacts between the NSI and Eurostat were focused on the following issues:

- The Property Fund (PF) issue (sector classification and recording of transactions).
- Sector classification of the passenger railway company CFR Calatori, Termoelectrica and District heating units.

As a follow-up of the 2007 EDP dialogue visit, the following issues were discussed during the mission:

- Outstanding issues on the sector classification of CFR Calatori, of Termoelectrica and of District heating units.

- The issue of the Property Fund (sector classification and restitution recording) was reviewed.
- Following up on the recommended actions relating to data sources, guarantees recording, military expenditures, privatisation and PPPs were reviewed.

The follow-up issues are described in detail under the appropriate items of the Agenda.

3. Follow-up of the October 2007 EDP reporting – analysis of EDP tables

Provision of EDP tables and of related questionnaires

Introduction

The EDP notification tables and the questionnaire related to the notification tables were sent to Eurostat on 28 September 2007. The Romanian authorities provided also information in an Annex (excel) to the request for clarification, which was introduced by Eurostat for the first time in October 2007. Provision of these data had been requested on a voluntary basis.

Findings and conclusions

- (12) *Eurostat appreciated the effort of the Romanian authorities and the noticeable progress achieved during 2007 in the field of the compilation of the questionnaire related to the notifications. Eurostat appreciated also the provision of the supplementary data in the Annex to the request for clarification, which was introduced by Eurostat for the first time in October 2007 and was on a voluntary basis.*

Large revision in total revenues and expenditures, ESA table 2

Introduction

A considerable upward revision was observed in total revenues and expenditures for 2006 in ESA95 table 2 in October 2007 (about +3% of GDP on both sides) compared to data reported in April 2007. Despite the fact that the revision of the deficit for 2006 was not significant, Eurostat observed many upwards and downwards revisions in the structure of revenue and expenditure items as well as for individual items in EDP tables 2. According to the quantification provided by the Romanian authorities in the table on revisions, annexed to the request for clarifications provided in October 2007, the revision of deficit for 2006 relates only to the updated data sources. The largest revisions of data sources include mainly the revision of the cash working balance for local government (-0.25% of GDP), the revision of the balance of Public institutions partially or totally financed from own revenues (-0.17% of GDP) and of the Own revenue institutions (+0.10% of GDP), the revision of payables that are used for accrual adjustments (+0.11% of GDP), and the revision of receivables on social contributions (+0.11% of GDP).

As for the revision of the structure of the ESA95 revenues and expenditures, revenues from taxes were revised upwards by 1.6% of GDP and sales by 0.7%. Expenditures on GFCF were

revised upwards by 2.1% of GDP, social benefits by 0.6% of GDP, etc. The impact of these upwards and downwards revisions had compensating effects, so that the deficit was only slightly revised.

Discussion and methodological analysis

This issue was to a large extent related to item 1.1 of the agenda on statistical capacity issues. As was stated by the Romanian authorities, the revision was caused by the revision of consolidation methods and by the revision relating to updated data sources for some other government bodies (since in April 2007 only data for 3 quarters of 2006 had been available and estimations had to be done). As far as the local government is concerned, the Romanian authorities stated that the revision had to be considered as exceptional (see also point 1.1). Regarding the revision of revenues from social contributions, as was explained by the Romanian authorities, this revision was caused by an error in records and should also be considered as exceptional. The Romanian authorities stressed that the new administrative rules stipulating shortened deadlines for data reporting by government units would provide the Romanian statistical authorities with more time for data processing and GFS data compilation in April 2008 EDP notification (see also point 1.1).

Findings and conclusions

- (13) *Eurostat expressed strong concern for the large revisions for 2006 undertaken between the April and October 2007 notifications, as far as the working balance and net lending /borrowing of local government is concerned, as well as for the revision of other indicators, for the year n-1. These large revisions are of particular concern for DG ECFIN for which the fiscal notifications are the basis for policy assessments and forecasts. In this context, Eurostat wishes to receive more explanations about the estimation methods used in the April 2008 EDP notifications⁵.*
- (14) *Eurostat took note on the explanations provided by the Romanian authorities, that the situation should improve in 2008 due to the fact that an "emergency ordinance" has been introduced to oblige all general government units to provide financial statements (revenues and expenditures, balance sheets and profit and loss accounts, if relevant) for 2007, by the end of February 2008.*
- (15) *Eurostat took note on the explanation provided by the Romanian authorities that the revision was partially related to the application of more appropriate method for consolidation in October 2007.*

EDP table 2

Introduction

The following issues relating to EDP table 2 have been discussed during the mission:

- a) composition of the working balance in EDP table 2A (the follow-up issue from the previous EDP mission)

⁵ See footnote 4.

- b) other accounts receivable/payable (the follow-up issue from the previous EDP mission)
- c) recording of "revenue from previous year"
- d) delimitation of other central government bodies
- e) accrual recording of other central government bodies

Discussion and methodological analysis

a) Working balance

The reported working balance was, before the 2007 EDP mission by Eurostat, a statistical construct adding to the working balance of the Central Budget balance as reported in the State Account, other balances and corrections. During the EDP mission in 2007, Eurostat asked the MOF to reconsider the content of the EDP table 2A working balance for the April 2007 EDP notification, in order to improve the clarity and transparency of the Romanian EDP notification.

Findings and conclusions

- (16) *Eurostat took note that the Central Budget balance as reported in the State Account, which is audited, approved by Parliament and prominently reported in the law to Parliament, is now used as the working balance of the EDP table 2A.*

b) Other accounts receivable/payable

Significant amounts of negative payables are recorded in the EDP table 2A for 2003, 2005 and 2006 (-1497, -3130 mill, -1071 mill RON respectively).

These figures are derived from balance sheets and are used for accrual adjustments of expenditures. Eurostat had pointed out during the EDP mission in 2007 that changes in stocks of other accounts receivable/payable derived from balance sheets could be influenced by other changes in assets (such as reclassification, revaluation, etc.), notably reflecting changes in accounting rules, and thus may not necessarily reflect pure transactions. The Romanian authorities had been requested by Eurostat to analyse the biggest balances of some selected units, which would help alleviate this problem.

The Romanian authorities explained that they have been following since then, the recommendation of Eurostat, analysing data and reconsidering some items. Starting with the April 2008 EDP notification, data on transactions in other accounts receivable/payable relating to wages and salaries, scholarships and unpaid invoices will be used instead of using changes in stocks. In addition, direct information on transactions in payables relating to EU will be used since 2007.

Findings and conclusions

- (17) *Eurostat took note that the Romanian authorities followed the recommendation of Eurostat and adjusted some results on other receivables/payables derived from balance sheets, in order to eliminate any impact of other changes in assets. Eurostat encouraged the Romanian authorities to continue to analyse other accounts receivable/payable recorded in the balance sheets.*

c) Recording of "revenue from previous years"

The Romanian authorities revised in October 2007 the EDP table 2A, by way of moving adjustments relating to "revenue from previous year" from the line "other accounts receivable" into the "other adjustments" line for 2003-2006. The amounts in question are 153.7 mill RON, 175.7 mill RON, 113.3 mill RON and 170.3 mill RON, respectively (0.05% of GDP for 2006).

Eurostat enquired on the nature of this transaction. The MOF explained that *unspent* subsidies, given by government in the current year (t) to institutional units classified outside the general government sector, are to be paid back to government in the following year (t+1). Because these repayments relate to government expenditure of the previous year, the Romanian authorities impute in the EDP table 2A a negative entry in order to eliminate the revenue recorded in the working balance. However, as was clarified during the mission, there is no appropriate entry in EDP table 2A that would reduce actual payment of subsidy recorded in the working balance in the previous year with the consequence that the government deficit is being systematically overestimated.

Eurostat considers that in the year (t) when the subsidy is provided by the government, the expenditure should be reduced by the amount that is not spent by the beneficiary and is to be paid back to government. This would imply the recording of an increase of other accounts receivable F.7 in the year (t). When the unspent money are paid back to government in the year (t+1), the proceeds should be reduced by the same amount by way of recording of a decrease of other accounts receivable. Consequently, appropriate entries in the line "other accounts receivable" should be recorded in EDP table 2A and 3B.

It was clarified that at the time of April EDP tables compilation, the amounts of unspent subsidies given in the previous year that will be repaid to government in the current year are already available, which would enable the Romanian statistical authorities to make the appropriate adjustments in revenues and expenditures, and in other accounts receivables, for the years (t) and (t-1).

Findings and conclusions

- (18) *Eurostat recommended the Romanian statistical authorities to impute the appropriate adjustments relating to repayments of unspent subsidies to government, in the line "other accounts receivable" in EDP table 2A, for the years 2004-2007 in the context of the April 2008 EDP notification. This would imply a revision with positive impact on deficit⁶.*

d) Delimitation of other central government bodies in EDP table 2A

Eurostat noted that some adjustments reported in the line "Net borrowing/Net lending of other central government bodies" (such as Foreign aid managed by the MOF; External loans state budget; Internal loans; Expenditure from privatisation proceeds) apparently reflect expenditures of the state budget that do not enter the working balance and might be recorded in the line "other adjustments". However, in principle, the line "Net borrowing/Net lending of other central government bodies" should report only the B.9 of other central government *institutional units*.

The MOF confirmed that the above mentioned adjustments reflect expenditures of the state budget that are financed from other funds than those entered in the working balance and do not reflect the B.9 of other institutional units.

⁶ The recording of revenues from previous years has been revised in April 2008.

Findings and conclusions

- (19) *The Romanian authorities should reclassify, in EDP table 2A, all those adjustments that do not refer to institutional units, from the line “Net borrowing/Net lending of other central government bodies” into the line “Other adjustments”.*

e) Accrual recording of other central government bodies

The Romanian authorities indicated that adjustments in EDP table 2 in the line “Net borrowing/Net lending of other central government bodies” reflect cash balance of other government bodies and asked whether there are relating accrual adjustments recorded in EDP table 2.

The Romanian authorities clarified that, for the time being, no accrual adjustments have been made for other central government bodies (except for the Road Company) and they are reported on a cash basis.

Findings and conclusions

- (20) *Eurostat expressed concern on the fact that the accrual principle does not seem to be followed for other central government bodies (e.g. the Property Fund, the Public institutions partially or totally financed from own revenues and others)⁷.*

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of the 50% rule in national accounts

General application of the 50% rule

Introduction

The NSI is responsible for the sector delimitation in Romania. The same composition of the general government sector and its subsectors is used by the NSI, the MOF and the NBR. Borderline cases are discussed between the NSI and the MOF.

The 50% criterion is applied on subgroups of administrative units. In order to verify the correctness of the applied method for delineation of institutional units and their classification, a special survey on “Incomes and expenditures of public institutions under the ministries subordination partially or entirely financed from own revenues” took place in 2002. All these institutional units are classified inside the general government sector.

⁷ The Romanian authorities stated, in the context of the April 2008 EDP clarification, that the accrual adjustments have been done for all other central government bodies except for the Risk fund.

Discussion and methodological analysis

The NSI explained that, during the previous two years, units that are particularly big were being examined on an individual basis. In case the subsidies provided by government to the unit cover more than 50% of its revenues, this unit is closely monitored in terms of sector classification. Regarding new units, these are classified by the NSI on the basis of information on the nature of their future activities and financing. In case the new unit is established as a commercial purpose unit and is self-financed, the initial classification of such unit is outside the government sector.

Taking into account the large number of public units classified in the public corporation sector and the available human resources at the NSI, Eurostat expressed some doubts whether the coverage of units that were being examined on an individual basis was sufficient. In this respect, several particular shortcomings were identified, when the sector classification of some individual units was discussed under the item 4.1 of the Agenda.

In addition, Eurostat recalled that one of the key criteria for the classification of government units inside or outside government, must be the implementation of the 50% rule, that is the proportion of market revenues over costs, and not whether the units is financed mostly by government subsidies or not.

Findings and conclusions

- (21) *Eurostat expressed concern about the proper application of the 50% rule by the Romanian statistical authorities. In particular, it seems that no test has been carried out for all big public “commercial” units by the Romanian statistical authorities during the last years. The problem may be also linked with the lack of resources at the NSI.*
- (22) *Eurostat recalled that the 50% test implies monitoring a proportion of market revenues over costs and not the level of subsidies in revenues/expenditures.*

Sector classification of some specific units

Introduction

Sector classification of the following specific institutional units (groups of units) have been analysed during the mission:

- a) Property Fund
- b) Railways, particularly passenger transport company CFR Calatori
- c) Ports
- d) Metro
- e) Airports
- f) Public hospitals
- g) Public TV and radio
- h) Universities
- i) Termoelectrica
- j) District heating units
- k) Pension schemes (second pillar)

Discussion on the sector classification of some units had been already launched during the previous EDP missions in 2006 and in 2007: Property Fund, Railways, Public hospitals,

Universities, Termoelectrica, District heating units, Pension schemes, while sector classification of Ports, Metro, Airports Public TV and Radio was discussed with Eurostat for the first time. For some borderline cases (Property Fund, CFR Calatori, Termoelectrica and District heating units), discussions continued in the context of the EDP mission follow-up.

Discussion and methodological analysis

a) Property Fund

The issue of the sector classification of the Property Fund (PF) was extensively discussed during the EDP dialogue visit in March 2007. Following on the conclusions from the mission, the PF was reclassified into the government sector in the April 2007 EDP notification by the Romanian statistical authorities.

In December 2007, the new legal acts relating to the PF have been approved. The legal acts have been provided to Eurostat prior to the mission (in Romanian language).

The representative of the PF provided the following information during the meeting:

- A restructuring of the assets of the PF took place on the basis of assets quality examination: some assets of the PF were replaced by the state.
- According to the new legal acts, compensation titles with a value of 500 thousands RON and less, could be repaid in cash. Those with higher value should be compensated by way of provisions of PF shares only.
- Until the shares of the PF are quoted, the compensation titles will be issued at a nominal value. As soon as the PF shares will be quoted, the number of compensation titles issued will depend on the value of the stock exchange market.
- As far as the management and administration of the PF shares is concerned, voting rights of the shareholders will be limited in risky areas.

In addition, the representative of the PF pointed out the "business" consequences of the classification of the PF inside the government sector. Eurostat noted that this should not be the case since the sector classification of the PF in terms of ESA95 methodology is for the statistical purposes only.

Findings and conclusions

- (23) *Eurostat took note of the information provided by the Romanian authorities, recalled that the PF is acting on behalf of the government, and confirmed the classification of the Property Fund inside the general government sector.*

b) Railways

There are three railway companies in Romania (passenger services, infrastructure and freight services), all 100% owned by government. All the companies are currently classified outside general government.

CFR Calatori – passenger services

As a follow up on the 2007 EDP mission, the issue of the sector classification of the CFR Calatori (passenger transport) had been intensively bilaterally discussed between Eurostat and the NSI. The discussion was focused on the examination of the 50% rule, particularly on the classification of subsidy payments from the state.

The Romanian authorities provided Eurostat, in the context of the follow-up to the 2007 EDP mission, with the profit and loss accounts as well as with the balance sheets for 2003-2006.

The profit and loss accounts show that the company was mostly profitable in 2003-2006 in terms of business accounting rules (except for 2005). The split of “sales” for 2003-2006 was provided by the NSI on the request of Eurostat. According to this information, operating incomes consist of sales from tickets, compensation of tariffs for pupils, pensioners etc. provided by the state, subsidies relating to turnover and other operating incomes.

Eurostat stated that based on the data provided by the Romanian authorities, the examination of the 50% rule shows the following results for 2003-2006: 50,9%; 51,2%; 51,9% and 47,4 % respectively (in case all operating incomes except "subsidies relating to turnover" are taken into account). However, the nature of “other operating incomes” is not clear and in case these would not be taken into calculations, the 50% criterion would not be fulfilled for the whole period. Eurostat also pointed out at the differences between the figures on other operating revenues recorded in the profit and loss account and the figures in the table provided by the Romanian statistical authorities, which should be clarified.

The NBR stressed that other operating incomes could have the nature of sales, since CFR Calatori provides contractual services to other institutions (e.g. to the Post). Therefore, the content of other operating incomes should be more closely examined.

According to the information provided by the Romanian authorities, a part of the debt of the CFR Calatori is included in the general government debt, since it refers to the so called "on-lending" when the state budget borrows funds on the market and provides these funds to the company. Another category of the debt of the CFR Calatori, which is not reported as government debt, are loans incurred directly by the company. It is not clear whether the amounts, recorded in the line “Amounts due to credit institutions” in the balance sheet of the CFR Calatori, reflect a liability against the state budget or against the credit institutions.

CFR SA – infrastructure

The financial statements for the infrastructure railway company had not been available prior to the mission. The MOF provided the profit and loss account for the infrastructure railway company for 2003-2006 during the mission. Due to time constraints, the issue of the sector classification was not examined during the meeting.

CFR Marfa – freight services

The financial statement had not been available prior to the mission. Due to time constraints, the issue of the sector classification of the freight railway transport was not examined during the meeting.

Findings and conclusions

- (24) *The Romanian authorities will conduct an in-depth analysis on the issue of the sector classification of the CFR Calatori. The nature and the amounts of other operating incomes for 2003-2007 are to be clarified, and the 50% rule is to be re-examined for 2003-2007. The result of the analysis is to be provided to Eurostat before the April 2008 EDP notification⁸.*
- (25) *The Romanian authorities will conduct an in-depth analysis of the issue of the classification of freight and infrastructure railway companies, and will inform*

⁸ The Romanian authorities clarified in the context of the April 2008 EDP notification that the passenger railway company CFR Calatori fulfilled the 50% criterion for market producer in previous years, but preliminary data show that for 2006 and 2007 this is not the case as the proportion of sales compared to costs is slightly below the 50% threshold. The Romanian authorities committed themselves to continue the monitoring and to carry out the 50% test in the basis of the final results for 2007.

*Eurostat before the April 2008 EDP notification. The Romanian authorities will provide Eurostat with the relevant documentation including financial statements (profit and loss account and balance sheet)*⁹.

c) Ports

The Romanian authorities provided before the mission the profit and loss accounts and some financial indicators for 4 ports (*National Company Administration of navigable Canal "Constanta", National Company Administration of Maritime Danube Ports "Galati", National Company Administration of Danube River Ports "Giurgiu", National Company of Maritime Ports Administration "Constanta"*) and one administration unit, *River Administration of the Lower Danube "Galati"*. The administration unit receives subsidies from the state budget. All port companies are currently classified in the public corporation sector.

Eurostat stated that, when examining the 50% rule for 2003-2006, the sales (excluding other operating income and subsidies) of the River Administration unit do not cover 50% of its operational costs for the last 3 years, and the reclassification of the company inside general government sector should be considered.

The MOF and the NBR felt that a further in-depth analysis of operating incomes should be done in cooperation with the River Administration unit and the Ministry of Transport and that provisional data for 2007 should be analysed before concluding on the reclassification of the unit.

Findings and conclusions

- (26) *Eurostat considers that the unit "River Administration of the Lower Danube Galati" should be reclassified inside general government as such unit failed to comply with the 50% rule for 3 years in a row. Nevertheless the Romanian authorities will conduct an in-depth analysis of the issue on the basis of 2007 profit and loss accounts of the unit, and will inform Eurostat before the next EDP notification*¹⁰.

d) Metro

The Romanian authorities provided, before the mission, data on incomes and expenses for 2003-2006 for the company Metrorex, which operates a metro in Bucharest. It is a joint stock company established by the Ministry of transport, communication and tourism and is currently classified in the public corporation sector.

As stated by the Romanian authorities, Metrorex recorded losses and received subsidies in 2004-2006.

Eurostat pointed out that based on the information provided by the NSI, the examination of the 50% rule shows the following results for 2003-2006: 29,7%; 42,7%; 59,8% and 47,3% respectively (operating incomes do not include operating subsidies). The result of the 50% test indicates that the company is most likely a non-market unit and reclassification inside

⁹ The Romanian authorities provided in the context of the April 2008 EDP notification an analysis of the 50% rule for railway companies according to which freight and infrastructure companies fulfil the 50% criterion to be classified outside the government sector.

¹⁰ Eurostat has been provided with the analysis of the 50% rule in the context of the April 2008 EDP notification and AFDJ Galati has been reclassified into the government sector for 2004-2007.

government should be considered. However, similarly to the passenger railway company, the possible inclusion in sales of part of the subsidies (those reflecting compensation of reduced prices for tickets), should be examined.

Findings and conclusions

- (27) *The Romanian authorities will conduct an in-depth analysis of operating incomes and of the results from the 2007 profit and loss accounts of the unit, reconsider its sector classification and inform Eurostat before the April 2008 EDP notification¹¹.*

e) Airports

The issue on the sector classification of the airports was shortly discussed. The NSI informed Eurostat that it was not possible to provide the requested financial statements for all airports before the mission, due to lack of time. Airports are currently classified in the public corporation sector. Some of them are owned by central government and some by local government.

Findings and conclusions

- (28) *The Romanian authorities are invited to conduct an in-depth analysis of the sector classification of the airports and to provide Eurostat with the relevant documentation in order to perform the necessary accounting analysis and apply the 50% rule, including profit and loss accounts and balance sheets for 2003-2006¹².*

f) Public hospitals

Public hospitals are classified in the general government sector. As stated by the NBR, there are no private hospitals in Romania. Eurostat observed significant surpluses reported for the years 2003-2005 in the EDP table 2A in the line "Public institutions partially or totally financed from own revenues" (which amounted to 547.4 mill, 681 mill, 752.6 mill). In the context of the October 2007 EDP clarification, the Romanian authorities confirmed that the surpluses relate to hospitals.

Further to an Eurostat enquiring, the NBR stated that accounts for hospitals are recorded on an accrual basis and other accounts payable are appropriately reflected.

Findings and conclusions

- (29) *Eurostat acknowledged that public hospitals are classified in the central government and took note of the statement of the Romanian statistical authorities that their accounts are recorded on accrual basis.*

g) Public TV and Radio

¹¹ Eurostat has been provided with the analysis of the 50% rule in the context of the April 2008 EDP notification and Metrorex has been reclassified into the government sector for 2004-2007.

¹² Eurostat has been provided with the analysis of the 50% rule and with financial statements in the context of the April 2008 EDP notification. The 50% test has been applied for all 17 airports, out of which 8 airports have been reclassified into the government sector for 2004-2007.

The Romanian Society of Television and the Romanian Society of Radio Broadcast are according to the Law no. 41/1994, as amended, acting under Parliament supervision. Both institutions are classified in the central government subsector.

The public TV is financed from TV tax, advertising revenues and payments from the state budget. Public radio is financed by the state budget.

Findings and conclusions

- (30) *Eurostat acknowledged that the public TV and Radio are classified in the central government subsector.*

h) Universities

Public universities are classified in the central government subsector. Except transfers from the state budget, which are the main part of the revenues, public universities record revenues from research, designing, consulting, expert reports, fees collected by canteens and hostels, etc.

As stated by the Romanian authorities, there are also private universities, which are acting as corporations and which are financed exclusively from private funds. Private universities are classified in the sector S.11 and S.15.

Findings and conclusions

- (31) *Eurostat acknowledged that public universities are classified in the central government subsector and took note of the information provided by the Romanian authorities that private universities do not receive funds from the state budget.*

i) Termoelectrica

The issue of the sector classification of Termoelectrica was shortly discussed during the previous EDP missions in 2006 and 2007 and in the context of the follow-up. Termoelectrica is classified in the public corporation subsector. Eurostat had noted that Termoelectrica had incurred noticeable losses over the past years and benefited from large calls on guarantees. Therefore, there was a need to further analyse its sector classification.

According to data on incomes and expenditures for 2003-2006 provided by the Romanian authorities in the context of the follow-up, Termoelectrica seems to meet the 50% criterion for market producers. However, in this respect, a decreasing trend is observed by Eurostat and the 50% test shows that sales seems to cover only 51% of operating costs in 2006.

Findings and conclusions

- (32) *Eurostat acknowledged that Termoelectrica is classified in the corporation sector. However since the 50% test for 2006 shows the result very close to the 50% limit, a continuous monitoring should be undertaken of this unit.*

j) District heating units

The issue of the sector classification of District heating units was shortly discussed during the last EDP missions and in the context of the follow-up. District heating units are classified in the public corporation subsector.

The Romanian authorities explained that District heating units were separated from Termoelectrica at the end of nineties. The main activity of the units is the production of

thermal power and hot water, which is sold directly to consumers. Since subsidies for energy have been eliminated, District heating units collect funds from consumers only.

At present, there are 89 units, of which 45 units are 100% public. For 2005, out of the 45 100% public owned units, 16 units record profit and 29 record losses. The NSI informed Eurostat that they will collect data for 2006 and further analyse the 50% criterion.

Findings and conclusions

- (33) *Eurostat took note of the sector classification of District heating units outside the government sector and asked the Romanian statistical authorities to undertake the analysis of the 50% rule. The results of the analysis and supporting documents are to be provided to Eurostat before the April 2008 EDP notification¹³.*

k) Pension schemes (second pillar)

The Romanian authorities informed Eurostat that the second pillar has been introduced and individuals could take decision on their participation in this pension scheme till the end of 2008. First payments to the second pillar will take place in May 2008.

Findings and conclusions

- (34) *Eurostat took note of the information that the second pillar for pensions is being introduced in 2008 and that the first payments to the second pillar will take place in May 2008.*

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

The Romanian authorities apply a simple time adjustment method for recording taxes and social contributions (one month lag), the main exceptions being custom duties and some excise duties.

Discussion and methodological analysis

Eurostat observed noticeable upward revisions of revenues from social contributions between the October 2007 and the April 2007 EDP notification (+377,6 mill RON = 0,11% of GDP) and expressed surprise that such a revision could occur in a country using time adjusted cash. The Romanian authorities stated that it was an exceptional situation caused by a mistake in records.

Eurostat appreciated that the Romanian authorities followed the recommendations of the EDP mission in 2007 and reported stocks of other receivables on taxes and social contributions in the questionnaire related to EDP notifications.

¹³ The 50% test has been applied for all 89 District heating units, out of which 7 have been reclassified into the government sector for 2004-2007 in the context of the April 2008 EDP notification.

During the EDP mission in 2006, the issue of tax and social contributions arrears had been discussed. Eurostat had recommended to quantify relating arrears in order to see whether the use of "simple" time adjusted method was appropriate. The MOF provided during the meeting a table on outstanding amounts of claims on taxes and social contributions, as stated in public accounts, and the collected arrears for 2005-2007. The table will be also provided to Eurostat in electronic form in English.

Findings and conclusions

- (35) *Eurostat expressed concern for the substantial revision of other accounts receivable for social security between the April and October 2007 notification for the year 2006, and took note of the explanation by the Romanian authorities that this was an exceptional revision due to an error in records.*
- (36) *The Romanian authorities will provide more detailed information (by taxes) in the questionnaire on methods used for recording taxes and social contributions.*

4.2.2. Calculation of accrual interest

There was no outstanding issue relating to accrual interest calculation and the subject was not discussed during the mission, due to time constraints.

4.3 Recording of specific government transactions

4.3.1. Restitutions

Introduction

The issue of the recording of the Property Fund (PF) and the restitution was extensively discussed during the last EDP mission in 2007. Whereas the principle of restitutions was established by law early on, the procedure involves both a validation process in terms of right of claim as well as amount claimable, such that it is appropriate to record a government expenditure only at time of issuance of the compensation title (i.e. gradually over time). Eurostat had approved the treatment of the issuance of compensation titles applied by the Romanian statistical authorities, its impact on the government deficit and its time of recording. The issued compensation titles are recorded as financial derivatives (liability of government) with a counterpart as capital transfer payable.

- The value of transactions corresponds to the value of issued compensation claims determined by the professional "evaluators" in the relevant year.
- The time of recording is the time of *issuance* of the claim, since the difference between the time of the compensation claim *acceptance* and the time of the compensation claim *issuance* is negligible.
- The issuance of the PF shares against restitution titles is to be reported as a redemption in financial derivatives (F.34) and an issuance of equity liability of government (F.512), and not of a mutual fund shares nature (F.52).

Restitutions were properly recorded by the Romanian authorities in EDP tables in April and in October 2007.

Discussion and methodological analysis

During the meeting, Eurostat pointed out that the amount of dividends received by the Property Fund in 2006 was very low (71 mill RON), taking into account that the portfolio of the PF was 14 bill RON. The representative of the PF confirmed that the revenue from this portfolio was much higher for 2006; however the main part of the revenue has been recorded as revenue of the state budget. This is because the portfolio was mainly registered in the shareholders register as a portfolio of the PF at the end of 2006 only.

The representative of the PF stated that, for the moment, 12% of the PF shares are being held by individuals (and 88% by government) and that the procedure of the compensation should speed up in the near future. Currently, 3060 claimants have preferred cash payments (see also point 4.1 on the sector delimitation of the PF).

Findings and conclusions

- (37) *Eurostat confirmed the proper recording of government expenditure (capital transfer) relating to compensation of claimants at time of compensation titles issuance. Eurostat encouraged the Romanian authorities to clarify amounts for 2007 and to provide Eurostat with appropriate explanations for the April 2008 EDP notification.*

4.3.2. EU flows and Market Regulatory Agency (MRA)

EU flows

Introduction

EU funds transit via the paying agency accounts at the NBR, which are reported within government deposits. These flows do not transit via the government units' working balances (they transit via a special extrabudgetary account), even when such units are national beneficiaries. Therefore, in this respect, no adjustment line is recorded in the EDP table 2. Payables relating to EU flows reflecting advances paid by EU on pre-accession funds are recorded in the EDP Table 3.

When compiling ESA95 table 2, all expenditures realised on behalf of EU (which transit via extrabudgetary account and do not enter working balance) are included and equal amounts are imputed on the revenue side, in order to neutralise the impact on the deficit. The Romanian statistical authorities had explained during the last EDP visit in 2007 that, concerning pre-accession funds, there was a lack of information on the final beneficiaries of the EU funds, which did not allow a direct routing of transactions and an exclusion of these transactions from government revenue and expenditure where the beneficiary is nongovernment, as required by ESA95 rules. This leads to an overestimation of government revenue and expenditure, although this is neutral on government deficit.

Discussion and methodological analysis

According to the discussion during the meeting, it seems that this problem was relevant for pre-accession funds only. As far as the structural funds are concerned, the arrangement will be different; flows will be distinguishable depending on whether the final beneficiary is inside or

outside general government. This would eliminate the problem from the past. The MOF stated that there will be also cases of pre-financing from the state budget.

Eurostat recalled the general rules for EU flows recording and the importance of the proper implementation of the rules, especially after EU accession, due to large future flows.

Eurostat asked the Romanian authorities whether the 7% pre-financing from EU has taken place. The NBR confirmed that these funds have been received in 2007 and are recorded as other accounts payable to EU in quarterly financial accounts.

The MOF mentioned receipts of 400 mill RON in 2007 from EU for “Cash flow and Schengen Facility” and provided Eurostat with the relevant Treaty during the meeting. According to the Article 32 of the Treaty concerning the accession of the Republic of Bulgaria and Romania to the EU that was signed on 25 April 2005, “a *Cash flow and Schengen Facility is a temporary instrument to help Bulgaria and Romania between the date of accession and the end of 2009 to finance actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control and to help improve cash flow in national budget*”. The Treaty stipulates also amounts to be paid to Bulgaria and Romania in 2007-2009. According to this document, a lump sum payment to Romania for 2007 would amount to 297.2 mill EUR (2004 prices).

The MOF stated that according to the relevant regulation, these funds are not conditional and, accordingly, were booked as revenue in national accounts in 2007.

Findings and conclusions

- (38) *Eurostat would like to receive, in the context of the April 2008 notifications, a note detailing the nature and the amounts of all revenues and expenditures recorded in government accounts in connection with EU flows, including EU grants, financial advances and amount paid to government for improving the cash-balance of government and in the context of the Schengen policy of the EU¹⁴.*

Market regulatory agency (MRA)

Introduction

The Agency for Payment and Intervention for Agriculture (APIA) was established in January 2007 in Romania and is classified in the government sector. Eurostat further inquired about the market intervention activities recording in national accounts.

Discussion and methodological analysis

During the mission, the Romanian authorities declared that APIA is only a regulatory authority and is not involved in market intervention activities. However, it was not clear where inventories relating to market intervention activities on behalf of the EU are reported.

Findings and conclusions

¹⁴ The Romanian authorities provided in the context of the April 2008 EDP notification data on revenues and expenditures relating to EU flows for 2007. As regards the appropriate recording of "Cash-flow and Schengen Facility", no action has been requested from the Romanian authorities in April 2008, since the issue was being clarified by Eurostat on a horizontal basis.

- (39) *The Romanian authorities will investigate whether inventories relating to market intervention activities on behalf of the EU are held at the level of the MRA, in order to apply Eurostat's recent guidance on this issue¹⁵.*

4.3.3. Guarantees

Introduction

Transactions relating to guarantees are realised via the Risk Fund classified in the S.1311. The Risk fund is established by the Ministry of Economy and Finance for the cases where the beneficiaries of the guarantees/on-lending fail to pay their obligations as stipulated in the agreements with the Ministry of Economy and Finance.

Discussion and methodological analysis

In public accounts, a claim is recorded in the Risk fund books when the guarantee is called and the government (Risk Fund) pays on behalf of the debtor. In national accounts, these payments are recorded as expenditure (capital transfer) and no claim is recorded. In addition, when government borrows funds and provides these to public companies (on-lending), repayments realized by the Risk Fund (in the case of the beneficiary funds shortage) are recorded as capital transfer expenditure in national accounts. The state budget provides transfers to the Risk Fund in order to facilitate all these payments.

The Romanian statisticians record guarantee calls as expenditure (capital transfer) and apply the repeated call test, which leads to the recording of a debt assumption of the outstanding debt via capital transfer expenditure, with a negative impact on the deficit and increase of government debt, after the third call.

The Romanian authorities provided, prior to the mission, transparent and detailed data on payments and outstanding amounts of claims of the Risk Fund for 2003-2006 by year and by beneficiary. These tables reflect the records in public accounts of the Risk Fund. In addition, the table on adjustments made by statisticians that are necessary for the proper application of ESA95 rules with respect to guarantees recording was provided. The tables were analysed during the mission. Eurostat recommended the Romanian authorities to provide in the future an explanatory note on the content of these tables, or use ESA95 terminology, when relevant, so that records in public accounts and in ESA95 accounts could be easily linked.

Findings and conclusions

- (40) *Eurostat took note that the Romanian authorities record guarantee calls as expenditure (capital transfer) and apply the repeated call test (after the third call), which leads to the recording of a debt assumption of the outstanding debt via capital transfer expenditure, with a negative impact on deficit and increase of government debt.*

Termoelectrica

¹⁵ The Romanian authorities explained in the context of the April 2008 EDP clarification that there have not been any transactions in inventories on behalf of EU (MRA) in 2007.

The Romanian authorities provided in the context of the 2007 EDP mission follow-up tables on stocks and flows of Termoelectrica debt. These tables were shortly discussed during the meeting. According to these tables, guarantees are provided to Termoelectrica by the state.

Repayments are realised from own resources of Termoelectrica, or from the state budget (Risk Fund), or from the local budget. Termoelectrica also benefits from loans contracted directly by the state and on-lent to the company (recorded as government expenditure).

Local government issued guarantees to other companies than Termoelectrica (reported in table III a in the questionnaire relating to the notification tables).

4.3.4. Military equipment expenditures

Introduction

Military expenditures are recorded on a cash basis. The part of expenditures financed by external loans might have been nonetheless considered to be on a delivery-proxy basis, given the way such loans function (except for equipments built over many years): the loan arises when the equipment is delivered.

Discussion and methodological analysis

Eurostat acknowledged that the Romanian authorities followed Eurostat's conclusion from the last EDP mission and reported information, in the questionnaire related to EDP notification, on the likelihood that the time of recording of military expenditure might create a risk that deviations with deliveries could exceed 0.05% of GDP.

In addition, the Romanian statisticians have now new information on deliveries of military equipment from the Ministry of Defence, which is reported in the questionnaire related to EDP notification. However, no adjustment is made yet in EDP table 2A and military expenditures are recorded on a delivery-proxy basis, for the time being.

Findings and conclusions

- (41) *Eurostat encouraged the Romanian statistical authorities to use the data based on deliveries in the April 2008 EDP notification, as they have now become available, instead of keeping recording expenditures on military equipment on a cash and a proxy-delivery basis.*

4.3.5. Debt assumptions, debt cancellations and debt write-offs

Introduction

In the context of the October 2007 EDP notification, the NSI reported that they do not use "new ways" of foreign debt cancellations and that there are no cases of foreign claims hosted in public corporations. Only stocks of claims against public corporations are recorded in the table IV of the questionnaire related to EDP notifications. Zero values are reported for debt cancellations.

Discussion and methodological analysis

The Romanian authorities declared during the mission that no debt cancellations took place during 2003-2006. However, it was indicated that a debt cancellation against Iraq took place in 2006.

DG ECFIN pointed out that significant amounts of debt cancellation should have been realised on the basis of the special legal government Act issued in December 2006. The debt cancellation allegedly relate to Termoelectrica, and (seemingly) to other public companies debt from guarantees (Risk Fund) as well as to debt from social contributions. The debt cancellation includes principal amount and penalties. The MOF provided during the mission a table on debt cancellation by the Risk Fund in 2007, according to which the total amount of debt cancellation is 3076.5 mill RON, out of which the debt of Termoelectrica is 1178.8 mill RON. As was stated by the Romanian authorities, the transaction took place in 2007.

Eurostat noted that in the case of cancellation of claims of the Risk Fund against Termoelectrica, this operation might not impact the deficit of government, since guarantees calls had been previously recorded as capital transfer expenditure. However, this issue was not closed and should be further analysed on the basis of detailed documentation which is to be provided by the Romanian authorities. Among others, the documentation should include a list of benefiting companies, creditors and amounts of debt cancellation (indicating the principal and other components, e.g., penalties, interest, if any). It should be clarified if those accrual penalties (cancelled) have been recorded as government revenue in past years.

Findings and conclusions

- (42) *As far as debt cancellations are concerned, Eurostat recalled that cancellation of claims in favour of third countries should be treated as debt cancellations with a counterpart recording of a capital transfer from government. The case of debt cancellation towards Iraq undertaken in 2006 should be reported explicitly in the April 2008 EDP notification¹⁶.*
- (43) *The Romanian authorities were invited by Eurostat to provide a list of claims against public corporations (stocks of debt of as well as repayments of such debt), for the years 2004-2007 for the April 2008 EDP notification¹⁷.*
- (44) *The Romanian authorities will also provide to Eurostat a copy of the Act which cancelled the debt of Termoelectrica (and debt of other companies, if any), and the accounting analysis concerning transactions associated with this Act. The year of debt cancellation is to be also clarified¹⁸.*

¹⁶ The Romanian authorities provided Eurostat in the context of the April 2008 EDP notification with bilateral agreements between the Romanian government and the third countries on debt cancellation signed during the period 2005-2007 and notified debt cancellations against Iraq, Syria, Albania, Congo, Guinea with negative impact on the deficit in each period (particularly in 2006, 0.64% of GDP).

¹⁷ The list of government claims against public corporations for 2004-2007 has been provided in the context of the April 2008 EDP notification.

¹⁸ Emergency ordinance on debt cancellation of the Risk Fund claims and other fiscal claims against public companies (Termoelectrica, etc), that took place in 2007 was provided by the Romanian authorities in the context of the April 2008 EDP notification. It was agreed in the context of the EDP bilateral clarifications with Eurostat that no transaction in debt cancellation is to be recorded in 2007, since no claims are recorded in ESA95 accounts. Related flows on debt cancellations have been recorded in ESA95 accounts as government expenditure in previous years in the context of the state guarantees recording.

4.3.6. Capital injections in public corporations, dividends, privatization

Introduction

Comparing with the situation at the beginning of 2007, the Romanian authorities made noticeable efforts in completing the relevant information in the questionnaire related to the notification tables (almost no information was provided last year).

However, there was a need to further clarify several methodological issues, particularly on dividends/superdividends and privatisation recording.

Discussion and methodological analysis

a) Capital injections

The NBR recalled that there were no capital injections recorded as equity injection in 2003-2006 except for an equity injection to C.E.C bank in 2006. The appropriate treatment of this transaction had been confirmed by Eurostat during the mission in 2007.

b) Dividends

The Romanian authorities reported in the table Va of the questionnaire related to EDP notifications significant amounts of withdrawals from income of quasi-corporations D.422 for 2005 (1529 mill RON).

The NSI explained that data on dividends recorded in national accounts are based on budget reporting data sources. It seems that individual data by companies which paid dividends to government are not available. Therefore the NSI was not in a position to identify companies which contributed to the large payments in 2005 and 2006.

Eurostat recalled that according to ESA95 rules, the so called “superdividend” test should be conducted. Dividends recorded in national accounts should neither include the proceeds of sales of assets, nor revaluation gains. Dividends should be linked to the operating profit of the previous year. In case the amount of distributed income is higher than the operating profit of the company for the previous year, the difference should be treated as a financial transaction without impact on deficit (withdrawal of equity F.5).

c) Privatisation

The issue of the content of privatisation receipts was discussed during the mission in 2007. Eurostat had noted several ambiguities in the reported data and in the terminology used. It was not clear whether the so called "valorification" receipts refer to receipts from disposals of fixed assets, privatisation, disposals of other equity or receipts from reimbursement of loans. In the context of the April 2007 EDP notification, the Romanian authorities declared that *"the content of the privatisation proceeds represent effective proceeds of privatisation authority"*.

Eurostat enquired further on what is the exact content of the “valorification” receipts, since the label of this item seemingly does not refer to privatisation receipts.

Findings and conclusions

- (45) *The Romanian authorities will check the nature of the big payment to government concerning withdrawal from income of quasi-corporation in 2005 and will investigate the nature of dividends paid in 2006¹⁹.*
- (46) *The Romanian statistical authorities do not seem to undertake the super-dividend test in the context of the payment of dividends to government by public owned corporations. This will need to be undertaken in the context of the April 2008 EDP notification. Eurostat will also be provided with a list of dividends paid by amount and by company for the years 2004-2007²⁰.*
- (47) *The Romanian authorities are asked to complete the detailed information on distributions by large operations, as required, in the questionnaire related to the notifications (table Vb, section II.B) for 2004-2007 in the context of the April 2008 EDP notification.*
- (48) *The Romanian authorities will check the nature of the “valorification” receipts, investigate the nature of this amount and whether it refers to receipts from disposals of fixed assets, privatisation, disposal of other equity or receipts from reimbursement of loans and inform Eurostat in the April 2008 EDP notification.*

4.3.7. Public Private Partnerships

Introduction

The NSI followed the Eurostat conclusion from the previous EDP mission in 2007 and provided available information on PPPs to Eurostat.

Discussion and methodological analysis

At the level of central government, information on the PPPs project "Dâmbovița Center" is available. This project is focused on the reconstruction of an existing building. As stated by the NSI, the contract was approved by the Government Order no.304/2003. The value of the contract is 130 mill \$ and is to be financed by private investors. However, the representative from the specialised department of the MOF declared that the contract has not been signed yet.

As far as the local government level is concerned, the NSI stated that a list of contracts is available; however, these are obviously mainly concessions contracts. The NSI will conduct an analysis of these contracts by the October 2008 EDP notification.

Findings and conclusions

¹⁹ Information in the Questionnaire related to EDP notification has been corrected in April 2008.

²⁰ A list of dividends received by government in 2005-2007, by companies, including data on profit of relevant companies, has been provided in the context of the April 2008 EDP notification. According to this list, dividends have been properly recorded. Some missing information on profit/loss for some companies needs to be completed.

- (49) *The Romanian authorities will check whether the PPP on the Dambovita Center has been signed and as soon as it is signed will provide a copy to Eurostat for examination.*
- (50) *Eurostat encouraged the Romanian authorities to conduct an analysis of contracts at the local level and inform Eurostat on the result as soon as possible, and by the October 2008 EDP notification at the latest.*

4.3.8. Swaps (swap cancellations, off-market swaps, FOREX swaps, options)

The issue was not discussed during the visit due to time constraints. In the context of the October 2007 EDP notification, the Romanian authorities had stated that there were no operations relating to swaps in 2003-2006.

4.3.9. Securitisation

The issue was not discussed during the visit due to time constraints. The Romanian statistical authorities had stated during the last EDP mission that they are not aware of any securitisation operations.

4.3.10. Other specific transactions

UMTS

Introduction

According to the information provided by the NSI prior to the mission, 4 licences for the 3rd generation mobile communication (3G) have been granted in the past by the General Inspectorate for Communication and Information Technology (GICIT). GICIT is a public autonomous institution involved in the radio-communication and information technology operations. Two licences were granted in 2005 and two at the beginning of 2007. The payment of the fee (35 mill USD = 87.5 mill RON) is regulated by the Government decision and is to be paid in the following way:

- The first instalment, for an amount of 10.5 mill USD is to be paid within 120 days after the licence for the 3rd generation mobile communication is agreed.
- The following five annual equal instalments for an amount of 4.9 mill USD are to be paid by 30th of January of each relating year.

Payments of the tariff on the use of spectrum are currently treated in national accounts as D.75, Miscellaneous current transfers on a cash basis.

The recording applied by the Romania authorities seemed to be inappropriate.

Discussion and methodological analysis

Eurostat recalled that according to the rules set up in the ESA95 Manual on government deficit and debt, payments to government relating to the allocation of the licences are to be treated as disposal of a non-financial asset (preferably), or as the payment of a rent (special cases). In the Romanian case, the sale of UMTS licences is to be treated as sale of non-financial assets in the year when the licence was granted. The subsequent payments are to be

treated as financial transaction without impact on the deficit. This would imply a revision of the data, with a positive impact on the deficit for 2005 and 2007. At the same time, the proceeds from the following instalments should be eliminated from government revenue, which would imply a revision of the 2006 data with a negative impact on the deficit.

Findings and conclusions

- (51) *The rules on recording of UMTS revenues did not seem to have been followed by the Romanian authorities for the recording of UMTS licences. The whole amount decided at the time of the granting of the licence should be recorded as government revenue in the year when the licence was granted. In practice, payments received by government in subsequent years should be recorded as financial transaction²¹.*

Other transactions

The issues relating to the Sale and leaseback operations, Carbon trading rights, Payments for the use of roads were not discussed during the mission due to time constraints.

According to the note provided by the Romanian authorities, Romania is not in a position to purchase trading carbon credits for reducing gas emissions, thus there is no impact on public deficit and debt. No operations on carbon allowances for 2003-2006 seem to have taken place.

5. Other issues

5.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Discussion and analysis

DG ECFIN and ECB pointed out to inconsistencies in historical data series and stressed the importance of consistent historical data series, which are the basis for both forecasts presented in various official documents and the correct assessment of the fiscal development in Romania over the last decade, in particular in the context of the Convergence Programme and the Convergence Report. Eurostat also noted that large inconsistencies in the deficit figures reported in ESA95 table 2 and in "historical EDP tables" are observed for 1998-2002.

Findings and conclusions

- (52) *The Romanian authorities committed themselves to revise the historical data series and to ensure consistent reporting starting with data for 1995.*

Other issues relating to ESA95 Transmission Programme were not discussed during the mission.

²¹ Recording of UMTS has been revised for 2004-2006 in the context of the April 2008 EDP notification.

Annex 1

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