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FINAL FINDINGS

EDP dialogue visits to Romania

11-13 July and 26-27 September 2011

Executive summary

Due to risks identified concerning the EDP data reported by Romania, Eurostat expressed a reservation on the quality of the data reported by the Romanian authorities in the April 2011 notification. As a result, Eurostat conducted four EDP visits to Romania in 2011.

The first EDP visit took place on 8-10 June 2011. The aim of this technical visit was to advise the Romanian statistical authorities on methodological and practical issues relating to the sector delimitation of public corporations and to discuss some specific outstanding issues from the April 2011 EDP notification.

This technical visit was followed by an upstream visit¹, on 20-22 June 2011, which aimed at assessing the primary data used as core data for the EDP notifications, as well as to gather information on the existing accounting, auditing, control and data reporting systems in Romania.

The third Eurostat visit, on 11-13 July 2011, was an EDP dialogue visit that aimed at examining the relevant revisions in the recording of several transactions and to discuss various methodological issues.

The fourth visit, on 26-27 September, was an ad-hoc dialogue visit organised in the context of the October 2011 EDP reporting in order to analyse the EDP notification which was sent to Eurostat just prior to the mission.

During all these visits, Eurostat appreciated the noticeable work and the strong commitment demonstrated by the Romanian statistical authorities in order to provide the requested documentation prior, during and after the visits and for the openness and co-operation during the discussions.

The delimitation of general government and the calculation of B.9 of some public corporations was a crucial and recurrent issue discussed during the EDP dialogue visits. This issue was also one of the main reasons why Eurostat had previously expressed a reservation on the quality of the data reported by Romania. Nevertheless, due to an extensive work carried out by the Romanian Statistical Institute, between the April and the October 2011 notifications, the NSI managed to perform the market/non-market test for all public corporations at central and local government level, and reclassified several companies into general government.

Another issue, which raised concern during the April 2011 notification, related to “CFR Infrastructura” and “Termoelectrica”. Nevertheless, after discussions with the Romanian Authorities during the EDP visits, these companies were reclassified inside the government sector and their deficit and debt were considered as deficit and debt of government in the EDP tables for the October 2011 notification.

Regarding the National Company of Road and some other public companies (CFR Infrastructura, CFR Calatori, Termoelectrica and Metrorex), the discussions focussed on the recording of investment grants, on the revisions of data as well as on the considerable discrepancies between B.9 and B.9f.

¹ The so called upstream visits were introduced by Eurostat for the first time in 2011, in order to assess the primary data used by Member States for the compilation of the EDP notifications (see point 8).

The inconsistency of the recording of the investment grants between the state budget and the companies' accounts concerned not only the National Company of Road but also other public companies such as CFR Infrastructura, CFR Calatori and Metrorex. Therefore, Eurostat insisted on the necessity of cross-checking the investment grants and the subsidies at the level of the companies, with those recorded in the state budget, in order to ensure consistency between figures.

As regards the significant revisions in the financial and non-financial accounts of some public companies, the Ministry of Finance (MoF) explained that estimations are used for the April notifications. Therefore, depending on the quality of estimations, sometimes the figures can change significantly between the two notifications of April and October. In this context, Eurostat pointed out the necessity of improving the quality of estimations. In this regard, Eurostat appreciated very much the initiative of the MoF to issue a government ordinance in order to oblige the companies to send a set of data every year, before the month of April.

Another issue discussed in detail with the Romanian Authorities concerned the large discrepancies between the financial and non-financial accounts of individual public companies. Due to the fact that the financial accounts had not been compiled so far for individual companies, but only on an aggregated basis for subsectors, large discrepancies were identified. As an example of best practice, Eurostat recommended to the Romanian authorities to compile in the future the B.9 and B.9f separately for some individual units, as well as for the state and local subsectors, etc.

The recording of the transfers of funds from the state budget to the Guarantee Funds was also discussed with the Romanian Authorities. It was agreed that the transfer of funds for guarantees will continue to be recorded as loans, nevertheless the interest on the collateral will be recorded, from now on, on an accrual basis, as government revenue, and any call on guarantees will be treated as government expenditure.

Due to the complexity of the recording of "other accounts receivable/payable (F.7)", special attention was paid during all EDP visits to the transactions concerning F.7. It appeared that some amounts relating to receivables/payables had not been included in the calculation of B.9. Eurostat had noticed that some financial advances, where a cash flow was involved, had not been included in F.7. Therefore, it was agreed to include in the calculation of B.9, amounts paid and received based on balance sheet information. Special attention was given also to the analysis of the data on payables of the Health Insurance House (HIH), as well as to payables related to military expenditure. Another problematic issue discussed during the visits concerned the time of recording of subsidies, in particular the recording of government liabilities due to unpaid subsidies.

The consolidation of intra-governmental flows represented also an important point for discussion in the April 2011 EDP notification. Nevertheless, the Romanian authorities provided Eurostat, during the visits, with an exhaustive documentation on the intra-governmental flows, notably on the recording of investment grants and dividends as well as on the recording of flows between the HIH and hospitals.

Following the extensive work carried out by the Romanian Authorities, and the noticeable progress achieved between April and October 2011, Eurostat withdraw, in the October 2011 press release, the reservation on the quality of the data provided by the Romanian authorities.

Final Findings

Introduction

In the context of the April 2011 EDP notification, Eurostat expressed, in its press release on government deficit and debt, a reservation on the quality of the data reported by Romania, due to some uncertainties regarding:

- the impact of the accounts of some public corporations in the government deficit,
- the reporting of ESA95 categories "other accounts receivable and payable",
- the nature and impact of some financial transactions, and
- the consolidation of intra-governmental flows.

These above-mentioned issues signalled some risks with respect to the quality of the EDP data reported by the Romanian statistical authorities. Therefore, in accordance with Article 11 (1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the excessive deficit procedure (EDP), Eurostat carried out four visits in Bucharest in 2011 in order to discuss EDP issues.

The first EDP related visit took place on 8-10 June 2011². This technical visit aimed at providing technical assistance to the Romanian statisticians mainly on issues related to sector delimitation³, as well as at analysing and clarifying the outstanding technical and methodological issues. The delegation of Eurostat was represented by methodological and technical experts from Unit C3/C4, Statistics for Excessive Deficit Procedure I and II, and was headed by Mr Denis Besnard. As far as the Romanian delegation is concerned, it was composed of statisticians and experts directly and indirectly involved in EDP data compilation (National Statistical Institute - NSI, Ministry of Finance - MoF, National Bank of Romania - NBR). In addition, the involvement of some Romanian experts on national business accounting during this visit was very much appreciated.

On 20-22 June 2011, Eurostat organised an upstream visit in Romania in order to assess the primary data used as core data for the EDP notifications. The aim of this visit was to gather information on the accounting, auditing, control and reporting systems in place, and to assess the strengths and the weaknesses of those systems. In addition to the meetings with the National Statistical Institute (NSI), the Court of Auditors (CoA), the Ministry of Public Finance (MPF) and the Central Bank, Eurostat met also representatives of seven ministries that are also involved in the compilation of upstream data. Representatives of some entities controlled by those ministries (e.g. hospitals, local administrations) took also part to some of the meetings. The delegation of Eurostat was headed by Mr Alexandre Makaronidis, Head of Unit C6 - Verification of statistics for administrative purposes. Eurostat was further represented by other experts from Unit C6 and C3, Statistics for Excessive Deficit Procedure I.A representative of the Directorate General for Economic and Financial Affairs participated in the meeting as observer.

² The previous Eurostat EDP dialogue visit to Romania had taken place on 6-7 September 2010.

³ The technical assistance was officially requested by the National Statistical Institute of Romania on 13 April 2011.

The third Eurostat visit took place on 11-13 July 2011. The aim of this EDP dialogue visit was to examine the follow-up actions and the relevant revisions in the recording of several transactions, as agreed during the Technical visit, and to consider various methodological issues in the light of the documentation provided before the mission at the request of Eurostat.

The fourth, an ad-hoc dialogue visit, took place on the 26-27 of September 2011 and its aim was to re-examine the issues and to analyse the data in the context of the October EDP notification, which were sent to Eurostat in advance.

The Eurostat delegation was headed during both dialogue visits by Mr Luca Ascoli, Head of Unit C3 and represented also by other experts from Units C3, Statistics for Excessive Deficit Procedure I and C6 Verification of statistics for administrative purposes. The Romanian authorities were represented by experts from the NSI, MoF and NBR. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

It was acknowledged that one of the main reasons for the observed issues in the quality of EDP data reported by the Romanian authorities was insufficient capacities at the National Statistical Institute.

1. Impact of public corporations on government deficit and debt

1.1. Sector delimitation. Application of 50% test

In accordance with the conclusions from the previous EDP dialogue visit to Romania which took place on 6-7 September 2010, several public corporations had been reclassified into the general government sector in October 2010⁴ and some units remained to be further analysed after the April 2011 notification. During the technical visit in June 2011, Eurostat noticed that not all public corporations had been tested for sector classification purposes and that the NSI had focused mainly on big companies, selected and analysed by the International Monetary Fund⁵.

Discussion and methodological analysis

During the July visit in 2011, it was agreed with the Romanian National Statistical Institute (NSI) that, as a first priority for the forthcoming October 2011 EDP notification, the 50% test would be performed for selected companies, notably for those companies having the biggest turnover, taking into account the large number of other outstanding issues and the related huge workload. Nevertheless, already in September 2011, the NSI was able to perform the market/non-market test for all public corporations at central government as well as at local level. At central level, three units were reclassified in the General Governmental sector (GG) starting from 2007. The Romanian authorities also reclassified a significant number of local corporations into the GG sector (58), and their deficit/surplus and their debt were considered

⁴ The passenger railway company CFR Calatori, five District Heating Units, Compania Nationala a Huilei S.A., Societatea Nationala a Carbunelui SA and "Compania Nationala de Radiocomunicatii Navale Constanta.

⁵ Nevertheless, still around 1600 companies remained to be tested.

as deficit/surplus and debt of government in the EDP tables, already in the context of the October 2011 Notification.

During the September visit, it was noticed that, for some companies, negative results of the 50% test had been reported, since the "other operating income" included also changes in the inventory, when applying the 50% test. Therefore, it was agreed with the NSI that the operating income will be replaced by sales (turnover) in the calculation of the 50% test, as required by ESA95 rules. This was already implemented in the EDP October 2011 Notification for some companies which, in the previous test, were close to 50%, be it above or below the 50% limit.

In addition, an issue that should be further monitored related to the fact that a big number of public companies did not submit accounting statements for the period 2007-2010. The reasons for that were, as explained by the Romanian Authorities, that these entities were in bankruptcy or under liquidation process. At the level of central government, out of 794 units, 440 of them (55% of the total) were in this situation. A similar situation was noticed also at local level. Eurostat reminded that, according to Article 16 of CR 479/2010, as amended, the NSI could request relevant data for EDP purposes and the reporting units were obliged to provide these data.

Upon further discussion during the EDP visit of 26-27 September, it was explained that many of the corporations were not presently in a formal state of "bankruptcy or liquidation". While the MoF indicated that some of these could be described as dormant (i.e. there may be a reason to reactivate them), most appeared to be, in effect, defunct and existing only on paper. Reasons were given for not formally winding up these entities, such as the expense of formally appointed liquidators.

Findings and conclusions

- The Ministry of Finance will provide to the NSI selected variables for 734 public corporations which may be used for the 50% test. *Deadline: as soon as possible*⁶
- The NSI will analyse and change the sector classification of the units listed below (including those in the privatisation process) which did not pass the 50% criteria. *Deadline: before the end of September 2011*⁷

⁶ Action point implemented for the October 2011 Notification.

⁷ Action point implemented for the October 2011 Notification.

Central government

SC 'Electrificare CFR' S.A.
SC COMPANIA NATIONALA ROMARM SA BUCURESTI FILIALA SOCIETATEA
COMERCIALA UZINA MECANICA CUGIR SA
SC SANTIERUL NAVAL MANGALIA SA
SC SOCIETATEA FERROVIARA DE TURISM S.F.T. - C.F.R. SA
SC UZINA MECANICA ORASTIE SA
S.C. de Transport Maritim și de Coastă „CFR Ferry-Boat” – S.A.
SC AVIOANE CRAIOVA SA
SC C.N.M.PETROMIN SA
SC COMPANIA NATIONALA ADMINISTRATIA CANALELOR NAVIGABILE SA
SC CONSTRUCTII AERONAUTICE SA
SC SANEVIT 2003 SA
SC Uzina Automecanica SA MORENI

Local government

REGIA AUTONOMA AEROPORTUL ORADEA
SC PRODITERM SA
SC UZINA TERMICA CALAFAT SA

- The NSI will use selected indicators like turnover and, if available, debt, in order to identify the biggest companies for which a sector classification analysis should be done as a first priority. The list of those companies, as well as the results of the 50% test, should be provided to Eurostat. The NSI will also specify which units will be reclassified in the context of the forthcoming EDP notification. *Deadline: before the end of September 2011*⁸
- The NSI will replace the currently used operating incomes with sales (turnover) in calculation of the 50% test. For the time being, the calculation should be performed at least for the following public corporations:

1967132	SC CONSTRUCTII FERROVIARE MOLDOVA SA
	SC COMPANIA NATIONALA ROMARM SA BUCURESTI FILIALA SOCIETATEA
1769224	COMERCIALA UZINA MECANICA CUGIR SA
2206334	ROMPLUMB S.A.
2882425	AEROPORTUL CLUJ NAPOCA RA
6506326	SC SOCIETATEA NATIONALA "IMBUNATATIRI FUNCiare" SA
13652413	SC Tohan SA
13945863	SC Carfil SA
8468440	SOCIETATEA ROMANA DE TELEVIZIUNE
14423850	SC UM Bucuresti SA
2351415	MULTIPRODUCT RA
21727401	SC FP Fagaras SA
16004513	SC SOCIETATEA FERROVIARA DE TURISM S.F.T. - C.F.R. SA
14373832	SC UM Sadu SA
8296093	SOCIETATEA ROMANA DE RADIODIFUZIUNE
1590333	COMPANIA ROMANA DE AVIATIE ROMAVIA RA

⁸ Action point implemented for the October 2011 Notification.

The NSI agreed to provide a document showing the new results of the 50% test including all the items taken into account in the calculation. *Deadline: before the end of September 2011*⁹

1.2. Termoelectrica and CFR Infrastructura

Introduction

Already prior to the April 2011 EDP notification, Eurostat requested the reclassification of "CFR Infrastructura" and "Termoelectrica" inside the government sector. The request was justified by the fact that the companies appeared to be non-market producers, recorded regular losses and were unable to face their debt obligations without regular government support. Nevertheless, due to the large imbalances in data, and significant discrepancy between non-financial and financial accounts (up to 0.5% of GDP), these companies had not been included in government in the EDP figures notified in April 2011. The Romanian authorities asked Eurostat for technical assistance regarding the compilation of B.9 of reclassified public companies which resulted in a technical visit which took place in June 2011.

Discussion and methodological analysis

Following the approach agreed with Eurostat during the technical visit in June 2011 and after a detailed analysis of the profit and loss account, the balance sheet and the financial and non-financial accounts, the B.9 and B.9f were revised for both companies for the period 2007-2010. The B.9 has significantly changed for both companies. The impact on B.9 for 2009 and 2010 was more positive than originally reported, while for 2007-2008, the B.9 was more negative than previously reported.

During the July visit, the discussions were mainly focussed on the examination of the revisions of data as well as on the big discrepancy between the financial and non-financial accounts for Termoelectrica in 2007. The Romanian Authorities explained that the year 2007 represented an exceptional situation for Termoelectrica. The company cancelled its debt towards external debtors while government cancelled the debt of Termoelectrica towards government. These transactions were not recorded in the same way in the financial as in the non-financial accounts, which explained this discrepancy. In particular, a decrease in other accounts receivables (F.7) of 1,6 bill lei was recorded in the financial accounts, but not reflected in the non-financial accounts.

Another issue discussed in July 2011, referred to the transfer of non-financial assets from CFR Infrastructura to the state budget, which was actually recorded in the national accounts of the company in 2010 as a disposal of assets, having a positive impact on its B.9. Nevertheless, it was noticed that a counterpart was missing and no capital transfer expenditure payable to the state budget was imputed in the accounts of the company. It was also agreed that the same operation should be recorded in the accounts of the state budget, in both the revenue and the expenditure side. It was stressed by Eurostat that such operations should have a neutral impact on B.9.

⁹ Action point implemented for the October 2011 Notification. Nevertheless, some companies being slightly above or below the 50% limit will be further monitored by the NSI.

As in the case of the National Company of Road, some concerns were raised about the inconsistent recording of investment grants in the state budget and in the CFR Infrastructura's accounts. The Romanian Authorities assured Eurostat that the amounts will be checked in order to make sure that the figures are consistent¹⁰.

Before the September 2011 visit, the Romanian Authorities sent to Eurostat revised data for CFR Infrastructura and Termoelectrica. In the documentation provided for the mission, the Romanian authorities explained the reasons for the revisions between the June and September reporting. During the September visit, Eurostat examined in detail the changes in the figures related to sales, capital transfers and capital investment, notably for CFR Infrastructura¹¹.

Findings and conclusions

- The NSI will check whether the data on investment grants received by the CFR Infrastructura are consistent with the counterpart bookkeeping records in the state budget. *Deadline: the September 2011 EDP notification*¹²
- Eurostat recalled that a capital transfer receivable/payable is to be recorded as a counterpart entry to the transfer of assets for free (transfer in kind). Accordingly, for the transfer of non financial assets from CFR Infrastructura to the state budget, which is actually recorded in the national accounts of the company in 2010 as a disposal of assets, the missing counterpart entry, capital transfer expenditure payable to the state budget, is to be imputed in the accounts of the company. Related recordings should be done also in the accounts of the state budget, in both the revenue and the expenditure side. *Deadline: the September 2011 EDP notification*¹³
- The NSI will impute a capital transfer (revenue) in the accounts of the CFR Infrastructura as a counterpart for the capital injection in kind (transfer of land) in 2007 and 2008. Accordingly, the current recording of transaction in shares and other equity should be eliminated and appropriate counterpart records should be done in the accounts of the state budget. *Deadline: the September 2011 EDP notification*¹⁴
- The NSI will provide Eurostat with the most recent version of accounts (non-financial and financial) for Termoelectrica and CFR Infrastructura for 2007-2010. All the changes, compared with the version of June 2011, are to be quantified and explained for each revenue/expenditure item of the simplified GFS template, as well as for each financial transaction. In addition, in order to explain the most recent revision, the NSI will provide for both companies the profit and loss accounts (P&L), indicating which items of the P&L have been treated differently,

¹⁰ The Romanian Authorities have checked and eliminated the inconsistencies between the figures recorded in the state budget and in the company's accounts as investment grants for the following companies: CFR Infrastructura, Termoelectrica, National Company of Road, Metrorex and CFR Calatori.

¹¹ The revisions for Termoelectrica were quite small.

¹² Done for the October 2011 Notification.

¹³ Done for the October 2011 Notification

¹⁴ Done for the October 2011 Notification

when compiling national accounts, as compared to the June version. *Deadline: before the end of September 2011*¹⁵

1.3. National Company of Road

Introduction

The National Company of Road (NCR) is a strategic public company that operates under the Ministry of Transport. It is responsible for the implementation of development programs related to the public roads and for the major infrastructure projects. Classified inside General Government, the company has nevertheless financial autonomy.

During the April 2011 EDP Notification, Eurostat expressed some concerns on the large positive B.9 of the company for 2010. This positive figure was in counter-trend with the significant negative B.9, recorded by the company in the previous years.

Discussion and methodological analysis

The main issues discussed during the July and September 2011 visits regarding the National Company of Road focussed on: i) the recording of investment grants, ii) the revisions of data and iii) the big discrepancies between B.9 and B.9f.

During the July visit, the NSI explained that the positive B.9 of NCR recorded in 2010 was mainly due to the investment grants received by the company from government. Nevertheless, some concerns were raised about the recording of these investment grants, and notably about the consistent recording of the grants in the state budget and the company's accounts. It seemed that different amounts were recorded in the state budget and in the company's account. The MoF explained that the main reason for that was the fact that the investment grants were split into maintenance and investment grants and therefore recorded at different times. Eurostat pointed out the necessity of cross-checking the investment grants and the subsidies on production (D.39) data, with those recorded in the state budget, in order to ensure consistency between figures.

Another problematic issue concerned the significant revision in the financial accounts and non-financial accounts of public companies classified inside government sector. The MoF explained that this occurred because of different data sources. In the context of the April notification, estimations are used for the year t-1. In June, the company then usually provides the balance sheet. Depending on the quality of estimations, sometimes the figures can change significantly between April and June. The MoF claimed that this situation is not exceptional, and revisions between estimations and real data occur often in the case of public companies. In this context, Eurostat pointed out the necessity of improving the quality of estimations, realistic estimations being essential for reducing the gap between estimated and real figures. In this regard, Eurostat encouraged the initiative of the MoF to issue a government ordinance, in order to oblige the companies to send a set of data before April. Before the September 2011 visit, Eurostat was informed that the MoF, NSI and the National Bank have cooperated in

¹⁵ Done for the October 2011 Notification

order to prepare an ordinance for the collection of the necessary data from public companies¹⁶.

On the other hand, the data sources for B.9 compilation have been also changed – previously cash data were used, adjusted by "other accounts receivable/payable" from the balance sheet. For the compilation of the capital investment item (P5), the Profit/Loss account and the "form 40"¹⁷ from business accounting, are used.

Another important issue discussed during the July visit, was the incorrect recording of the transfer of non-financial assets from the National Company of Roads (NCR) to the state budget. This issue was further analysed during the September visit, when it was noticed that a similar problem occurs also by CFR Infrastructura¹⁸.

Regarding the big discrepancies between financial and non-financial accounts of the NCR, it was found out, during the technical visit in June, that not all transactions in other accounts receivable/payable (F.7) have been reflected in the non financial accounts (see also item 1.7).

The amounts included in F.7 are calculated for all general government units by the MoF. These figures are transmitted to the NSI which, due to insufficient human resources, does not check these figures or compare them with those from basic data sources.

It is also to be mentioned that financial accounts have not been compiled so far for individual companies or groups of units, but only for subsectors. Thus, it was impossible to identify discrepancies by companies and to analyse accounts further in order to eliminate the inconsistencies. On Eurostat's request, the Romanian authorities provided for the July mission, for the first time, a separate compilation for the main revenue and expenditure items and financial accounts, including the B.9f for the NCR and for some other selected companies. Due to the big inconsistencies in the figures related to the investment grants, as well as to the discrepancies between financial and non-financial accounts, Eurostat requested the Romanian authorities, during the September visit, as a matter of urgency, to meet representatives of the National Company of Road in order to check and analyse the figures on revenue and expenditure, including investment grants, subsidies and transactions in the non-financial assets for the NCR.

Findings and conclusions

- The NSI will apply the same treatment for all non-financial assets which might have been transferred from CFR Infrastructura and the National Company of Roads (and possibly from other companies) to the state balance sheet during the period 2007-2010. Data on these transfers for 2007-2010 are to be reported to Eurostat. *Deadline: before the end of September 2011*¹⁹

¹⁶ The Ordinance had been already approved and signed by the Finance Minister at the end of August 2011.

¹⁷ It's a synthetic form used by Romanian Authorities about tangible and non-tangible fixed assets.

¹⁸ See point 1.2.

¹⁹ Action point implemented for the October Notification 2011.

- The Romanian authorities will take steps, possibly by legal means, in order to ensure reliable data from public companies for future compilation of EDP figures in April for the year T-1, starting from the April 2012 EDP notification. *Deadline: before April 2012*²⁰
- The NSI will continue analysing the accounts of the National Company of Roads (NCR) for 2007-2010 following the approach discussed with Eurostat, and will provide to Eurostat revised non-financial and financial accounts. In addition, a note explaining and quantifying all the changes in individual expenditure and revenue items as well as on financial accounts, compared to the version provided prior to the EDP dialogue visit of July 2011, is to be provided. The NSI will also check whether the figures on investment grants are consistent with the counterpart state budget book-keeping records. *Deadline: before the end of September 2011*²¹
- Representatives of the NSI, Ministry of Finance, NBR and National Company of Road will check together and analyse further the figures on individual revenue and expenditure, including investment grants, subsidies and transactions in non-financial assets, in order to reconcile the big discrepancies between the figures recorded in the state budget and the business accounting of the company, to eliminate the large discrepancies between B.9 and B.9f and to conclude on a reliable figure for B.9. A document certified and signed by all the institutions involved will be provided to Eurostat with the correct figures. *Deadline: before the end of September 2011*²²
- Representatives of the NSI, Ministry of Finance, NBR and National Company of Road will check together and analyse further the figures on individual revenue and expenditure, including investment grants, subsidies and transactions in non-financial assets, in order to reconcile the big discrepancies between the figures recorded in the state budget and business accounting of the company, to eliminate the large discrepancies between B.9 and B.9f and to conclude on the reliable figure on B.9. A document certified and signed by all the institutions involved will be provided to Eurostat with the correct figures²³.

1.4. National Property Fund (NPF)

Introduction

The National Property Fund (NPF) was set up in 2005 in order to indemnify and compensate persons whose assets were abusively expropriated by the communist regime. It was initially fully owned by the Romanian Government as sole shareholder and was classified inside general government. Nevertheless, the NPF was privatised in 2011 and the shares of government decreased significantly. In May 2011, the Ministry of Public Finance owned just 3,478,906,268 shares, accounting for 25.25% of the share capital. According to the legislation in force, when the state participation drops under 33% of the share capital of NPF, the

²⁰ Done at the end of August 2011.

²¹ Action point implemented for the October Notification 2011.

²² Action point implemented for the October Notification 2011.

²³ Document provided in September 2011.

shareholders will be able to decide on the voting rights based on the number of shares, which means that the government will not have the control on NPF any more. Nevertheless, in the Body of Nominees, the majority of the members are still chosen by the Ministry of Finance. During the September visit, the Romanian authorities mentioned that it might be the case that, in the near future, the NPF will be reclassified outside general government. Nevertheless, the classification of the NPF will be further analysed taking into account elements, such as the extent of control, exercised by General Government in the Fund.

Discussion and methodological analysis

The main issues discussed during the EDP visits related to the recording of compensation titles and of dividends.

The issued compensation titles are recorded, as agreed during the EDP visit in 2007, as financial derivatives with a capital transfer payable as a counterpart. The recording of compensation titles and, in particular, the conversion of compensation titles into cash and F.5, and the impact on B.9, were reviewed. Some inconsistencies in the recording were identified by Eurostat, and in particular the inconsistency between the financial and non-financial accounts. It was found out that the deficit for 2010 was underestimated due to the inconsistent recording of the issued compensation titles. After the July visit, the recording of compensation titles was revised in non-financial accounts for 2010 (increasing the deficit by 390 mill) and in the financial accounts for the whole reporting period.

Concerning the recording of dividends, some concerns have been expressed in April 2011 about how and when dividends payable by the NPF have been recorded in the accounts of the state budget. During the technical visit, it became clear that, in 2010, the NPF paid dividends to shareholders for about 1.1 bill lei for the cumulated period 2007-2009. This was recorded in the state budget as revenue, but not as expenditure of the NPF. It was agreed that the NSI will impute this expenditure with a negative impact on B.9 of the NPF.

Eurostat also asked the Romanian Authorities to perform a super-dividend test for 2010 and 2009. After the test, a part of the distributed income in 2010 was recorded as a super-dividend.

Another issue raised during the July mission concerned the discrepancies between the financial and non-financial accounts of the NPF. Particular attention was given to the significant discrepancy recorded in 2009 of about 976 millions lei. In order to find out the reasons for this discrepancy, some items from the balance sheets and from the financial accounts of the NPF were analysed with the Romanian authorities, and the discrepancies have been reduced.

Findings and conclusions

- The NSI will correct the recording of compensation titles in the non-financial accounts and in EDP table 2A for 2010, which will have a negative impact on B9. *Deadline: the September 2011 EDP notification*²⁴
- The recording of compensation titles in EDP table 3B will be also corrected and harmonised with data reported in the Questionnaire relating to the EDP notification tables. The Romanian statistical authorities will provide a split of the compensation titles recorded in EDP table 3B in the context of every future EDP notification. *Deadline: the September 2011 EDP notification*²⁵
- The NSI will exclude nominal gains from the operating revenue of the National Property Fund (NPF) for the year 2009 and the super-dividend test will be performed for dividends paid in 2010 by the NPF to the state budget and other shareholders, on the basis of the profit for 2009, excluding holding gains. The “super-dividend part” will be recorded as withdrawal of equity instead of dividends and the accounts of the NPF and state budget will be revised for 2010 accordingly. *Deadline: the September 2011 EDP notification*²⁶
- The Romanian statistical authorities will perform, from now on, the super-dividend test on an annual basis at the time of the April EDP notifications, for T-1. The NSI will provide to Eurostat a complete list of dividends paid by companies in 2009 and 2010 and will report the results of the super-dividend test for both years. *Deadline: the September 2011 EDP notification*²⁷

1.5. Discrepancies between financial and non-financial accounts of other public units

Discussion and methodological analysis

As mentioned under 1.4., before 2011, the financial accounts have not so far been compiled for individual companies or groups of units, but only for subsectors. In the context of the technical visit in June 2011, the Romanian authorities compiled for the first time, separately, the B.9f for the National Company of Road for 2010, as requested by Eurostat. As a result of this compilation, a large discrepancy has been identified between the financial and non-financial accounts. For the July visit, the Romanian Authorities has also provided Eurostat with the B.9 and the B.9f for the National Property Fund, where discrepancies could also be observed. In addition, Eurostat observed a very large revision of B.9 for Termoelectrica and CFR Infrastructura. These revisions were based on a more detailed analysis of the business

²⁴ Action point implemented for the October 2011 Notification.

²⁵ Action point implemented for the October 2011 Notification.

²⁶ Action point implemented for the October Notification 2011.

²⁷ The test was performed for 2009 and 2010, but the action point had a continuous character, which means that the super-dividend test will be undertaken every year.

accounts of those companies and due to a much closer co-operation between non-financial accounts and financial accounts compilers.

In this context, doubts were raised about the level of discrepancies for other individual units classified in the general government sector. After discussions with the Romanian Authorities during the technical visit in June, it became obvious, that the use of the Profit and Loss Account (P&L account) for the compilation of non financial accounts requires a lot of efforts, time and additional information in order to properly implement the ESA95 rules. This is due to the fact that, normally, individual items from the standard financial statements of business accounting do not provide sufficient details for ESA95 national accounts. There are numerous items in the P&L account which aggregate non-financial and financial transactions, as well as other economic flows (in ESA95 terms). In addition, specific adjustments are to be done for the recording of investment grants, which could not be derived from the P&L account and/or the balance sheet.

It was agreed during the July visit that, due to difficulties resulting from such detailed analysis on the standard business P&L account, a separate compilation for financial and non-financial accounts should be done at least for big companies. It was also agreed with the Romanian Authorities, that the B.9 of other GG units having a "corporation" legal status (at central and local level), will be reviewed and reconsidered, following the approach applied for Termoelectrica and CFR Infrastructura, notably for: CFR Calatori, CN Huilei Petrosani, but also for other smaller companies such as Metrorex, Airports and District Heating Units etc. As an example of best practice, Eurostat invited the Romanian authorities to compile, in the future, the B.9 and B.9f separately for individual units and groups of units as well as for the state budget, local budget, central and local public institutions partially or totally financed from own revenues and for each social security fund. Eurostat should be informed about the result of these compilations and notably about the existence of significant discrepancies. Due to the fact that, in EDP notification table 3, the discrepancies between individual units have been somehow consolidated, it was not possible to identify large unbalances for individual units and so to eliminate mistakes.

Findings and conclusions

- The NSI and the NBR will compile the non-financial and financial accounts for each individual public "corporation" classified in the government sector. The compilation of accounts on an aggregated basis would be acceptable only for the group of district heating units and airports, as proposed by the NSI. The NSI and the NBR will also compile non-financial and financial accounts separately for the state budget, local budget, central as well as local public institutions partially or totally financed from own revenues and for each social security fund. *Deadline: before the April 2012 EDP notification*²⁸
- As a matter of priority, the Romanian authorities will compile non-financial and financial accounts, following the approach applied for the companies recently discussed with Eurostat, at least for the following individual units: CFR Calatori,

²⁸ Action point not implemented for the April notification due to early submission of the April notification. The deadline will be further discussed with the Romanian Authorities.

CNH, Metrorex and other, if possible. The results for 2007-2010 will be provided to Eurostat. *Deadline: before the end of September 2011*²⁹

- In order to reduce the discrepancies between the B9 and B9f of the Heating Units, the NSI will check the impact of the disposal of assets of those units on B9 and whether this impact has not been overestimated³⁰.
- As far as the local public corporations are concerned, the NSI will use a simulation for the calculation of B.9, as presented during the meeting, in order to solve the problem of the recording of transactions in non-financial assets and the related subsidies and in order to eliminate the currently observed discrepancies between B.9 and B.9f. The revised figures are to be provided to Eurostat³¹.

The Romanian statistical authorities will revise national accounts for public corporations included in government, using the most recent information on transfers from the state budget and possibly implementing other appropriate adjustments, in order to reconcile B.9 and B.9f. An updated summary table showing B.9, B.9f (and a discrepancy) for all the companies classified in S.13 ("old" and "new") will be provided to Eurostat as well as a note briefly describing the main changes comparing with the September version³².

1.6. Register of public corporations

Discussion and methodological analysis

During the July 2011 visit, Eurostat asked for more information on the maintenance of the statistical register. The statistical register is based on the National Trade Register. The National Trade Register is maintained by the Ministry of Justice and is accessible free of charge. It provides information about companies, including their trade names, registered offices, registration numbers, tax codes and the dates of the latest changes within the company. Every new created company is obliged to register itself in the trade register but not in the statistical register. The statistical register is updated by the NSI and contains more detailed financial information (monthly and annual data) on the companies. The NSI is responsible for the verification of data as well as for the cross-checking of the data with those from the MoF. It seems that every private or public company is registered in the statistical register, and the NSI updates it regularly with newly created, merged or liquidated units.

During the July meeting, it was agreed with the Romanian Authorities that the 50% test will be performed for all the companies included in the statistical register and will be finalised before the end of the year 2011. Nevertheless, as mentioned before, already in the context of the October 2011 notification, the NSI sent to Eurostat several files with all tested companies at national and local level.

²⁹ The non-financial and financial accounts were compiled for CFR Calatori, CNH, Metrorex, NCR and NPF

³⁰ Done for the October 2011 Notification.

³¹ Done for the October 2011 Notification.

³² Done for the October 2011 Notification.

1.7. Consumption of fixed Capital

Introduction

In the calculation of Consumption of fixed capital (CFC), the Romanian Authorities are applying the Perpetual Inventory Method (PIM). Therefore, several items and different data sources are used.

The items taken into account are: stocks of non-financial assets at historical costs, the acquisitions and disposals of tangible assets, the average service lives for each group of assets and the price indices for deflating the assets. As data sources, the NSI uses the Annual business survey of enterprises and other special surveys, as well as administrative data from the Ministry of Finance concerning the tangible assets. Depending on the data sources, two different approaches had been applied. For the period 1992-2009, for the General Government sector as a whole, prices from 1992 were taken into account, while for the period 2003-2009 for the GG subsectors, prices from 2003 were considered for the calculation of CFC.

Discussion and methodological analysis

One of the issues discussed during the July mission related to some identified cases where non-financial assets did not appear in the balance sheet of a number of companies, while these companies used these assets for their activities. Therefore, there were some cases where depreciation was not considered as part of expenditure, even if the companies seemed to be the economic owners of those assets. The assets remain the property of the state budget from a legal, but not from an economic point of view.

Around 25 companies are paying a kind of fee for the use of assets to government. These fees have been recorded by the NSI as costs of the company and taken into account in the calculation of the 50% test. On the other hand, the CFC was not taken into consideration for the calculation of the 50% test.

Therefore, Eurostat asked to replace the amounts of the fees with the costs related to the consumption of fixed capital as required by ESA95, and to revise the 50% test calculations. Some, but not all the results are now available for the period 2007-2009. After the recalculation of the 50% test, the company "Compania Nationala Administratia Canalelor Navigabile Constanta" has been reclassified inside the General Government sector (S.13). The impact on B.9 was nevertheless small.

Findings and conclusions

- Regarding the units which are considered as economic owners of non-financial assets which are registered in the balance sheet of the state budget (and not in the balance sheet of the company), the NSI will complete the 50% test (including CFC) for 2010 for all companies. For Transelectrica, Romsilva, Patrimoniului de Stat and Aeroporturi

Bucuresti the test will be performed for the whole reporting period. The results will be sent to Eurostat. *Deadline: before the end of September 2011*³³

- The NSI will reclassify Administratia Canalelor Navigabile Constanta in the government sector for 2007-2010 and will provide Eurostat with the main revenue and expenditure items (B.9) and financial accounts (B.9f). *Deadline: the September 2011 EDP notification*³⁴
- Eurostat invited the NSI to use the market prices of the assets instead of the currently used 2003 prices, for the calculation of consumption of fixed capital. *Deadline: the September 2011 EDP notification*³⁵

2. Classification of transfers from the state budget to Guarantee Funds

Introduction

During the April 2011 notification, as well as during the technical visit from June 2011, several discussions raised the issue of the recording of the transfers of funds from the state budget to the Guarantee Funds (IFN). These transfers have been treated as loans, with no impact on B.9. Nevertheless, before October 2010, these flows were recorded as subsidies. Therefore, in the context of the July and September 2011 visits, Eurostat asked for additional documentation in order to better analyse if these transfers should be recorded as subsidies (or another type of expenditure) or as loans (or another type of financial instrument).

Discussion and methodological analysis

The IFN use the funds from the state budget as a "collateral" to provide guarantees to farmers and to small and medium enterprises (SME). A part of the funds received by IFN are coming from the EU (20%) and another part from the state budget (80%).

In theory, when the guarantees expire, the funds should be returned to the government. Nevertheless, Eurostat observed a significant increase in the amounts of guarantees provided over the years from 569,445,885 lei in 2008 to 1,374,427,055 lei in 2010, as well as an increase in the amount of guarantees called. In order to quantify the risks assumed by government, Eurostat asked the Romanian Authorities to provide the contracts concluded between the IFN and GG as well as further details on guarantee calls and repayments to government. Based on the documents provided, it was agreed with the Romanian Authorities that the transfer of fund for guarantees will continue to be recorded as loans, nevertheless the interest on the collateral provided by the government will be recorded on an accrual basis as revenue of government and at the same time any call on guarantees will be treated as government expenditure.

³³ Done for the October 2011 Notification.

³⁴ Action point implemented for the October 2011 Notification.

³⁵ Action point implemented at general governmental level but not for individual units due to some technical and practical difficulties.

Another related issue was the recording of these loans in EDP table 2. It appeared that only part of the loans was included in the working balance, while the whole amount was excluded in EDP T2A, when compiling B.9. It was confirmed during the meeting that, as a consequence, the deficit was underestimated in this respect. The figures have been corrected in October 2011 EDP notification.

Findings and conclusions

- Regarding the Guarantee Funds for rural development and for SMEs, the interest on the collateral provided by the government will be recorded on an accrual basis as revenue of government and at the same time any call on guarantees will be treated as government expenditure. *Deadline: the September 2011 EDP notification*³⁶
- The NSI will provide a note on the operations of the Guarantee Funds, detailing functioning, ownership, status, who takes the risks, mechanism for covering losses, decision procedures, etc. The Romanian statistical authorities will also provide to Eurostat annual reports including profit and loss account and balance sheet for 2007-2010, and services contracts of these Guarantee Funds. *Deadline: before the end of September 2011*³⁷
- The FAGR will provide to Eurostat the Ordinance 329/2009 and 79/2009 and a document with the amounts paid for the guarantees called for 2007-2010, pointing out from which resources this amount was paid³⁸.
- The NSI will correct in the EDP notification tables T2A and T3B, the amount of interest (D41) receivable from the funds borrowed to the Guarantee Funds³⁹.

3. Recording of other accounts receivable/payable (F.7)

Introduction

Due to the complexity of the recording of "other accounts receivable/payable (F.7)", special attention was paid by Eurostat in analysing these transactions. The continuous increase in the amounts of F.7, notably in other accounts payables, had raised already in the past some concerns. Therefore, the recording of F.7 was extensively discussed during the last EDP missions.

³⁶ Action point implemented for the October 2011 Notification.

³⁷ Action point implemented for the October 2011 Notification.

³⁸ The documentation was provided in September 2011.

³⁹ Action point implemented for the October 2011 Notification.

Discussion and methodological analysis

Due to human resources capacity reasons, F.7 is calculated for all general government units by the MoF, except for the reclassified public companies. The figures are then transmitted to the NSI in order to apply the accrual adjustments in non-financial accounts. These figures had also been used by the NBR, for the compilation of the financial accounts.

During the technical visit in June 2011, it was found, after analysing the accounts of individual companies⁴⁰ that not all F.7 items from the balance sheets were taken into account by the MoF, when calculating B.9. Thus, some doubts were raised on the exhaustiveness of F.7, on the correctness of the deficit figures and on the consistency with financial accounts. In this context, Eurostat had asked, prior to the July EDP mission, for some additional documentation and details relating to other accounts receivable/payable. The Romanian authorities argued that many book-keeping records in the balance sheet in other receivable/payable refer to "accrual" transactions, which will never be paid. However, Eurostat had noticed that, among other items, also financial advances, where a cash flow was involved, had not been included in F.7 and thus it had not been reflected in B.9 calculations. Accordingly, Eurostat requested from the NSI to indicate all the items from the balance sheet, for "other accounts receivable/payable", which have been taken into account for EDP data calculation, as well as to include in the calculation of B.9, data on advances paid and received based on balance sheet information. After the inclusion of advances receivable/payable into the non-financial accounts in the October 2011 EDP figures, the impact on B.9 was significant.

Prior to the July EDP visit, the Romanian authorities had provided some documentation about the split of F.7, both for stocks and flows, by groups of units (e.g. individual ministries and other government bodies) for 2007-2010. Eurostat observed that the existing amounts of payables were mainly due to the cash balance of EU grants. However, the split of F.7 by Ministries and other government units showed other quite significant amounts, which were further analysed.

Special attention was given also to the analysis of the data on "other accounts payable" of the Health Insurance House (HIH). Before the July EDP visit, Eurostat had requested a reviewed table on payables of the HIH⁴¹ in order to see if the receivables from the accounts of hospitals have been harmonised with the payables from HIH. It was noticed that the figures were slightly different. The Romanian authorities explained that this partially related to the fact that, until 2010, the hospitals were part of the Ministry of Health and since 2010 some of the hospitals moved under the responsibility of the respective local authorities.

Before the July EDP mission, it was not fully clear whether the NBR recorded F.7 in financial accounts for all newly reclassified companies or not. During the discussions, it was confirmed that, for some reclassified central and local units, F.7 had not been included in the financial accounts and in EDP T3B and T3D. Therefore, after the September 2011 visit, the NBR had provided Eurostat with detailed EDP T3B and T3D, showing only the newly included corporations.

⁴⁰ We referred here notably to the case of the National Company of Road.

⁴¹ In 2009 a considerable increase of payables was recorded in EDP T2D. The Romanian authorities confirmed that, according to the Government Ordinance No 104/2009, the HIH was allowed to acquire goods and services in 2009 for 2.8 bill RON and pay them in 2010.

During the September 2011 EDP visit, Eurostat also asked for more information related to the F.7 amounts in the item "Military expenditure". In October 2010, the Romanian Authorities reported big amounts of receivables (603 mill lei) related to military expenditure for 2006. However, no reduction in the receivables in the following years had been recorded. This amount was removed in the April 2011 EDP Notification. As was explained by the Romanian Authorities, the amounts recorded were actually not related to military expenditure as defined by ESA95 but to other types of expenditure, and therefore the receivables recorded were removed from the relevant table 7 of the EDP related questionnaire. In order to obtain more transparency in the recording of military expenditure, Eurostat asked for a note indicating the items of the state budget balance sheet under which receivables and payables relating to the acquisition of equipment (military and other), acquired by the Ministry of Defence, had been reported.

Another problematic issue which was discussed in the July EDP mission, related to the time of recording of subsidies and in particular to the recording of government liabilities due to unpaid subsidies. According to the Romanian Authorities, subsidies are recorded on a cash basis. Therefore no payables are recorded in the balance sheet of the state and, allegedly, no receivables in the balance sheets of companies. Nevertheless, there could be cases when general government is obliged to pay subsidies and due to the unavailability of funds in the state budget, the subsidies are only paid later on. In order to investigate such cases, Eurostat asked to the Romanian statistical authorities to examine the possible accumulation of payables on subsidies, due to the unavailability of funds in the state budget and/or in the main local government units. The Romanian authorities were further asked to provide to Eurostat a note explaining the rules on the time of recording of payables on subsidies, their reporting in the balance sheet, and to investigate as well whether there might be or have been cases of accumulation of payables on subsidies, due to unavailability of funds in the state budget and/or in the main local government units.

Findings and conclusions

- The NSI will send balance sheet data for 2007-2010, indicating the items on other accounts receivable/payable which have been taken into account for EDP data calculation, for the following units: state budget, local budget, central as well as local public institutions partially or totally financed from own revenues and social security funds. *Deadline: the September 2011 EDP notification*⁴²
- Regarding the recording of other accounts payable, the NSI will provide to Eurostat a note explaining selected items from the balance sheet (currently not taken into account in EDP data) for individual groups of public units: items 01052, 01053, 01060 (except for 01061), 01062, 01063, 01065, 01073 (except for 010731). It is to be specified what kind of transactions could be booked under each item according to the bookkeeping rules. In addition, the Romanian authorities are invited to identify which ministries/units have reported the highest amounts for those items and to investigate which main transactions have been actually booked by those units. *Deadline: the September 2011 EDP notification*⁴³

⁴² Action point implemented for the October 2011 Notification.

⁴³ Action point implemented for the October 2011 Notification.

- The Romanian statistical authorities will include, in the calculation of B9, data on advances paid and received based on the balance sheet information. *Deadline: the September 2011 EDP notification*⁴⁴
- The Romanian statistical authorities will provide to Eurostat a note explaining the rules on the time of recording of payables on subsidies, their reporting in the balance sheet and will investigate whether there might be or have been cases of accumulation of payables on subsidies due to unavailability of funds in the state budget and/or in the main local government units. *Deadline: before the end of September 2011*⁴⁵
- The NSI will revise data on receivables of hospitals for 2007-2010 in order to be in line with counterpart information on the related payables of the Health Insurance House. *Deadline: the September 2011 EDP notification*⁴⁶
- The NSI will send to Eurostat a note indicating under in which item of the state budget balance sheet (2010 version) are reported receivables and payables relating to the acquisition of equipment (military and other) acquired by the Ministry of Defence. The note should also explain where and under which items in table 4.1 and 4.2 of the EDP questionnaire are now included the receivables and payables in F.7, originally reported in the EDP questionnaire table 7 on military expenditure⁴⁷.
- The Romanian authorities will provide a short note on the recent revision in F.7, indicating which items from the balance sheet (advances and/or possible other items) have been recently included in EDP figures and which not, and why⁴⁸.
- The Romanian authorities will provide a split, by Ministries or other groups of units, of the newly included transactions in receivables and payables for 2007-2010 (at least for values higher than 300 mill, as reported in the table 1.2 of the EDP questionnaire)⁴⁹.

4. Consolidation of intra-governmental flows

Introduction

The consolidation of intra-governmental flows represented one of the problematical issues of the April 2011 Notification. Eurostat expressed in April 2011 its doubts about the correct consolidation of intra-governmental flows in non-financial accounts and the consistency of some figures on F.7 referring to intra-governmental flows.

⁴⁴ Done for the October 2011 Notification.

⁴⁵ Some explanations were provided related to the recording of subsidies. Nevertheless, the Romanian Authorities have not yet provided any information about possible cases of accumulation of payables. Therefore a follow-up of this action point is required in 2012.

⁴⁶ Done for the October 2011 Notification.

⁴⁷ Note provided in October 2011.

⁴⁸ Note provided in October 2011.

⁴⁹ Done for the October 2011 Notification.

The concerns were mainly linked to the recording of some investment grants from the State Budget to the National Company of Road and to other reclassified enterprises, to the recording of dividends from the National Property Fund to the State Budget as well as to the recording of receivables/payables of the Health Insurance House (HIH) versus hospitals.

Discussion and methodological analysis

Before the July EDP visit, the Romanian authorities provided Eurostat with an exhaustive documentation about the intra-governmental flows, reflecting their actual recording in non-financial and financial accounts. The tables had provided a perspective on the intra-governmental flows from the creditor/payer point of view as well as from the debtor/beneficiary point of view. The aim of these tables was to identify possible differences in the recording of flows and to eliminate possible inconsistencies. According to this table, all flows had been consistent, but it was clarified later that not all data in the table referred to the actual amounts recorded in the accounts of individual counterpart units.

Regarding the recording of investment grants, it was already mentioned under 1.4 that, during the July visit, Eurostat analysed with the Romanian Authorities the consistent recording of investment grants in the state budget and some companies' accounts. It seemed that different amounts were recorded in the state budget and in the company's account. During the September visit, a consistent recording of investment grants seemed to be achieved for the National Company of Road, CFR Infrastructura, Metrorex, CFR Calatori and Termoelectrica.

During the July and September visits, the recording of flows between the Health Insurance House (HIH) and hospitals and the recording of dividends from the National Property Fund to the State Budget as mentioned under 1.5. was also clarified.

Findings and conclusions

- The Romanian authorities will provide a note on future measures and steps which will be taken in order to ensure consistency in non-financial and financial intra-governmental flows, including receivables/payables relating to the transfer of EU grants passing via the state budget to the local budget (which are to be reflected in financial accounts and EDP T3). *Deadline: before the end of 2011*⁵⁰

⁵⁰ Action point implemented in December 2011.

5. Other outstanding methodological and technical issues

5.1. EU flows recording

Introduction

Some problematic issues related to the recording of the EU flows were discussed during the July and September 2011 EDP visits. According to Eurostat's rules, the impact of EU flows should be neutralised for government in national accounts and in EDP tables. Due to the complexity of the recording of these flows in public accounts in Romania, some clarifications were needed in order to ensure that the EU amounts would not be double-counted at central government and local level.

Discussion and methodological analysis

In 2010, a quite large amount of EU flows has been recorded as receivables/payables at central government and local government level. Some doubts were raised on the possible double-counting of amounts received from the EU by local government, notably regarding the grants passing through the central government accounts.

To ensure that receivables/payables against the EU are not double counted, Eurostat required more information about EU grants data, as well as some documents showing the channels for EU flows at national level and a break-down of the amounts by Ministries and by total. In order to have a clear perspective about the transit of EU flows, Eurostat asked for a detailed financial statement on inflows and outflows, to see which flows are entering into the working balance and which not. Following the discussions during the July 2011 visit, the Romanian authorities revised significantly, in the October 2011 Notification, the recording of EU flows, notably at local government level. The Romanian Authorities explained that EU funds data has been reviewed after the inflows, outflows and the stocks of each EU programme (e.g. European Regional Development Fund, the Cohesion Fund and the European Social Fund, etc.) were compared with the primary data.

Findings and conclusions

- The Romanian authorities will provide Eurostat with a financial statement for 2010 on inflows and outflows for the EU grants which are part of the working balance in EDP T2A⁵¹
- The NSI will correct, in Table 2A/C/D and in the related EDP tables 3, data on other accounts receivable/payable, in order to eliminate any impact of the EU funds on the deficit/surplus of government⁵².

⁵¹ Done for the October 2011 Notification.

⁵² Action point implemented for the October EDP Notification 2011.

- The NSI will provide a detailed financial statement on inflows and outflows on the EU grants which do not enter into the working balance⁵³.
- The NSI will provide an explanatory note about the main reason for the significant revision of the figures between April and September for the data related to the EU flows (more detailed data sources available? Elimination of an error, and if yes, how to prevent it in the future?)⁵⁴

6. Ex-ante advices

Following the discussions during the EDP visits in 2011 and the official request of the Romanian authorities, Eurostat provided, in 2011, methodological advice on two ex-ante cases⁵⁵.

6.1. Infrastructure Development Programme

The first advice concerned the treatment of foreseen investment projects in the context of the National Infrastructure Development Programme which should be launched in 2011-2014, while cash payments should be made in 2010-2013. In particular, the appropriate time of recording of government expenditure relating to the acquisition of the assets as well as the future possible impact on the government debt was clarified. Eurostat recommended the recording of government expenditure, gross fixed capital formation, on accrual basis, as defined by ESA95 for long-term contracts of sale agreed in advance. Accordingly, the expenditure is to be recorded by government in each accounting period in line with the progress in construction, and not at the time of final acceptance and/or cash payment.

6.2. Restructuring schemes for some public corporations

This case concerned the recording, in national accounts, of restructuring schemes for some public corporation with accumulated arrears in AF.7 trade credits against other public corporations and against government. Some of those companies are classified inside government in national accounts. The Romanian government proposed three kinds of operations to be implemented in order to help companies with accumulated arrears, e.g. debt-equity swaps, loans or transfer of cash funds which should be used by the companies to repay their debt.

⁵³ Done for the October 2011 Notification.

⁵⁴ A note was provided explaining the different EU grants received by Romania, nevertheless the note doesn't explain exhaustively the reasons for the revisions.

⁵⁵ The letters of advice are available on Eurostat's website under:

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Romania-Treatment_of_infrastructure_investment_projects.pdf and

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Romania-Recording_of_restructuring_schemes_for_public_co.pdf

Eurostat advised that, if the government is providing funds to companies, for the repayment of their debt, this must be recorded as a non-financial transaction, "capital transfer" (D9), having a negative impact on the government deficit for the funds given to companies, classified outside the government sector. As far as the debt-equity swap is concerned, the capital injection test for CFR Marfa (freight railway company classified outside government) is to be done by the NSI.

7. Other technical issues

7.1. Reconciliation of deposits F.2 and B9 for the state budget

Discussion and methodological analysis

Since numerous technical issues, having an impact on B.9, have been identified in the compilation of EDP tables and national accounts, Eurostat asked to the Romanian authorities to complete a table on reconciliation of the cash balance F.2 and the deficit B.9, as well as EDP T3B1 for the state budget. It was also required, to the NBR, to reconcile the amounts of deposits in the State treasury with those recorded in EDP table 3, by sub-sectors and to conduct a comparison of data on deposits of individual government units coming from the balance sheets of units and from Money and Banking Statistics.

Findings and conclusions

- The Romanian statistical authorities will compile, in close co-operation, the table on reconciliation of the cash balance F.2 and the deficit B.9, as well as EDP T3B1 for the state budget, for 2009 and 2010. A reference to the related balance sheet items on deposits (F.2) of the state budget is to be specified. *Deadline: before the end of September 2011*⁵⁶
- The Romanian statistical authorities will provide a table reconciling the amounts of deposits in the State treasury (as reported prior to the EDP dialogue visit) with the amounts recorded in EDP table 3, by sub-sectors. *Deadline: before the end of September 2011*⁵⁷
- The Romanian Central bank representatives agreed to conduct a comparison of data on deposits of individual government units coming from the balance sheets and Money and Banking Statistics. *Deadline: December 2011*⁵⁸

⁵⁶ Action point implemented for the October 2011 Notification, however follow-up actions are needed.

⁵⁷ Action point implemented for the October 2011 Notification.

⁵⁸ Action point implemented in December 2011.

8. Upstream visit

Introduction

The aim of the upstream visit, which took place between 20-22 June 2011, was to review the quality of primary public accounting ("upstream") data sources (as specified in the Communication from the Commission to the European Parliament and the Council of 15.4.2011, "Towards robust quality management for European Statistics") and also to review the National Statistical Institute ability to utilise its powers under Article 16 of Council Regulation 479/2009 as amended by Regulation 679/2010. In addition to the meetings with the National Statistical Institute (NSI), the Court of Auditors (CoA), the Ministry of Public Finance (MPF) and the Central Bank, Eurostat met also representatives of seven ministries that are also involved in the compilation of upstream data. Representatives of some entities controlled by those ministries (e.g. hospitals, local administrations) took also part to some of the meetings.

Conclusions and action points

- Eurostat supports the reflections and plans of the NSI to assign substantial resources, with respect to both number and expertise, most notably for activities related to:
 - accrual adjustments and quality checks on public institutions balance sheets,
 - strengthening the NSI's present role in the area of quality checks on data sources in particular, those used for reconciliation between financial and non-financial accounts and especially to determine discrepancies between B9 and B9f
 - to regularly/systematically reapply the 50% criterion for public companies/entities to be potentially reclassified to general government
 - to have the capability and capacity of detailing the data on COFOG level 2 for all COFOG functions
- Eurostat welcomes the existence of the Protocol on cooperation regarding the development of National System of Government Finance Statistics of 20 Oct 2004, amended in 2008. Eurostat considers the efforts on further updating this Protocol as essential. Eurostat points out, that the ESS CoP will be reviewed to further reinforce the independence of NSIs throughout the ESS. The revised version of the Protocol should duly take this into account and also consider the new developments resulting from the revised Council Reg. 479/2009 and COM 2011/211. Thus, improved clarity of the roles between the various players is important and the revised protocol should provide details on the responsibilities of

each party and how cooperation is organised in practice. In particular, the NSI shall have the sole responsibility for deciding on statistical methods, standards and procedures, and on the content and timing of statistical releases and this should be appropriately reflected in the revised Protocol.

- Eurostat encourages the Romanian NSI to build knowledge of the system of data flow in the upstream area i.e. what data is supplied from respective entities to a higher level and what quality guarantees are in place (e.g. audit). The NSI should take a coordination role in ensuring that data suppliers are aware of their responsibilities when they report data for EDP purposes. Eurostat is of the opinion that the integrated system for GFS and the common and shared IT platform, which are objectives under the Protocol, should be implemented at the earliest possible stage.
- The NSI should identify which data, relevant for EDP purposes, are currently controlled and audited by the Court of Accounts (CoA). Eurostat would welcome any further actions between the NSI and CoA which would underpin confidence in data ultimately used for debt and deficit reporting purposes, also in view of the conclusions and findings of the World Bank report on financial reporting by the Government of Romania
- Eurostat welcomes the NSI's Quality Declaration but acknowledges that the aforementioned resource limitations have not allowed this to be implemented as yet in the domain of EDP. With the abovementioned resource issues addressed, the principles in the NSI's Quality Declaration could be implemented, including at EDP Process level and the NSI will produce a plan for such an implementation.

As the above "upstream" conclusions and action points related to ongoing structural issues, it was not possible to immediately put final deadlines. However, Eurostat indicated that it would review progress in early 2012.

Annex

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* Participated in the EDP dialogue visit of 11-13 July 2011 only.

** Participated in the EDP dialogue visit of 27-28 September 2011 only.