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- FINAL FINDINGS -

EDP dialogue visit to Romania

5-6 March 2007

Executive summary

An EDP dialogue visit to Romania took place on 5-6 March 2007 with the aim to assess the existing statistical capacity, to review institutional responsibilities in the field of government finance statistics including EDP statistics, to analyse the EDP tables 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 notification and national accounts. Particular attention was given to the issue of the Property Fund.

As far as the *institutional arrangements and data sources* are concerned, Eurostat found that the situation is satisfactory. The Romanian statistical authorities follow a good practice in sharing responsibilities, cooperation is organised via thematic working groups and is based on a Protocol signed at the highest level by the Ministry of Finance (MOF), the National Statistical Institute (NSI) and the National Bank of Romania (NBR).

Eurostat examined in detail the *EDP tables* and enquired about the significant upward revision of deficit for 2005 (by 1.1% of GDP). The revision related to the lack of data for the April EDP notification for public institutions financed from extra-budgetary revenues. Eurostat stressed the need to ensure reliable data sources and estimations for the April 2007 EDP notification and recommended to monitor the balance sheets and the budgetary results of the biggest extra-budgetary units, and to liaise with these institutions in order to avoid such big revisions in future.

DG ECFIN pointed out some inconsistencies between the data reported by the MOF in the 2007 Convergence programme and the data reported by the NSI. Eurostat stressed the need for consistent figures reporting and invited the Statistical authorities to eliminate this problem in future.

While analysing the EDP tables, Eurostat recommended the Romanian statistical authorities to undertake several actions: to reconsider the working balance from the EDP table 2A; to analyse data on other accounts receivable/payable on an individual basis; to remove the adjustment related to guarantees from other accounts receivable in the EDP table 3; to ensure an appropriate treatment of payments for health arrears; to investigate which entities contribute to the significant positive balance of public institutions partially or totally financed from extra-budgetary incomes.

Concerning the *delimitation of the general government sector*, the sector classification of Termoelectrica and District Heating Units, as well as railways, was discussed. The Romanian statistical authorities were asked to further examine the 50% rule for these institutions and to provide Eurostat with supporting documents. As for the sector classification of collective bodies, Eurostat felt that the NSI practice, whilst not fully in line with requirements, was a reasonable short-term solution given that the impact on the deficit is probably very limited, since these associations cannot borrow funds.

The issue of the *Property Fund (PF)* was extensively discussed. This is a complex issue involving the sector classification of the PF, the appropriate recording of the issuance of compensation titles and their conversion into PF shares, and the recording of a capital injection in cash provided by the State to the PF in December 2006.

- Eurostat concluded that, according to the effective legal acts in force and reflecting the present situation, the Property Fund should be classified inside general government, for the time being, given that the Fund managers cannot sell their portfolio of assets without prior government agreement. The PF is thus not acting as a genuine financial intermediary that collects funds from clients and independently invests these in various assets¹.
- Eurostat noted that the Property Funds' property income and costs would need to be reported in the deficit, with a likely implication of reducing it for 2006.
- Eurostat requested that the Romanian statistical authorities provide the new forthcoming law on the PF as soon as it is approved. The new conditions established by the new law will be analysed.
- Eurostat 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 (impact on the deficit of RON 112.6 mill in 2004, RON 246.4 in 2005 and RON 1470.9 mill in 2006). The issued compensation titles are recorded as financial derivatives (liability of government) with a counterpart as capital transfer payable.
- The issuance of the PF shares against restitution titles would be reported as an issuance of equity liability of government (AF.512), but not of a mutual fund shares nature (AF.52).
- Eurostat concluded that the capital injection provided by the State in 2006 would be consolidated, and thus would be without impact on the government deficit.

While discussing the *specific government transactions*, Eurostat requested to be provided with the completed and updated *questionnaire related to the EDP tables*, by the April 2007 EDP notification.

As regards the treatment of *guarantees*, Eurostat noted the Romanian practice, notably the application of the "repeated call" test, but requested that the impact on the deficit be revised for the April 2007 EDP notification. Eurostat noted that the net impact on the deficit might not be large for the period 2003-2006, but might be larger for earlier years. Eurostat also noted the need to correct the Romanian deficit for the double counting of write-offs, improving the deficit by RON 71.3 million in 2003, 148.9 million in 2004 and 12.6 million in 2005.

Eurostat considered that the recording of the *EU flows* seemed to be in line with Eurostat rules as regards the impact on the deficit and the recording in the EDP tables, and welcomed the incoming improvements (with availability of data on the final beneficiaries) that will allow a more appropriate measure of the revenue and expenditures aggregates.

Concerning *military expenditures*, these are recorded on a cash basis, however the part of expenditures financed by external credits might be nonetheless considered to be on a quasi-delivery basis. Eurostat urged the Romanian authorities to facilitate the cooperation between the NSI and the Ministry of Defence in order to obtain a minimum reporting on military expenditures. The Romanian statistical authorities should provide Eurostat with a final clarification by the April 2007 notification, notably regarding the likelihood that the time of recording of military expenditure might create a risk that deviations with deliveries could exceed 0.05% of GDP.

¹ See comments provided by the Romanian statistical authorities on 11 May 2007, page 15 and 16.

The recording of accrual for taxes and for social contributions, for interest and for other revenues and expenditures was discussed during the meeting. Eurostat found that the principle of accrual recording seemed generally respected. However, the Romanian authorities were requested to report the stocks of tax and social contributions receivables.

Among the other issues discussed during the meeting were *capital injections and privatisations*. Eurostat concluded that the capital injection of RON 500 mill provided in December 2006 by the State to the C.E.C bank should be recorded as financial transaction, as proposed by the Romanian statistical authorities. Eurostat took note that, except for C.E.C. bank, there is no capital injection reported as equity injection over the 2002-2006 period. As regards the recording of privatisations, Eurostat concluded that the rules on privatisation recording were applied, but invited the Romanian statistical authorities to check the content of the "valorification" receipts and to consider the appropriate recording.

The Romanian statistical authorities declared that they were not aware on the existence of *PPPs projects* and/or information on PPPs is not available to them for the time being. Eurostat requested to be provided in a very short time with a minimum level of information on PPPs at the central level. As regards the local level, additional effort is to be made by the Romanian statistical authorities and actions are to be undertaken, in the very near future, in order to find relevant information and overcome this problem as soon as possible.

Finally, Eurostat indicated that in relation to the issues of the *sale and leaseback operations and securitisation*, efforts are to be made and actions to be undertaken by the Romanian statistical authorities in the very near future in order to ensure the accuracy of information on such specific transactions.

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 5-6 March 2007. The delegation of Eurostat was headed by Mr. Luca Ascoli, head of unit C3, Public Finance. 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 National Bank of Romania (NBR) and the Ministry of Finance (MOF). The list of participants is attached (Annex 1).

The previous pre-accession dialogue visit took place on 20-22 June 2006.

The main aim of this EDP dialogue visit was to assess the existing statistical capacity and data sources, to analyse the EDP tables and the Questionnaire related to EDP notification tables and to ensure that provisions from the ESA95 Manual on Government Deficit and Debt and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the first official Romanian EDP notification. Particular attention was given to the issue of the Property Fund.

Institutional responsibilities

Introduction

The co-operation among institutions is based on a Protocol that establishes the responsibilities of each institution concerning the government finance statistics (GFS) compilation and data sources provision, and which is signed by the President of the National Statistical Institute, the Minister of Public Finance, the Governor of the National Bank of Romania and the President of the National Commission of Prognosis (NCP).

Eurostat enquired further details about the institutional arrangements and division of responsibilities in the framework of the compilation and reporting of government finance statistics data to Eurostat, including the EDP reporting.

Discussion and methodological analysis

The Romanian Statistical authorities explained that thematic working groups concerning the reporting of general government deficits and debt levels, the ESA95 Transmission Programme, the general government quarterly accounts and the Integrated Architectural IT system, have been set up.

The cooperation is effective with working groups meeting regularly, under rotating chairs. A permanent dialogue among involved institutions exists in order to solve methodological problems, eliminate discrepancies and harmonise data compiled by different institutions. The Protocol is currently under revision, with more detailed specification of the sharing of

responsibilities and of the deadlines. The Romanian statistical authorities reported working *de facto* as if the new Protocol was in place.

The MOF and NBR are extensively involved in the EDP notification tables' compilation. The NSI performs a coordination role in GFS compilation, reconciliation and transmission.

- The deficit (EDP B.9) is measured in parallel by the MOF (by way of using the bridge from working balances, i.e. EDP Table 2) and by the NSI (when compiling government expenditure and revenue in ESA Table 2); an extensive reconciliation is performed between the two results. For preliminary figures (e.g. April n+1 notification), the NSI takes the MOF estimates (for year n).
- The NBR compiles the EDP Table 3, notably using information provided by the MOF, which is extensively cross-checked with other internally available information.
- The government debt is compiled by the MOF and is cross-checked by the NBR.

Eurostat pointed out that a formal letter will be sent by Eurostat soon to the Romanian statistical authorities in order to be officially informed of which national authorities is to be the official correspondent for the excessive deficit procedure reporting.

Source data are currently on a cash basis, and adjustments for accrual are being carried out. Eurostat noted that the accrual adjustment was implemented using MOF aggregated balance sheet data. Eurostat noted that there would be an advantage to examine individual balance sheets of the biggest units, in order to limit revisions, to document large movements and to monitor any health arrears (see below).

Eurostat took note that a new accrual accounting system is being introduced in 2006 for the general government sector, complementing cash information. However, this accrual reporting will not be used for the April EDP 2007 notification, since the analysis and data verification of this new information remains to be done (the new reporting involves about 40 forms). The authorities consider that this new accrual data reporting will contribute to improve the GFS and EDP data quality in a long-term perspective. The working balances in EDP table 2 will remain on a cash basis.

Regarding the basic data sources availability, the MOF and NSI indicated that detailed data sources transmitted by the Accounting Directorate are still in the form of a pdf file (instead of an excel format), which required costly, time-consuming and error prone duplications. The NSI indicated that the IT team had promised converting such data sources for 2006 into an excel format.

Eurostat noted that Romania had not sent yet the EDP consolidated inventory, though some elements on sources and methods have been sent. This latter document was briefly discussed, identifying several parts that need to be reviewed.

Findings and conclusions

- Eurostat took note of the good co-operation and good practice in sharing responsibilities between the National Statistical Institute, the National Bank of Romania and the Ministry of Public Finance. The final version of the revised Protocol is to be sent to Eurostat.

- Eurostat took note of the satisfactory situation for source data existing in Romania. It nonetheless suggested that the MOF examines individual balance sheet of the biggest units, and welcomed the on-going developments towards accrual accounting in public accounts, which have the potential to improve EDP reporting.
- Eurostat underlined the necessity for quick action on the side of the Accounting Directorate and to ensure providing basic data sources in an excel format, in order to make the EDP and GFS processing much more efficient.
- The Romanian statistical authorities agreed to send the EDP consolidated Inventory of sources and methods as soon as possible, at the latest by May 2007². Some wording in the existing version of the sources and methods/inventory would need to be reviewed, so to avoid misunderstandings.

1. Follow-up of the October 2006 EDP reporting – analysis of EDP tables and questionnaires

Introduction

Eurostat very much appreciated the draft April 2007 EDP notification tables provided by the Romanian statistical authorities during the mission.

Eurostat enquired about the significant upward revision of the general government deficit figures for 2005 (i.e., T-1) between the April and October 2006 EDP notifications (-1.1 % of GDP).

Discussion and methodological analysis

The revision was mainly explained by the updated data sources on payables, and more marginally by the availability of data sources for government units, notably for public institutions financed from extra-budgetary revenues and by some methodological changes. When compiling the deficit for T-1 in March, data for receivables/payables are largely based on extrapolating results of the 3 first quarters (end-year balance sheet are available in May only) and data for public institutions financed from extra-budgetary revenues are estimated. Eurostat expressed concerns that the same situation might repeat in future.

Findings and conclusions

- Eurostat recommended that the MOF undertake to monitor directly, on an ad-hoc basis, the balance sheet and the extra-budgetary results of the biggest units, and liaise with these institutions.
- Eurostat stressed the need to ensure reliable data sources and estimations for the April 2007 EDP notification in order to avoid significant revisions between the April and October EDP notifications.

² The Romanian authorities sent two documents (the 1st and the 2nd step of the EDP inventory) on 1 June 2007.

EDP table 1

Introduction

Eurostat enquired about the revision of Gross Fixed Capital Formation and of Interest, between the April and October 2006 reporting, relating to the inclusion of the National Road Company into the EDP tables. The issue of FISIM allocation was also discussed.

Discussion and methodological analysis

The Romanian statistical authorities confirmed that the National Road Company, which was established in 2002, is now included in EDP tables since 2002 onwards, so that the time series are complete. Time series reported in the EDP tables were also complete as regards the Risk Fund and the Environment Fund.

Regarding the allocation of FISIM, the Romanian statistical authorities are not in a position to allocate FISIM for the time being, and thus are not able to comply with the appropriate legal requirements for the April 2007 EDP notification (this has no impact on the measurement of the government deficit, but only on the level and composition of government expenditure and revenue).

DG ECFIN pointed out a difference between the various GFCF figures reported in different tables of the 2007 Convergence Programme.

DG ECFIN noted furthermore, that the total revenue and expenditure aggregates reported in the Convergence Programme differed from the figures reported in ESA95 Transmission Programme tables. The MOF explained that it reported in the Convergence Report data appropriately consolidated, which had not been done by the NSI so far for ESA table 2. Eurostat noted that it publishes, since 2006, the "underlying government accounts" explicitly referred to in Council Regulation 3605/93, on the side of the Press Release, in April and October, in the form of *GFS Summary Tables*³. It would be most useful if those tables could be published for Romania from April 2007 onwards.

Findings and conclusions

- Eurostat took note of the explanation concerning the inclusion of the National Road Company into the EDP tables.
- The MOF will check figures on GFCF reported in different tables of the 2007 Convergence programme and will ensure consistent reporting in future, and in the meanwhile will report to ECFIN and Eurostat which figures are appropriate.
- As regards the consolidation issue, Eurostat welcomed the initiative of the MOF to avoid overestimating government revenue and expenditure while reporting figures in the Convergence Programme, but stressed that users would not understand that Convergence Programme tables would deviate from ESA table 2. Therefore, Eurostat called for the NSI to take decisive and speedy action to report to Eurostat in March 2007 an ESA table 2

³ See:

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,47631312,2373_58674404&_dad=portal&_schema=PORTAL#IV.2

appropriately consolidated, even on a tentative basis, similar to the MOF approach (notably with a view to allow publishing the Romania page of the GFS Summary Tables).

EDP table 2

Introduction

Eurostat asked for the clarification of several issues relating to the EDP table 2: the content of the working balance in the EDP table 2A, the issue of other accounts receivable/payable for the central budget, and the issues of health arrears and of the positive balance of other central government bodies.

a) Working balance

Discussion and methodological analysis

The exact content of the working balance on the EDP table 2A was discussed. Following the mission in June 2006, the MOF changed its reporting by using the working balance of the central government as reported in the Consolidated Budget. Eurostat noted that this was an improvement on the previous situation where the working balance reported in EDP table 2 was an artificial aggregate neither recognized nationally, nor coming from public accounting source (and/or audited).

However Eurostat noted that the working balance currently retained by the Romanian statistical authorities was a statistical construct adding to the working balance of the Central Budget balance as reported in the State Account ("Contul General De Executie a Bugetului de Stat"), other balances and corrections.

Apart from the State Account balance, the following balances are included: the National Road Company, the AVAS, the Authorities for state privatisation, own revenue institutions, the Central Treasury Budget. Corrections include those for external loans to ministries, domestic loans, EU transfers, expenditure from privatisation revenues, compensation titles, and deductions for consolidation and for financial transactions.

Eurostat thought that the Central Budget balance as reported in the State Account, being audited and approved by Parliament and reported prominently in the law to Parliament, should naturally be included as the working balance of the EDP table 2A. All other units and/or adjustments currently reported in the working balance would need to be reported in other transition lines of the EDP table 2A. Eurostat also noted that the item "central government" reported in the consolidated budget was somewhat ambiguous, as differing in coverage from the ESA95 central government concept (i.e., excluding other central government bodies)

Eurostat emphasized that audited policy balances should preferably be reported as working balance in the EDP table 2, instead of statistically constructed balance.

Findings and conclusions

- 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 clarity and transparency of the Romanian EDP notification.

b) Other accounts receivable/payable

Discussion and methodological analysis

Figures on other accounts receivable/payable were discussed in detail. Significant amounts of payables are recorded in the EDP table 2A for 2003, 2005 and 2006 (-1423 mill, -3925 mill, -1259 mill RON respectively).

The Romanian statistical authorities explained that they use mainly aggregated balance sheets to derive transactions in other accounts receivable/payable in addition to the impact of the time adjustment for taxes. Eurostat pointed out 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 do not necessarily reflect pure transactions. An analysis of the biggest balance of some units, to be provided by the Accounting Directorate, would help alleviate this problem.

Analysing the differences between data on other accounts receivable/payable reported in the EDP table 2 and in the EDP table 3, the Romanian statistical authorities confirmed that data on *payables* reported in the EDP table 3B includes, in addition to figures derived from EDP table 2, an adjustment for EU flows. EU flows are without impact on the working balance in the EDP table 2A and thus no adjustment is needed (see below). The Romanian statistical authorities explained that other accounts receivable recorded in the EDP table 3 include adjustments related to guarantees. It was clarified that the treatment of guarantees applied by the Romanian statistical authorities does not completely reflect Eurostat recommendations, and that this entry in receivables should be removed.

Findings and conclusions

- Eurostat found the approach taken by the Romanian statistical authorities relating to the reporting of other accounts receivable/payable generally sound, but asked them to further analyse data on individual basis (biggest units).
- Eurostat asked to be provided with a table on other accounts receivable/payable for 2003-2006 ("Situatia datoriilor/creantelor") before the April 2007 EDP notification, listing the units included in this table.
- Eurostat recommended removing the adjustment related to guarantees from other accounts receivable in the EDP table 3.

c) Health arrears

Discussion and methodological analysis

Concerning health arrears, the Romanian statistical authorities reported that hospitals are classified in central government and that payables to suppliers would be captured in their balance sheets and reported within the Health Ministry balance sheet. Eurostat suggested that the scrutiny of the latter would be helpful in order to monitor any health arrears patterns. Separately, hospitals are reimbursed by the national health unit, classified in the social security funds sub-sector, and the reporting of payables/receivables by each of the parties might be different, which requires a detailed monitoring by the Romanian statistical authorities.

Eurostat asked clarifications on an alleged payment in December 2005 of 171.2 mill RON in health arrears paid by the MOF.

Finally, the Romanian statistical authorities indicated that the operation for which an ex-ante advice had been requested from Eurostat on 5 August 2005 and provided on 19 December 2005 (that involved the financing by banks of hospitals payables to suppliers – Government Ordinance), had eventually not been carried out.

Findings and conclusions

- Eurostat concluded that health arrears, if any, would in principle be appropriately captured for EDP purposes, but recommended that some more detailed monitoring of balance sheet be carried out. Eurostat took note that the operation for which it had been consulted in 2005 had not been carried out. The Romanian statistical authorities will inquire on the alleged payment of 171.2 mill RON and the statistical classification of the transaction, if any.

d) Other central government bodies

Discussion and methodological analysis

Eurostat pointed out the noticeable positive impact on B9 of other central government bodies, mainly "public institutions partially or totally financed from extra-budgetary incomes subordinated to ministries".

The Romanian statistical authorities explained that there are approximately 200 public institutions partially or totally financed from extra-budgetary incomes and that information on which units contribute to such positive balance is not available for the time being.

Findings and conclusions

- Eurostat asked the Romanian statistical authorities to investigate which entities contribute the most to such positive balance, and to provide Eurostat with individual financial balances of those entities for the period 2003-2006.

EDP table 3

Introduction

Following the conclusions of the previous mission to Romania in June 2006, Eurostat checked whether the recommended changes in the EDP table 3 had been realised.

Discussion and methodological analysis

Eurostat appreciated that the requested changes in the EDP table 3 had been realised, notably: the lines at the bottom of tables 3B-3E relating to holdings of other sub-sectors' debt have been completed and the line "redemptions of debt above/below the par" was revised to zero.

Eurostat noted that changes in deposits series arose from new counterpart information relating to deposits holders.

Findings and conclusions

- Eurostat took note of significant improvements in the reporting of the statistical discrepancy. The latter relates exclusively to the financial and capital accounts reconciliation.

2. Delimitation of general government, including analysis of specific cases

Introduction

The Romanian authorities provided, prior to the meeting, an updated detailed list of units classified in general government sector.

Following discussions during the previous mission on issues relating to sector delimitation, Eurostat inquired on the sector classification of "collective bodies", Termoelectrica and District heating units, railways, state treasury accounts and pension schemes.

Discussion and methodological analysis

The Romanian statistical authorities reported that the exhaustive list of units classified inside general government was published on the web site of the NBR.

The issue of the sector classification of so-called "*collective bodies*" was examined by Eurostat. According to the information provided by the Romanian statistical authorities during the mission, these bodies are in fact associations, i.e. public and private non-profit institutions such as sport clubs, mutual assistant houses, churches, etc. These institutions are registered in court and they fill a financial report centralized by the MOF. After three years of activities, they could become associations of public interest and be financed by public funds. Owing to a lack of information on who controls these entities, the NSI classifies all these institutions outside the general government sector. The Romanian statistical authorities pointed out that such entities cannot borrow funds.

Eurostat noted that *Termoelectrica* had incurred noticeable losses over the past years and benefited from large calls on guarantees, and pointed out that there is a need to further analyse its sector classification.

When analysing the financial statements of the three Romanian *railway companies* (infrastructure, passenger transport, freight transport), which are classified outside the general government sector, the question of "exemptions" (article 28/2 and 18/4) and subventions, recorded within the passenger railway company revenues, was discussed. Eurostat pointed out that, in case the subventions and the exemptions were not sales, the 50% criterion would probably not be met for the passenger transport company. In this respect it was essential to determine if the government payments had all the characteristics of "subsidies on products". Eurostat noted that the amount for exemptions, allegedly deemed to reimburse fare discounts, such as for students and old age individuals, seemed considerable.

The Romanian statistical authorities provided the *State Treasury Accounts*, as of end 2006. Eurostat noted that these accounts reflect financial relationships in-between government units, where the Treasury is *de facto* acting as a banker, and these relations are appropriately reported in EDP Table 3. Separately the Treasury might conduct off-budget transactions of a non-financial nature (i.e. impacting B.9), that are appropriately reported under the item "Central Treasury Budget" (see above).

Concerning *pension schemes*, the Romanian statistical authorities informed Eurostat that the second and the third pillar are not operating yet. The second pillar will be introduced in July 2007 at the earliest.

Findings and conclusions

- Eurostat felt that the NSI practice in the field of the sector classification of collective bodies, whilst not fully in line with requirements, was a reasonable short term solution given that the impact on the deficit is probably very limited, since these associations cannot borrow funds.
- As regards *Termoelectrica* and the District Heating Units, the Romanian statistical authorities agreed to provide to Eurostat the accounting statements of the District heating units in a more friendly format as well as a short description of the 90 District heating units activities and of relations with the *Termoelectrica*. Eurostat noted that *Termoelectrica* had incurred noticeable losses over the past years and benefited from large calls on guarantees. Eurostat asked that an explanation on how the guarantees calls were reflected in the *Termoelectrica* accounting statements be provided. The Romanian statistical authorities will further examine the 50% rule for *Termoelectrica*.
- The Romanian statistical authorities will send the profit and loss account of the passenger railway company and a description of the content of the revenues items of the railway company: subventions, exemptions, income from other activities. A precise description on how the value of subventions and exemptions is calculated will also be provided.

3. Property Fund

Introduction

The issue of the Property Fund (PF) was extensively discussed. This is a complex issue involving the sector classification of the PF, the appropriate recording of the issuance of compensation titles and their conversion into PF shares, and the recording of a capital injection in cash provided by the state to the PF in December 2006.

Discussion and methodological analysis

3.1. Description of the case

Romania has established an arrangement, organized by Law 247/2005 on "the reform of properties and justice and certain related measures" and by the Government Decision 1481/2005 on the establishment of SC "Fondul Proprietatea" S.A., for compensating individuals for lost property confiscated by the State in the past. In case the confiscated asset cannot be restituted, settlements would be provided by way of the issuance of compensation titles convertible into PF shares. Estimates of compensation were originally put at RON 14.24 billion. The PF was created in 2005, receiving from government an equivalent amount of equity stakes in public, as well as private corporations (valued at fair value) against the issuance of shares initially held by government.

Claimants must register their claims, appropriately documented, with government offices, including local government, that forward them to the National Authority for Property Restitution (NAPR) in which a Central Committee for Compensation Assessment (CCCA) (or "Central Commission for Establishment of Indemnifications") has been established. The CCCA determines the validity and amount of the claim, after the advice of an independent assessment (possibly repeated in case of CCCA doubt). The CCCA notifies its proposal to the claimant, upon whose approval a compensation title is immediately issued. The claimant might instead refuse and open court proceedings.

The compensation title is not transferable (though it can be bequeathed) and it is only convertible in PF shares at the request of the title holder. Whereas the time-lag between the recognition by government of the claim and the issuance of the compensation title is nil, it was not clear to what extent the PF had been able to immediately issue PF shares to those that remitted their titles for exchange. It should be noted that the conversion of compensation titles into PF shares would be conducted at nominal value, implying a noticeable transfer of wealth once the PF shares will be quoted.

No settlement in cash has been conducted so far. However, a proposed law is under review with a view to give an option for claims below 200.000 EUR to be settled in cash.

"Compensation titles" started to be issued in 2006 (RON 1454.3 mill) when the new compensation system was established. However, so called "titles of value", which are equivalent to "compensation titles", had been issued under the old compensation system, for a nominal value of RON 112.6 mill in 2004 and RON 246.4 mill in 2005. All "titles of value" presented by individuals were converted into compensation titles in the first semester of 2006, with a slight uplift (depending on the age of the "title of value"), for a total increase of RON 16.6 mill.

In December 2006, government increased the size of the PF by injecting RON 298,8 million in cash. The Romanian statistical authorities also indicated that in case the agreed restitutions exceed the capital of the PF (or alternatively falls short of), government will conduct additional transfer of assets (or alternatively will retain ownership of some of the PF shares) in a manner that will be neutral for the existing PF owner.

3.2. Accounting treatment

a) Time of recording of capital transfer

The negative impact of the issuance of compensation claims on the deficit was recorded by the Romanian statistical authorities in 2004, 2005 and 2006 at the time of issuance of titles of value / compensation titles. The difference between the time of the compensation claim *acceptance* and the time of the compensation claim *issuance* is negligible. Compensation titles have been recorded as financial derivatives (liability of general government) with a counterpart capital transfer expenditure. The value of transactions corresponds to the value of issued compensation claims determined by the professional "valuators" in the relevant year. The difference between the initial nominal value and the updated value of compensation claims accepted in the old system and converted into the compensation titles in 2006 is recorded in the draft April 2007 notification tables as an expenditure of the general government in 2006.

Eurostat noted that, due to the fact that compensation titles are not tradable, a recording of other accounts payable (F.7) instead of recording of financial derivatives (F.34) could also be considered. The Romanian statistical authorities favoured a recording in financial derivatives.

Findings and conclusions

- Eurostat approved the treatment of the compensation titles applied by the Romanian statistical authorities and the impact on government deficit concerning the time of recording, implying an impact on the deficit of RON 112.6 mill in 2004, RON 246.4 in 2005 and RON 1470.9 mill in 2006.

b) Property Fund sectorization

Until now, the PF was classified by the Romanian statistical authorities as a financial corporation, outside the general government sector. The PF has the legal character of a mutual fund, with its shares originally owned by government.

Eurostat indicated that it would need to be assessed whether the PF was indeed genuinely engaged in financial intermediation or, instead, was acting generally more on behalf of government. Eurostat recalled that under ESA95, units engaged in redistributing wealth should be classified inside government and that the Manual indicates that dedicated units managing government assets, notably privatization agencies, are often to be classified inside government, irrespective of their legal status.

In this context Eurostat noted the following facts collected during the meeting:

- The PF is established by government. According to the Government decision No 1481/2005, Article 2, "*The main object of the activity consists in the management and*

administration of the portfolio in view of granting the indemnifications related to the real estate which cannot be restituted in kind, by transfer for no consideration of the shares owned by the State to the entitled persons". So the PF seems instrumental to government actions relating to compensating persons who submitted claims to government and seems de facto acting on behalf of the government⁴.

- The PF managers cannot sell its assets without prior government agreement, until 50% of the PF shares have been disposed off, as explained by the Romanian statistical authorities⁵.
- The PF is managed by the MOF through a Supervisory Body. In case the management of the PF is transferred to a new management company, the Supervisory body will continue supervising how the management agreement between the PF and the selected management company is carried on. The Supervisory Body shall have numerous specific prerogatives to control the PF activities.
- Government is still the majority shareholder, with only 2.9% of shares issued by the PF being held by individuals for the time being.
- Shares issued by the PF are not yet quoted, because the PF seemingly does not meet the conditions of the National Security Commission to be listed on the capital market.
- The Property Fund lifetime was set initially to 10 years, although the new law might remove this clause.

One difficulty in reclassifying the PF inside general government could be how to account for the PF shares held by the public. Eurostat noted that it had been agreed by the Financial Accounts Working Party (FAWP) that equity liabilities of government could be recognized in some circumstances. Eurostat noted further that it had already reclassified inside government in the past alleged mutual funds in other Member States.

According to the information provided by the Romanian statistical authorities, a new law on the PF has been prepared and is being discussed in Parliament. This law could change the status of the general government in relation to the PF, in terms of control of the PF activities, its independence and power. This could lead to a possible sector reclassification of the PF later on. However, there are uncertainties on what exactly will be changed by the law in terms of PF power and responsibilities and when the new law will be approved.

Findings and conclusions

- Eurostat concluded that, according to the effective legal acts in force and reflecting the present situation, as well as on present economic reality, the Property Fund should be classified inside general government, for the time being, given also the fact that the Fund managers cannot sell their portfolio of assets without prior government agreement. The PF does not thus seem to act as a genuine financial intermediary that collects funds

⁴ However, on 11 May 2007, the Romanian statistical authorities communicated the following information: "...the role of the PF is to ensure the proper management of the assets ... the allegation that the PF is instrumental to the government and acts on behalf of the government may be considered as a subjective, biased interpretation. PF acts on behalf of all the shareholders..."

⁵ According to the statement of the Romanian statistical authorities provided on 11 May 2007 "... there is no such stipulation in any of the documents... it was a management decision to not dispose or buy any assets and just preserve the existing assets in the portfolio for a more easier, smoother and clear transfer of those to the appointed manager. The decision was also considered the appropriate one due to the lack of investment policy in place."

from clients and independently invests these in various assets⁶. Moreover, the National Security Commission conditions for listing on the capital market are not met.

- Eurostat noted that the Property Funds' property income and costs would need to be reported in the deficit, with a likely implication of reducing it for 2006.
- The issuance of the PF shares against restitution titles would be reported as an issuance of equity liabilities of government (AF.512), but not of a mutual fund shares (AF.52).
- Eurostat requested that the Romanian statistical authorities provide the new law on the PF as soon as it is approved (preferably in English). The new conditions established by the new law will be analysed.

c) Cash injection in 2006

The Romanian statistical authorities had proposed to record a capital injection provided by the State to the PF (RON 298.8 mill) as a capital transfer in 2006, deducting at the same time this amount from the capital transfer expenditure to be recorded for compensation titles issued in 2007.

It was clarified, that the purpose of the capital injection provided was to increase the size of the PF capital and not to cover administrative costs and expenses.

Findings and conclusions

- Eurostat concluded that this capital injection would be consolidated, and thus would be without impact on the government deficit (in 2006 and in 2007). It further indicated that it would possibly be recorded as an injection in equity (F.5) in 2006 in the non-consolidated financial accounts. The amount therefore should not be deducted from the capital transfer to be recorded for compensation titles issued in 2007.

4. Recording of specific government transactions

Eurostat requested to be provided with the completed and updated questionnaire related to EDP tables, by the April 2007 EDP notification.

⁶ The Romanian statistical authorities stated on 11 May 2007, that "from the PF point of view, this company: "has obviously all the features of a financial institution where the state has a stake; it is defined like that by the status and by law, being governed, as mentioned in all regulatory documents, by the companies law (Law 31/1190 and Law 297/2004) and, it isn't a governmental institution to be registered "inside general government" as it doesn't have any of the typical characteristics of a public administration institution.

Moreover, to confirm this, PF has two letters from the National Authority for Public Acquisitions stating that PF it isn't a contracting authority (as regulated by OUG 34/2006), it isn't a public institution or a public authority and is not exercising any relevant activity in public utility sectors. According to the same documents, despite the fact that has as sole shareholder the Romanian state represented by the Ministry of Finance and the members of the Supervisory Board are appointed by the Ministry of Finance, the activities of the PF have commercial characteristics, as stipulated by the GD 1481/2005."

4.1. Guarantees

Introduction

During the previous mission in June 2006, Eurostat invited the Romanian statistical authorities to record a debt assumption in case of three years of repeated calls on state guarantees. Eurostat asked how the recommendation had been applied in national accounts.

Discussion and methodological analysis

The Romanian authorities explained that, previously, calls on debt guarantees gave rise to a capital transfer at time of call only for the amount called. Occasional repayments by debtors were recorded as government revenue. It should be noted that in public accounts, but not in national accounts, an asset is nonetheless recorded pending write-off.

Following up on the June 2006 mission, the Romanian statistical authorities indicated that they had started applying the repeated call test, which led to reclassifying non-negligible amounts into the government debt (0.7% of GDP), on the 3rd year of call. However Eurostat noted that the impact on the deficit had not been changed, which should be corrected: a capital transfer should be recorded at time of debt assumption, and further calls should be considered as debt service (in part interest, in part financial transaction).

In addition, Eurostat noted that the write-off on such assets were recorded as capital transfer, which seemed *de facto* to lead to a double counting, to the extent that a capital transfer was already recorded at time of call and that no asset is recognized in the system.

Findings and conclusions

- Eurostat noted the Romanian practice and the application of the repeated call test, but requested that the impact on the deficit be revised for the April 2007 EDP notification. Eurostat noted that the net impact on the deficit might not be large for the period 2003-2006, but might be larger for earlier years.
- Eurostat noted the need to correct the Romanian deficit for the double counting of write-offs, improving it by RON 71.3 million in 2003, 148.9 million in 2004 and 12.6 million in 2005.

4.2. EU flows

Introduction

EU flows recording was inquired by Eurostat. This issue was also partially discussed while analysing the EDP tables.

Discussion and methodological analysis

The Romanian statistical authorities explained that there is a lack of information on the final beneficiaries of the EU funds, which do not allow a direct routing of transactions. This leads to an overestimation of government revenue and expenditure but is neutral on government

deficit. Starting with 2007, data on nongovernmental beneficiaries should be separately available.

The EU funds transit via the paying agency accounts at the CBN, which are reported within government deposits. The Romanian statistical authorities indicated that these flows did not transit via government units working balances, even when they are beneficiaries. Therefore 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.

EU flows are reported, when spent, as government expenditure (e.g. ESA table 2), and a matching imputed revenue is recorded for the same amount, in order to neutralise the impact on the deficit. The Romanian statistical authorities assured Eurostat of implementing a correct treatment of pre-accession funds and EU flows, in line with the Eurostat Press Release.

Findings and conclusions

- Eurostat considered that the recording of the EU flows seemed to be in line with Eurostat rules as regards the impact on the deficit, and welcomed the incoming improvements (with availability of data on the final beneficiaries) that will allow a more appropriate measure of the revenue and expenditures aggregates.
- Eurostat noted that the financial accounts (EDP table 3) took also correctly into account the EU flows.

4.3. Military equipment expenditures

Introduction

During the previous mission in June 2006, the Romanian authorities explained that the Romanian Defence Ministry agreed to cooperate with the statistical authorities under a convention. Further analysis of long term contracts and prepayments for military equipment had to be done.

The current status of data availability and the compliance with the ESA95 rules on the recording of military expenditures was examined by Eurostat.

Discussion and methodological analysis

Eurostat was informed by the Romanian statistical authorities that no data on the delivery of the military equipment is available and that this issue is to be discussed with the Ministry of Defence in coming days. A letter has been sent by the NSI to this effect.

The NSI uses a key to split the fixed capital formation from intermediation consumption.

Military expenditures are recorded on a cash basis. The part of expenditures financed by external credits might be nonetheless considered to be on a delivery-proxy basis, given the way such credits function (except for equipments built over many years), but the Romanian statistical authorities felt that such deliveries might not be predominant.

Eurostat noted that the table VI of the questionnaire related to EDP tables should be filled with the existing data, with appropriate explanations, and not left empty as it is currently done.

Findings and conclusions

- Eurostat concluded that the Romanian statistical authorities should provide Eurostat with a final clarification by the April 2007 notification, notably regarding the likelihood that the time of recording of military expenditure might create a risk that deviations with deliveries could exceed 0.05% of GDP.
- Eurostat urged the authorities to facilitate the cooperation between the NSI and the Ministry of Defence in order to obtain a minimum reporting, quantitative as well as qualitative, of table VI of the questionnaire related to EDP tables.

4.4. Accrual recording of taxes and social contributions

Introduction

The compliance with the ESA95 rules on the recording of accrual taxes and social contributions was examined by Eurostat.

Discussion and methodological analysis

It was confirmed that in both cases of taxes and social contributions, the simple time adjusted cash method is applied (one month lag). The treatment was confirmed during the October 2006 bilateral exchange. However, the Romanian authorities do not provide data on stocks of receivables on taxes and social contributions in the questionnaire related to the EDP notification. Eurostat pointed out that this information should be easily available.

Findings and conclusions

- Eurostat took note of the explanation on the method for recording taxes and social contributions.
- Eurostat requested that the stocks of tax and social contributions receivables be reported in table I of the questionnaire related to EDP tables, as this is straightforward for countries using the time adjusted cash method.

4.5. Accrual recording of interest

Introduction

The issue of the accrual interest calculation was briefly discussed. The Romanian statistical authorities provided Eurostat with the explanatory notes and tables on the accrual interest calculation.

Discussion and methodological analysis

The accrual interest is calculated separately for external and domestic debt. In case of debt securities, discount is taken into account while calculating accrual interest. The Romanian authorities stated that there is a problem with daily based data for the purpose of accrual interest calculation relating to domestic government local debt. Eurostat agreed on a proposal of the MOF to apply an accrual adjustment for local government liabilities where only monthly cash flow information is available, using a simple model estimating stocks of accrued interest, on consideration of average delays of interest payments.

Starting with June 2007, a new computerized system will be introduced at the MOF. This would automatically generate the accrued interest on general government debt.

Findings and conclusions

- Eurostat acknowledged the method applied by the Romanian statisticians. Eurostat agreed on a proposal of the MOF for local government liabilities.

4.6. Accrual recording of other revenues and expenditures

This issue was discussed while analysing the EDP tables (see above). The Romanian statistical authorities use information on payables and receivables derived from balance sheets to record other revenues and expenditures on an accrual basis.

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

This issue was discussed while analysing the recording of guarantees. Eurostat pointed out that the double counting resulting from the capital transfers currently recorded by the Romanian statistical authorities on write-offs from the State, related to assets arising from guarantee calls, should be eliminated (see above).

4.8. Capital injections in public corporations and privatization

a) Capital injections

Introduction

The Romanian authorities asked Eurostat in January 2007 for methodological advice on the recording of a capital injection that was provided by the State to C.E.C bank in December 2006. Eurostat enquired further on details on C.E.C. bank and on the purpose for providing the capital injection.

Furthermore, Eurostat enquired about the treatment of capital injections to Eximbank in 2002 and 2005.

Discussion and methodological analysis

Casa de Economii și Consemnațiuni S.A. (C.E.C – S.A) is a bank owned by government. Government intended to privatise the C.E.C bank in December 2006. However the privatisation was not carried out and for the time being it is not clear whether and/or when the privatisation will take place.

The capital injection of RON 500 mill was provided by the State to the C.E.C. bank in December 2006 with the purpose to improve its performance. The Romanian authorities proposed to treat this capital injection as a financial transaction without impact on deficit.

The C.E.C bank had been profitable in the past and shows substantial shareholders equity (own funds at book value). The latter seems an appropriate measure of the fair value of the C.E.C. bank, since the bid that was proposed by a private investor, during the aborted privatization attempt, seemed to have been reasonably high.

As far the capital injection to the Eximbank in 2002 and 2005 is concerned, the Romanian authorities explained that it was treated as capital transfer rather than injection in equity. The purpose of the capital injection provided to the Eximbank is to support exports.

Findings and conclusions

- Eurostat concluded that the capital injection of RON 500 mill provided in December 2006 by the State to C.E.C bank should be recorded as financial transaction (F.5), as proposed by the Romanian statistical authorities.
- Eurostat took note of the recording of a capital injection in *Eximbank* as capital transfer expenditure by the State in the year 2002 and 2005.
- Eurostat took note that there is no capital injection reported as equity injections (other than C.E.C.) over the 2002-2006 period. A list of capital injections treated as capital transfer was provided to Eurostat.

b) Privatization

Introduction

The Romanian authorities provided, prior to the mission, a document on privatisation proceeds and on expenditures relating to privatisation. Information reported in this document was examined by Eurostat.

Discussion and methodological analysis

Concerning privatisation proceeds (also recorded in the EDP table 3B), the Romanian statistical authorities reported on the more extensive gathering of information, and provided a new document containing details on receipts and expenditures relating to privatisation. Receipts include property income, which are treated as non-financial transactions, as well as privatization proceeds that are treated as financial transactions.

This document reported the operations of AVAB and APAPS, merged into AVAS from 2005 onwards, as well as the operations from 3 other privatization agencies integrated in various ministries: Transport, Construction and Tourism; Economy and Commerce; and Communications and Information Technology.

Eurostat noted several ambiguities in the reported data and in the terminology used. It was not clear whether the so called "receipts from claims valorification" refer to receipts from disposals of fixed assets, privatisation, disposal of other equity or receipts from reimbursement of loans.

The Romanian statistical authorities confirmed that data on privatisation receipts are paid without delay and refers to the contractual price, and that expenditures relating to privatisation process (and conversely dividends receipts) are included in the working balance in the EDP table 2A and are not netted from privatization proceeds.

Eurostat noted that the BCR sale was carried out in 2006 (EUR 2.7 billion). The proceeds will be used for co-financing EU infrastructure projects and for expenditure of the National Development Fund (NDF). The NDF will be classified in general government and its expenditure will impact the government deficit. A separate line will be reported in the EDP table 2 in this respect.

Findings and conclusions

- Eurostat concluded that rules on privatisation recording were applied but invited the Romanian statistical authorities to check the content of "valorification" receipts and to consider the appropriate recording. This might change figures on privatisation proceeds recorded in the EDP table 3B, without impact on the reported deficit (unless "valorification" receipts would refer to the disposal of buildings).
- Eurostat requested that the table V of the questionnaire related to EDP tables be appropriately filled.

4.9. Public Private Partnerships and leasing

Introduction

During the June 2006 mission, the Romanian authorities noted that there were no PPP or concessions-type projects at the moment, but that they were actively considering such projects in the future, including the development of a PPP law.

Eurostat asked whether any PPP projects have already been introduced indicating some information available from the internet on "PPP projects" in Romania at the local level.

Discussion and methodological analysis

The Romanian authorities explained that the issue of PPPs at the central government level had been investigated by the MOF jointly with the IMF until 2004. They reported that the responsible unit at the MOF was not aware on any PPPs projects.

Concerning the PPPs at the local level, it was noted that local authorities do not have any restrictions to enter into contracts with private partners. The Romanian statistical authorities indicated that it was difficult to obtain information on possible PPPs and that press reports were often misleading. It was acknowledged that alleged PPP contracts might, after inquiry, turn out to be long term contracts that are concessions or simple procurement contracts.

The Romanian statistical authorities informed Eurostat that there is a special law on the PPPs for the central level of government approved in 2006.

Eurostat stressed the need to ensure compliance with the Eurostat rules in terms of the PPPs projects recording. Eurostat also expressed its concern for the lack of information by government on possible already existing PPPs.

Findings and conclusions

- The Romanian statistical authorities should provide Eurostat in a very short time with a minimum level of the information on PPPs at the central level.
- As regards the local level, additional effort is to be made by the Romanian statistical authorities and actions to be undertaken, in the very near future, in order to find relevant information and overcome this problem as soon as possible.

4.10. – 4.11. Sale and leaseback operations, Securitisation

Introduction

Eurostat enquired about the treatment of a sale and leaseback operations and securitisations.

Discussion and methodological analysis

The Romanian statistical authorities stated that they are not aware of any securitisation operations, or sale and leaseback operations.

Findings and conclusions

- Eurostat indicated that efforts are to be made and actions to be undertaken by the Romanian statistical authorities in the very near future in order to ensure the accuracy of information on such specific transactions.

4.12. – 4.13. Carbon trading rights, swaps, UMTS

The issues on the recording of some other specific government transactions, such as carbon trading rights, swaps, and UMTS, were not discussed during the mission due to the lack of time.

5. Other issues

The issue of the ESA95 Transmission Programme was not discussed during the mission.

List of participants

EDP dialogue visit to Romania, 5-6 March 2007

National Statistical Institute:

Adriana Ciucea
Mihaela Nuta
Florentina Gerogescu
Georgeta Mondiru
Doina Stanisor

National Bank of Romania:

Gheorghe Gheorghina
Adriana Stanciu
Camelia Neagu

Ministry of Finance:

Dumitru Costache
Anne-Marie Stefan
Madalina Dogaru
Mihaela Ene

Eurostat:

Luca Ascoli
Philippe de Rougemont
Paula Borges
Viera Karolova

DG ECFIN:

Jean Nagant

ECB:

Christophe Duclos