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EUROSTAT

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

Luxembourg, January 18, 2017

## **Final Findings**

### **EDP dialogue visit to Romania**

**12-13 November 2015**

**17-18 December 2015**

## **Executive summary**

Eurostat undertook an EDP dialogue visit to Romania on 12-13 November 2015 and on 17-18 December 2015 as part of its regular visits to EU Member States. The purpose of the visit was to review the existing institutional responsibilities for compiling EDP statistics, to discuss the quality, exhaustiveness and use of primary data sources, to examine the practical implementation of the quantitative and qualitative criteria in the context of the sector delimitation, to analyse the sector classification of some units, to revisit the implementation of the accrual recording for the most relevant transactions and to examine the statistical treatment of specific operations undertaken by government.

First, the institutional arrangements currently in place were reviewed. Regarding the institutional responsibilities in the EDP framework, the discussion focused on the update of the GFS Committee protocol, as well as on the Convention signed between the National Statistical Institute (NSI) and the Court of Auditors (CoA). Concerning the data sources and the revision policy, Eurostat and the statistical authorities discussed in detail the organisation and cash-flows of government, the availability, access and use of financial statements, and the calculation of working balances in the EDP Tables 2. The Ministry of Public Finance agreed to add memorandum items to the BGC to allow transparently bridging the EDP tables 2 working balances – so to permit an immediate observation of the consistency between EDP Tables 2 working balances and the BGC.

Second, the progress made by the Romanian statistical authorities on the open action point from the UDV visit that took place in 2013 was discussed. The completion of the only open action point is scheduled for 2017.

Third, some issues left open in the October 2015 EDP Notification were reviewed. Most importantly, the statistical authorities agreed on retropolating the superdividend test to the distributions paid by the National Bank of Romania (BNR), on reviewing the accounting treatment given to the EUA certificates and on reviewing the presentation in EDP Tables of the other accounts payable/receivable between two specific units of the general government.

The discussion continued on the application of the ESA2010 sector classification rules. In particular, the NSI was recommended to examine the modalities to capture public control outside ownership and to further analyse the impact of other operating costs in the 50% market test. Moreover, Eurostat and the statistical authorities discussed in detail the issues regarding public units with very high market tests, public units in liquidation or dormant and the sector classification of the Romanian public TV and Radio, the guarantee and counter-guarantee funds, and EXIMBANK.

On the implementation of the accrual principle, Eurostat verified the accrual adjustments for taxes on property, tax arrears and penalties, interest, EU grants and subsidies and other accounts payable and other accounts receivable. Overall, after these discussions, Eurostat is of the opinion that apart from some technical adjustments in the compilation process, the implementation of the accrual principle in the Romanian national accounts for the general government is fairly satisfactory.

Finally, the recording of some specific transactions was discussed. Eurostat suggested that the Romanian statistical authorities revise in more detail the collection, testing and dissemination to Eurostat of information related to guarantees, capital injections and distributions. Moreover, Eurostat strongly suggested that the Ministry of Public Finance collects more in-

depth data, decision by decision, regarding the court decisions on wage rights of the recent years, so that both Eurostat and the NSI can more closely monitor the application of the accounting rules. As well, Eurostat requested to the statistical authorities updated figures on the amounts paid as social contributions to the private pension funds of Pillar II.

Some other issues were also discussed such as the Romanian SDR positions with IMF, PPP and Concessions, the re-arrangement of transactions and the sale and recording of UMTS permits. Regarding the latter, Eurostat and the statistical authorities will further discuss on whether these permits are, or not, transferable to third parties.

## **Introduction**

In accordance with Article 11 (1) of Council Regulation (EC) No 479/2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Romania on 12-13 November 2015 and 17-18 December 2015. The previous Eurostat EDP dialogue visit to Romania had taken place on 19-20 June 2013.

The delegation of Eurostat was headed by Mr Luca Ascoli, Head of Unit D-1 "Excessive deficit procedure and methodology". Eurostat was also represented by Mr Philippe de Rougemont, Ms Lenka Valenta and Mr Martim Assunção. The European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Romanian statistical authorities were represented by the National Institute of Statistics, the National Bank of Romania and the Ministry of Public Finance.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA methodology and to ensure that provisions of the Eurostat's Manual on Government Deficit and Debt, as well as the Eurostat's decisions, guidance notes and clarifications are duly implemented in the Romanian EDP statistics and the Government Finance Statistics (GFS).

The main objectives of the EDP dialogue visit were (1) to revisit the existing institutional responsibilities for compiling GFS and EDP statistics, (2) to review data sources for the EDP/GFS data compilation, (3) to review the implementation of ESA 2010 methodology for sector classification of public units, (4) to review the implementation of the accrual principle, and (5) to discuss the recording of some specific government transactions.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that, within days, the Main conclusions and action points would be sent to the Romanian statistical authorities for their comments. The Provisional findings would be sent to the Romanian statistical authorities in draft form for their review or amendment if necessary. Final findings would be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat thanked the Romanian statistical authorities for all the documents provided prior to the visit and for the explanations given during the mission and appreciated the excellent co-operation and transparency demonstrated by the Romanian statistical authorities during the meeting.

## **1. Statistical capacity issues**

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

#### 1.1.1. Institutional cooperation

##### *Introduction*

Eurostat took note of the institutional arrangements for the compilation of EDP/GFS in Romania. In Romania, the compilation of EDP Statistics and general government accounts is divided between four institutions: the National Statistical Institute, the Ministry of Public Finance, the National Bank of Romania and the National Commission of Prognosis.

As far as the split of responsibilities for GFS/EDP compilation is concerned, there have been no significant changes compared to the last EDP visits:

The National Statistical Institute is responsible for the compilation of ESA non-financial accounts, is responsible for the compilation of the B.9 and co-shares with the Ministry of Public Finance the responsibility the other non-financial variables in EDP Table 1 as well as all variables in EDP Table 4. Moreover, the National Statistical Institute is the ultimate responsible for the EDP notification in Romania.

The Ministry of Public Finance (MoPF) compiles ESA Table 28 (Maastricht Debt), co-shares with the National Statistical Institute and the National Bank of Romania the compilation of several items of the EDP tables as mentioned above and is the sole compiler of EDP Tables 2 adjustment lines.

The National Bank of Romania (NBR) is responsible for the compilation of ESA financial-accounts (Table 27, Table 6-7), co-shares with the Ministry of Public Finance the compilation of EDP Tables 3 and co-shares with the National Statistical Institute and the Ministry of Public Finance the compilation of EDP Table 4.

The National Commission of Prognosis provides other variables for planned data in EDP Table 1/Table 2.

##### *Discussion*

Eurostat took note of the update in the GFS Committee Protocol, comprising representatives of the four institutions mentioned above, which now foresees that the National Statistical Institute has permanent chairmanship – a change welcomed by Eurostat. Nevertheless, Eurostat still wondered about the possible implications of the voting procedures in that Committee, notably Article 10, which foresees that decisions are taken by simple majority with the Presidency having a casting vote.

Eurostat asked the statistical authorities to indicate if there had ever been a case where a methodological opinion of the National Statistical Institute (NSI) was not the final decision enforced by the Committee. The Romanian statistical authorities recognized that the GFS

Committee had not met in the past year, i.e., since the revision of the Protocol. Even though, the Romanian statistical authorities emphasized the good day-to-day working relationships between the 3 institutions (NSI, BNR, MoPF). Eurostat welcomed this good cooperation spirit, emphasized the need for a clear GFS/EDP leadership and asked the NSI to inform Eurostat whenever a final decision taken by the Committee would not be the preferred methodological view subscribed by the NSI.

Furthermore, Eurostat took note that the two units of the MoPF, at the Debt and Budget Departments, have now been formally included within the Romanian framework of official statistics law.

### *Main findings and conclusions*

Eurostat took note of the information provided. It welcomed the good cooperation between the stake holders whilst encouraging the NSI to strengthen its leadership role.

#### 1.1.2. Human resources

##### *Introduction*

In the June 2013 Standard Dialogue Visit (SDV) to Romania, Eurostat had taken note that the NSI had only received very limited additional resources since 2011, despite taking on additional tasks, and that, due to the then freeze on posts in the public sector in Romania, no further resources would be available to the Romanian NSI.

##### *Discussion*

The Romanian authorities indicated progress in this respect, with additional human resources recently received by the NSI and to be further received in the forthcoming months – even though the NSI mentioned that the staffing remained tight. The MoPF and the NBR considered being satisfactorily staffed for the tasks at hand. In the whole, the statistical authorities considered their human resources satisfactory.

### *Main findings and conclusions*

Eurostat took note of the information provided.

#### 1.1.3. Quality management framework, audit and internal control arrangements

##### *Introduction*

The Court of Accounts (CoA) is the institution responsible for certifying the accuracy and veracity of the data from the execution accounts (BGC). It audits annually all budgetary units and produces a final audit report that must be submitted and approved by Parliament. This final report is published at T+13 months, i.e. for the 2014 accounts its results will be reflected only in March 2016 EDP Notification.

##### *Discussion*

Eurostat asked the NSI if a working agreement had already been signed with the CoA in order to facilitate the exchange of information between the two institutions. The NSI explained that a Convention with the CoA had been signed, and will be sent to Eurostat. Moreover, the NSI reported that it has arranged informal early access (at T+9) to the CoA interim reports, which are then closely analysed, in order to potentially include any possible revisions to data in the October EDP notification. The NSI noted that this analysis of the CoA reports had not led so far to any meaningful change in the cash deficit or in the B.9.

The MoPF considered that the CoA proved very helpful with assisting in the auditing of various entities covered by EDP and, in particular, in incentivizing them to report detailed information in a timely manner. The statistical authorities indicated that the CoA has also showed great interest in discussing the statistical bridges between the Romanian public accounting and the ESA-based National Accounts, established by the NSI and the MoPF, and in understanding the ESA/Eurostat view of the delimitation of government. The CoA is not auditing the EDP tables themselves.

Eurostat further understood that so far no Romanian general government unit has challenged the sectorisation decisions of the NSI, and if anything, sometimes units wonder why they are not classified inside government. The statistical authorities indeed explained that, in the context of Ordinance 26/2011, the employees of units classified inside the general government had special/better conditions concerning the subsidy of severance payments in the case of a breach of their contractual relationship.

### *Main findings and conclusions*

Eurostat took note of the information provided.

***Action point 1:*** *The National Institute of Statistics will forward to Eurostat the Convention signed with the Court of Auditors.*

*Deadline: until 15 January 2016*

## **1.2. Data sources and revision policy**

### 1.2.1. EDP inventory

#### *Introduction*

Council Regulation (EC) 479/2009, as amended, specifies in Article 9 that "*Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and underlying government accounts*".

In September 2014, MS received a new template of the EDP Inventory, including adapted to the ESA2010 changes. Countries were asked to fill in the new template and provide it to Eurostat, which intends to publish the ESA2010 EDP Inventories by December 2015.

#### *Discussion*

Eurostat thanked the Romanian statistical authorities for the recent delivery of the draft new EDP Inventory and noted scope for improvement. The NSI recognised that the document, elaborated by various experts of various institutions, under its leadership, would benefit from improvements and harmonization.

Eurostat recalled that, as foreseen in the Council Regulation (EC) 479/2009, as amended, the Inventories should always provide up-to-date information. Accordingly, Member States should take the necessary steps to amend the Inventory whenever important changes in the methods, procedures and sources are implemented.

### *Main findings and conclusions*

Eurostat thus expects the Romanian NSI to review the EDP Inventory, mainly concerning national accounts terminology and harmonization of the whole document, in order to be ready for publication by end-December 2015.

### 1.2.2. Data Sources

#### *Introduction*

The Ministry of Public Finance publishes<sup>1</sup> every month, on its website, the budget execution of several units and budgetary sectors, in the context of the ‘*Bugetul General Consolidat*’ (General consolidated budget, BGC). As far as it was Eurostat's understanding, all items (except one<sup>2</sup>) for all sectors are reported in (pure) cash.

#### *Discussion*

Eurostat and the Romanian statistical authorities reviewed together the structure of general government and its reflexion in the well-publicized BGC document. The discussion encompassed notably:

- The financial/administrative organisation of government and the cash flows within and between the sub-sectors of government Budget and the State Treasury,
- The availability, accessibility and use of financial statements for the compilation of EDP/GFS accounts, and
- The existing legal and administrative arrangements (register) for the delineation of the list of general government units.

### **- Organisation and cash-flows of government**

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<sup>1</sup> <http://www.mfinante.ro/execbug.html?pagina=buletin>

<sup>2</sup> As reported by the statistical authorities in the answer to the third request for clarification of the October 2015 EDP Notification, the revenues from EU grants are reported, in Bugetul de Stat, on an accrual basis. When providing the working balance of EDP Table 2A the statistical authorities, as reported in the referred request for clarification, adjust these revenues from accrual back to cash. This issue is further discussed in point 1.2.4 of the Agenda.



Regarding the coverage of the BGC, the MoPF explained that it is identical to the national accounts' general government sector coverage, with the exception of the Risk Fund and the public corporations classified inside general government.

Eurostat enquired the MoPF on the actual links between the 'State Treasury Budget' (column 9 of the BGC) and the 'State Budget' (column 1) and the underlying bank account movements. The MoPF stressed that the State Budget was on a quasi-cash basis (although not on a strict cash basis) given that it was on a 'payment order' basis and that payment orders are honoured without delay, i.e. either within the day or to a maximum of 48 hours<sup>3</sup>. The time lag depended on whether the 'payment order' was internal to a same local Treasury unit, or was to be honoured by another Treasury unit. The MoPF could not recall any payment order not honoured within a short period of time. The MoPF recalled that the Treasury was also acting as a banker, keeping deposits of his clients or suppliers. As a result of this, a payment order could either result in a movement at the Treasury account at the BNR or in the crediting of deposit accounts held by clients/suppliers at the Treasury (the latter entering the Maastricht Debt).

The State Treasury Budget as reported in the BGC reported very specific operations, mostly the coupons sold on bond issuance (fungible tranches) and the small running costs of the Treasury itself. A large part of its operations were financial in nature, outside the BGC.

#### **- Financial statements available, access and their use**

Eurostat asked the statistical authorities to explain in detail (for the compilation of non-financial accounts, financial accounts and Debt) what kind of data sources are available, who can access these data, and when, and how these are used and interlinked.

Regarding the 52 main central budgetary units covered in the State Budget, and its sub-units, the MoPF explained that each of these principal 'ordinators' maintained various statements: execution accounts, profit and loss accounts, balance sheets (and balance sheet supplementary details, 'Annex 40'), and cash flow statements. Also, the MoPF explained that even though the secondary ordinators (200) and tertiary ordinators (a few thousands) keep the same level of information, for the time being the MoPF can access only the information in an aggregated form at the level of each of the 52 principal ordinators. These statements are also available aggregated/consolidated at the State Budget level. In this context, the MoPF explained that when the new IT system will be available, the MoPF (and hence, the other statistical authorities) will have full access to all the detail in a convenient manner.

For the cash-to-accrual accounts compilation of the budgetary units, the NSI explained to Eurostat that it considered only, aside from the detailed execution account, the aggregated profit and loss accounts and balance sheets.

Regarding the compilation of the accounts of the Public Corporations included in the general government, the statistical authorities collect information on profit and loss accounts, balance sheets, and supplementary information on fixed capital formation, as per the Government

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<sup>3</sup> Aside from specific EU inflows, see below

Ordinance no. 9/1992 on the organization of official statistics, approved with amendments by Law no. 311/2002, republished with subsequent amendments, amended by Government Ordinance no. 67/2003 and no. 71/2004, modified and completed by Law no 226/2009.

For the compilation of the financial accounts, the BNR indicated not using profit and loss accounts or cash flow statements, and is instead using mostly balance sheets supplemented with selected information on cash flows.

Eurostat suggested the statistical authorities to consider more systematically collecting and analysing information on cash flow statements, which would allow an easier reconciliation between flows and stocks information and reducing the discrepancies between the two, stressing that this is particularly relevant for the compilation of the financial accounts.

#### **- List of units**

According to documents provided by the NSI prior the mission, the Statistical Register (REGIS) is used by the NSI as basis for the general government sector delimitation in the context of EDP/ESA accounts, and contains both active and dormant enterprises. It is updated based on the Trade Register, held by the Romanian Chamber of Commerce, and the Fiscal Register, held by the MoPF, among other sources. While the Trade and Fiscal registers are used on a monthly basis to update REGIS, the other sources are used on a quarterly or annual basis. Also, according to mission document 8, REGIS is the unique source for providing unit nomenclatures in order to carry out the surveys.

Regarding the coverage of REGIS, the NSI indicated that, given the existing restriction access rules in place at the NSI, the GFS compilers could access only information regarding public corporations, as defined by equity ownership above 50%. The NSI explained the type of access GFS compilers had regarding the Statistical Register (REGIS), which is maintained by another department of the NSI and contains minimum information. Notably, Eurostat took note that the REGIS did not include the insolvency/bankruptcy status of units but that this may be achieved in future, following a NSI-GFS unit request. In the meanwhile, and in the context of Eurostat's requests for information (for the October 2015 notification) on the public corporations not reported in REGIS, the NSI-GFS staff had obtained this information from ANAF (Fiscal Agency). Likewise, in order to access the financial statements and other information (e.g. employees of public corporations), the NSI-GFS unit accesses an NSI database hosted by a different department, which is mostly extracted from the MoPF.

#### *Main findings and conclusions*

Eurostat took note of the good level of GFS source data available to the statistical authorities in Romania. It encourages compilers to exploit for consistently the cash flow statement.

**Action point 2:** *The National Institute of Statistics and the National Bank of Romania will examine the opportunity to exploit more systematically the cash flow statements and to evaluate the consistency between these and other sources of data. The statistical authorities will inform Eurostat on the progress of their analysis.*

*Deadline: work in progress*

### 1.2.3. EDP processes

#### *Introduction*

As indicated by the Romanian statistical authorities, all data sources from all institutional units are provided to the Ministry of Public Finance and it is then the MoPF that provides to the NSI, as well as to the BNR, all data needed by these for their compilations.

Given that the NSI is the responsible compiler of the ESA Tables 2 and 25 and the MoPF is the responsible compiler of EDP Tables 2, Eurostat enquired if potentially different B.9 are reached in these separate compiling processes and what are the procedures envisaged to solve those differences.

#### *Discussion*

The NSI and the MoPF indicated maintaining a common bridging from budget codes to ESA2010, as defined by the NSI. Routine consultations are carried out to crosscheck expenditure and revenue totals and B.9 for various units so to maintain full consistency between the NSI and the MoPF databases. As a result, despite the sharing of responsibility, with NSI compiling ESA table 2 and MoPF compiling EDP tables 2, no discrepancy arises. Eurostat congratulated the statistical authorities for this high level of cooperation.

Moreover, Eurostat enquired on the substance of point 6.4.3 of the EDP Inventory which states that when a problem occurs in the consolidation process, *the smallest amount is consolidated and the difference is reclassified to another transaction (e.g. from D.73 into D.75)*. The NSI confirmed this approach and stressed that it kept B.9 unchanged. Eurostat thought this approach is only a second or third best. Superior approaches consist in privileging the most reliable source (e.g. State Budget versus Local Budget), or contacting units to enquire on the differences. Eurostat also noted that the NSI approach could as well not be B.9 neutral, notably when reflecting time of recording differences. However, Eurostat took note of the MoPF observation that the consolidation differences are generally small, notably as a result of an efficient codification by counterpart inspired by the IMF GFS system.

#### *Main findings and conclusions*

Eurostat took note of the information provided. Eurostat congratulated the statistical authorities for this high level of cooperation.

### 1.2.4. Calculation of the working balance in EDP tables

#### *Introduction*

Eurostat is of the opinion that the starting line of EDP Tables 2 should correspond to an item voted in Parliament for the whole reporting period, and that those should be figures audited by the national court of auditors or similar bodies. In practice, it is important that the working

balances of EDP Tables 2 are perfectly matched to an item published (normally in MoPF's website) and visible to Eurostat.

As provided for in the EDP Inventory and in the description of EDP Tables 2, the working balances in the EDP tables of all sub-sectors of general government of Romania are on a cash basis. Nevertheless, none of these working balances matches an Excedent (+)/Deficit (-) item of the BGC.

### *Discussion*

The need for proper articulation between EDP tables 2 working balance and the balancing items of the BGC was extensively discussed between Eurostat and the statistical authorities. The MoPF explained that its practice was to show in EDP tables the working balances reflecting the executed State Budget as voted in Parliament and the local authority budget, and that this differs from what is published in the BGC, namely regarding financial operations and public institutions totally or partially financed from own revenues, inter alia. At the same time, Eurostat emphasized that the working balance of EDP tables should preferably be audited items and easily accessible published information.

Moreover, Eurostat enquired if final accounts for the BGC with the same level of detail of preliminary accounts could be published. The MoPF stressed that this information was already being regularly published and showed to Eurostat where to find it on its website.<sup>4</sup>

Eurostat noticed also that the accrual-to-cash adjustment to the inflows of EU Funds regarding the State Budget was of 1,545 million lei, as reported by the Romanian statistical authorities during the EDP October 2015 correspondence. Given that the only difference between the balancing item of the State Budget and the working balance of the EDP Table 2A, Eurostat wondered why the observed difference between those two balances was in fact of 915 million lei.

### *Main findings and conclusions*

The MoPF clarified that the 915 million was the correct amount and that, as a result, EDP Table 2A is correct. Eurostat hence understood that the difference between the balancing item of the State Budget and the working balance of EDP Table 2A comprised more EU flows adjustments than the ones reported during the October 2015 EDP Notifications (see below).

Eurostat further enquired on the differences between other balancing items in BGC and the working balances of EDP Tables 2C and 2D. The Romanian statistical authorities once again stressed that the items voted and approved in the Parliament as the balancing items of the different sub-sectors of the public sector do not entirely match what is reported in the BGC.

Eurostat wondered if, for clarity, the BGC tables could not be supplemented with memorandum items that would bridge to the working balances of the EDP tables. The MoPF agreed with this.

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<sup>4</sup> <http://www.mfinante.ro/deficit.html?pagina=domenii> , Bugetul de Stat/Istoric deficit bugetar

*Action point 3: The Ministry of Public Finance agreed to add memorandum items to the BGC to allow bridging the EDP tables 2 working balances – so to permit an immediate observation of the consistency between EDP Tables 2 working balances and the BGC. This memorandum items will comprise EU adjustment for each subsector and, for local government and social security funds, the surplus/deficit of public institutions totally or partially financed from own revenues, expenditure financed from internal and external loans budget and selected financial operations.*

*Deadline: April 2016 EDP Notification*

#### 1.2.5. Revision Policy

The mission documents sent to Eurostat by the Romanian statistical authorities confirmed that there were no changes regarding the revision policy since the last SDV to Romania in June 2013.

## **2. Follow-up of the previous visits**

### *Introduction*

The previous EDP dialogue visit to Romania took place on 19-20 June 2013. All 16 action points have been implemented.

An Upstream Data Visit (UDV) to Romania took place on 28-30 August 2013. Most of the 17 action points have been implemented. Eurostat enquired on the Action point 1 of the UDV, concerning the implementation of a new IT system that would allow a more autonomous access by the statistical authorities to the database held and managed by the MoPF.

### *Discussion*

Eurostat took note that the Action Point, from the UDV of 2013, related to the implementation of the IT system was still not implemented, as the new IT system was now scheduled for 2017 (covering data for 2016).

Eurostat took note that, in the meanwhile, the NSI receives data by electronic means and can receive more detailed information by ministries on a request basis.

### **3. Follow-up of the October 2015 EDP reporting – analysis of EDP tables**

Eurostat received data for the October 2015 EDP Notification on the 30 September 2015.

Three ‘requests for clarification’, as well as other parallel requests (regarding dividends from the BNR and adjustments to the GNI contributions), followed the October 2015 EDP notification.

Small revisions in deficit and debt, between the April and October Notifications, occurred, related mainly to public corporations reclassified to and from general government. Other more substantial revisions to deficit were made within the October Notification, regarding the proper time of recording of refunds from GNI contributions and the recording as financial transactions of the distributions paid by the BNR to the State Budget.

Some issues discussed during the October 2015 EDP Notification were left opened for discussion in the closing remarks. Hence, Eurostat reopened the following issues during the SDV.

#### 3.1 Sector Delimitation

##### *Introduction*

While analysing the Fiscal Transparency Evaluation of Romanian by the IMF<sup>5</sup> (from March 2015), Eurostat was alerted to the fact that possibly information on hundreds of public corporations listed in the Trade Register are not being reported to the NSI, the MoPF and the Treasury.

Hence, during the October 2015 EDP Notification, Eurostat had requested further information on these units. The NSI has informed then, and also under Mission document 14, that 529 public corporations do not report their financial statements to the statistical authorities, out of which 137 are active units, 261 are units in liquidation, bankrupt or dormant and 131 are radiated units.

*This issue is further discussed under point 4.1.4. of the Agenda.*

The facts described above, coupled to the observation during the October 2015 EDP Notification that out of the 60 units reclassified from S.13 to S.11, 8 had been classified inside S.13 during the October 2014 EDP Notification, raised also some Eurostat doubts regarding the procedures followed by the Romanian NSI in the context of the general government sector delimitation.

*This issue is further under points 4.1.1. and 4.1.2. of the Agenda.*

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<sup>5</sup> <https://www.imf.org/external/pubs/ft/scr/2015/cr1567.pdf>, see page 12

## 3.2 Distributions from the BNR

### *Introduction*

The Romanian statistical authorities were recording, until last EDP Notification, all cash flows (distributions) between BNR and the state budget as taxes on the income of corporations (D.51, as could be seen in row 93 of the Romanian NTL).

The Romanian statistical authorities explained that the payments from BNR to the state budget are obligatory payments similar to the tax on profits, and that hence a super-dividend test was never undertaken. Eurostat has nevertheless understood that the 'normal' rate of the tax on profits is of 16% and that the 'tax rate' applied to the BNR is of 80%.

In addition, following discussions with the statistical authorities and the analysis of the annual reports of the BNR, the 'net operating income' (ESA2010 par. 20.217) was in fact negative in all the reported years and hence no distribution from the BNR to the state budget should qualify as a non-financial transaction, i.e., all the flows between the two institutions qualify as a withdrawal of equity (F.5).

After discussions with the MoPF and the NSI, it was jointly agreed, during the October 2015 notification, that these cash transfers between BNR and the State Budget qualify rather as financial transactions between the two institutions and hence, on 16 October 2015, the NSI re-submitted revised EDP Notification Tables, impacting B.9.

### *Discussion*

During the SDV, Eurostat recalled the discussions held during the October 2015 EDP Notification and that the application of the superdividend test to the BNR distributions to government implied a financial transaction recording for the full amounts, for the four years analysed (2011-2014), given that the net operating profit of the BNR is negative in each of those years. The BNR had no objections to this and enquired on the best way to compile preliminary data for April Notification and quarterly GFS.

Eurostat further noted that given that dividends are distributed in the year following the year of the profit, the application of the superdividend test is possible without difficulty in a timely manner, unless interim dividends are paid. In addition, ESA2010 para 20.207 as well as the MGDD include specific guidance for interim dividends recording: to be based on infra-annual financial statements of at least 6 months and to be in fact smooth. If one of the conditions is not fulfilled, the interim dividend is recorded in the financial accounts (financial advance). BNR thought the financial advance was applicable in the case of the distribution from the BNR to the State of Romania.

### *Main findings and conclusions*

**Action point 4:** *The National Institute of Statistics is encouraged to retropolate to previous years the superdividend test to the distributions by the National Bank of Romania to the Romanian government (with a possible impact on B.9 for those years).*



### 3.3 EU funds in the working balance

As explained by the statistical authorities during the October 2015 EDP Notification, the revenues from the EU are reported in the State Budget on an accrual-basis, that is: the revenue from the EU reported in the State Budget is set equal to the reported expenditure being finance/co-financed. Hence, according to the statistical authorities, an accrual-to-cash adjustment to this item is made in order to provide a pure cash working balance in EDP Table 2A.

This issue is further discussed in the context of point 4.2.3. of the Agenda.

### 3.4 EUA certificates

#### *Introduction*

Since 2013, following Regulation (EU) n°1193/2011, the allocation of emission permits is made at European level. Although there are still emission permits allocated for free, auctions of permits are increasingly becoming the most relevant way of allocating permits to corporations.

The issue regarding the recording of the emission trading allowances (EUA) was discussed during the October 2015 EDP Notification and the Romanian statistical authorities provided then the following table for the year 2014:

<i>Revenues from the EUA certificates sold (transfers by EU)</i>	<i>1</i>	<i>436.9</i>
<i>Revenues from the ETS certificates sold allocated to the producers of electric energy</i>	<i>2</i>	<i>547.4</i>
<i>Expenditures broken down by revenues at State Budget 29%</i>	<i>3</i>	<i>126.3</i>
<i>Investment expenditures</i>	<i>4</i>	<i>173.6</i>
<i>“EUA certificates sold and not yet distributed” in OAP, EDP Table 2A</i>	<i>5=1+2-3-4</i>	<i>684.4</i>

The terminology used by the statistical authorities in the table above is unclear to Eurostat. Furthermore, in the documents provided prior to the mission, the Romanian statistical authorities indicated to be recording, under ESA non-financial transactions, amounts in D.29, P.51 and D.99, which was also not clear to Eurostat.

#### *Discussion*

Eurostat further enquired on the recording of flows in the context of the ETS/EUA certificates during the visit. Eurostat took note that the Romanian government indeed cashed 984 million lei in 2014 in the form of 437 million lei of EUA certificates sold by the MoPF (cashed by the Treasury but outside the State Treasury Budget) and 547 million of ETS certificates sold by the Energy Ministry (not entering the State Budget, but instead included

in the ‘public institutions totally or partially financed from own revenues’). The EUA proceeds enter a dedicated Treasury account at time of sale and are passed only gradually to the State Budget: 29% (126 million lei) of proceeds plus any investment expenditure dedicated to reduce emission pollution reported by budgetary units (174 million lei).

The MoPF explained that the B.9 impact for these proceeds is in fact 437 million lei: 300 million in the working balance (i.e., in the inflows of the State Budget) and a further 136 million lei in D.99 revenue recording following their interpretation of the MGDD, related to unused permits. The ETS certificates of the Energy Ministry are reported in the B.9 of Other central government bodies as revenues (for 547 million lei). Given that a payable adjustment of 684 million lei is recorded in EDP T2A, the total B.9 impact of EUA+ETS certificates as observed in EDP Table 2A is 163 million lei only.

Eurostat clarified that any D.9 capital transfer (mentioned in the MGDD) for unused permits concerned only adjustments at the end of the scheme.

### *Main findings and conclusions*

Eurostat indicated that emission permits rulings consist in entering proceeds at time of sale in the financial accounts (creating a government payable) and recording a tax revenue (reducing the payable) at time permits are submitted by polluters. In this respect, the Romanian recording does not follow the rules. In application of ESA2010 para 15.40 and the MGDD, Eurostat proposed the MoPF to impute a tax recording for an amount equal to the number of permits surrendered each year times an average price (average selling price of permits). Eurostat further noted that the current method used was likely that government revenue were currently underestimated.

**Action point 5:** *The Ministry of Public Finance will enquire on the amounts of ETS and EUA permits surrendered, calculate an average price and impute a tax on production (D.29) as appropriate (with an impact on B.9).*

*Deadline: April 2016 EDP Notification*

### 3.5 UMTS licenses

*This issue was discussed in agenda point 4.3.7.*

### 3.6 F.81 Liabilities – OCV

#### *Introduction*

An issue regarding the considerable amounts of seemingly negative Other Change in Volumes (OCV), in 2014, in the other accounts payable of S.13, notably public corporations in S.1311 (745.2 million lei, of which 375 million lei concerning ROMTEHNICA) and in S.1313 (862.6 million lei), was discussed during the October 2015 EDP Notification. Given the complexity of the issue, coupled with the time constraints, the issue was not closed but left for the mission.

## *Discussion*

Eurostat enquired on the significant entries in what was reported as OCV for Trade Credit payables of some public corporations, notably ROMTECHNICA, as provided to Eurostat during the request for clarification of the October 2015 EDP Notification.

The BNR remarked that OCV could in general occur in case of change in sectorisation or in case of reclassification (e.g. of payables into loans), the circumstances nevertheless were not applicable in the case of ROMTECHNICA. The BNR suggested that the OCV arose because a large payable of ROMTECHNICA against the Ministry of Defence had been consolidated.

## *Main findings and conclusions*

Eurostat took note of the ROMTECHNICA payable to the Ministry of Defence. It noted that consolidating actions could not create OCVs themselves, however. If a consolidated presentation was to be continued, it should be systematic across years, and also concerns transactions in payables. Eurostat advised that a less cumbersome presentation of the data (reported to Eurostat on a voluntary basis) would be to simply show stocks and flows of payables of individual companies unconsolidated, and indicate a consolidation amount at an aggregated level (in EDP Questionnaire Tables 4.1).

Furthermore, Eurostat also pointed to BNR that in fact the amount of OCV of ROMTECHNICA in 2014 (375 million lei) was bigger than its starting stock of F.81 payables (283 million lei).

A tentative conclusion was thus that the question of unexplained OCV reflected compilation issues, and that further work was necessary before conclusions.

**Action Point 6:** *Regarding the other accounts payable and receivable between two units classified inside the general government sector, the National Bank of Romania will update the information provided – showing, for every year, in EDP Questionnaire Tables 4, either consolidated amounts across time, or (more realistically) unconsolidated amounts and indicating a consolidation amount at an aggregated level – with a view to dispel the fear that source data difficulties impact GFS.*

*Deadline: April 2016 EDP Notification*

**Action Point 7:** *The National Bank of Romania will in particular investigate the stocks and flows of ROMTECHNICA payable to the Ministry of Defence, in 2014 to ensure consistency of the data.*

*Deadline: April 2016 EDP Notification*

## 3.7 CN Căi Ferate "CFR" SA – other accounts payable

### *Introduction*

The issue regarding the decrease, in 2014, in the stock of other accounts payable of CN Căi Ferate "CFR" SA, through an OCV, was discussed during October 2015 EDP Notification. As Eurostat stated in the Closing Remarks, *“(...) we understand that the decrease by 742 million lei in the stock of payables of Cai Ferate in 2014 does not relate to transactions observed in this unit's accounts, but rather to a difference in stocks. Given that this unit compiles business accounts we would like to understand the declared absence of direct data for this adjustment.”*

#### *Discussion*

Eurostat enquired on the reasons for the large observed OCV concerning CN Căi Ferate "CFR" SA in 2014.

The BNR explained that it had investigated the issue since the close of the October 2015 EDP Notification and indicated that the large fall in payables in fact related to transactions, due to confirmed large repayment to suppliers, financed by CFR Calatori, a public corporation classified as well in the general government.

#### *Main findings and conclusions*

Eurostat took note of the information provided.

## **4. Methodological issues and recording of specific government transactions**

### **4.1. Delimitation of general government**

The sector delimitation has been extensively discussed with the Romanian statistical authorities in the last years, during the EDP visits as well as during the EDP notification periods. Currently there are 649 units classified in the central government sub-sector, 9350 units in the local government sub-sector, and 11 units in the social security sub-sector.

Prior to the EDP November 2015 mission, Eurostat requested (1) a detailed list of all units included in central government, local government and social security funds, (2) a separate list with newly created units, units newly reclassified in S.13 or units removed from S.13 since the October 2014 EDP Notification, (3) detailed notes on the procedures followed for updating the register of government controlled units, and on the treatment of ‘Other costs’ (8.3. *Alte Cheltuieli*) in the context of the sector classification, inter alia.

#### 4.1.1. Practical implementation of the market/non-market test and qualitative criteria

##### *Introduction*

As introduced in point 3.1 of these findings, the observation of considerable differences between the universe of public corporations observed in the Trade Register and in the Statistical Register, coupled with the observation during the October 2015 EDP Notification that out of the 60 units reclassified from S.13 to S.11, 8 had been classified inside S.13 during the October 2014 EDP Notification, raised some concerns at Eurostat regarding the procedures used by the Romanian NSI in the context of the general government sector delimitation.

Under this point of the Agenda, Eurostat and the Romanian statistical authorities discussed in detail the steps undertaken by the NSI in the framework of the implementation of the general government sectorisation, as well as analysed the accounting items included in the costs in the context of the 50% market test.

- General procedures on the general government sectorisation

##### *Discussion*

The NSI clarified that, following Ordinance 209/2011, applicable to all entities governed by company law, it defines as public control corporations those with more than 50% ownership, which encompasses 1300 units at both central and local government level. In August/September 2014, in the context of the changeover to ESA2010, those entities were sent a detailed questionnaire, with a high response rate, designed to identify entities to be reclassified into government based on qualitative criteria, the most prominent being majority of sales to government – aside from the 50% quantitative test. As a result, in October 2014 EDP Notification, 450 companies were classified inside government, from year 2013.

The NSI also noted to have reclassified 500 intercommunity development associations (IDAs), in the context of the introduction of ESA2010, as they are mainly funded by government administration.

Eurostat welcomed the significant work carried out by the NSI to achieve an appropriate government sectorisation, but mentioned that control by government could also occur for units with less than 50% shareholding, which left a certain gap in the NSI procedure.

The MoPF indicated being unaware of any unit where government had veto rights, outside majority of ownership. Eurostat responded that other control mechanisms existed outside ownership and veto rights, as listed in ESA2010 paragraphs 2.38 and 20.309.

### *Main findings and conclusions*

**Action point 8:** *Eurostat recommends that the National Institute of Statistics examines the modalities to capture public control outside ownership, i.e. regardless of the shareholding proportion of government, and applies any relevant additional qualitative criteria in the context of the general government sector delimitation. Eurostat asks to be informed on progress made.*

*Deadline: October 2016 EDP Notification*

- Issues on the practical implementation of the 50% market test

### *Discussion*

Eurostat also examined the precise definition of sales and costs, to be considered for the 50% quantitative criteria, by reference to the Romanian business accounting chart of accounts.

The NSI includes in sales items 01-06 of column B of the Profit and loss accounts<sup>6</sup>, and in costs items 13+15+18+28+42+49. The NSI indicated that for selected units (namely those holding administrative state domains) it calculated consumption of fixed capital unit by unit, adding this to the costs measure. For the others, no consumption of fixed capital or depreciation was retained.

Eurostat considered this approach unsound and requested that the NSI retains within the definition of costs at least the depreciation of business accounting in the absence of any data. An adjustment for passed inflation would be recommended, if practical. Eurostat also noted that for the sales definition, a production approach should be used, i.e., sales plus changes in inventories (finished goods). Perhaps this could lead to less volatility than currently observed in the 50% market test.

Likewise, Eurostat strongly recommended that the item 8.2 *Cheltuieli cu alte impozite* (...) (item 29 of the profit and loss accounts) be retained amongst costs given that they mostly

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<sup>6</sup> *Contul de Profit si Pierdere (Formular 20)*

cover taxes on production, which according to ESA2010 paragraph 20.31 should be included in the 50% market test.

Finally, the NSI and Eurostat discussed the opportunity of considering taking into account other operating expenses (8.3 *Alte Cheltuieli*, item 30) in the cost measurement which, according to the information sent by the NSI to Eurostat prior to the mission, could contain several expenses relevant for the 50% market test. The NSI considered that the absence of detailed data available at the NSI prevented any action on this last point. Nonetheless, Eurostat thought that one possible solution existed including considering an average or median amount of other operating expense observed over a number of years. Another method would consist in making ad-hoc inquiries when the ratio is borderline (e.g. when retaining the items in costs would lead to crossing the 50% test).

The NSI argued that the change in sector delineation is generally undertaken in the mid of the year, between the April and the October Notification and hence it wondered whether the change in formula in line with what was discussed could wait mid-2016.

#### *Main findings and conclusions*

**Action point 9:** *Eurostat requests that the National Institute of Statistics adapts, without delay, the 50% quantitative criteria calculation, for consumption of fixed capital, for inventories and for other taxes. The public corporation questionnaire to be published end 2015 will still show the old results though – so to be consistent with the October 2015 notifications.*<sup>7</sup>

*Deadline: April 2016 EDP Notification*

#### 4.1.2. Changes in sector classification

##### *Introduction*

In the context of the October 2015 EDP Notification, the NSI reclassified 60 units from S.13 to S.11 and confirmed that most of these had a negative B.9 in 2014. Also, 6 units have been reclassified from S.11 to S.13 in the October 2015 EDP Notification.

Furthermore, Eurostat understood the out of the mentioned 60 units, 8 had previously been reclassified to S.13 during October 2014 EDP Notification, which raised some doubts regarding the soundness of procedures taken by the Romanian NSI in the context of the general government sector delimitation.

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<sup>7</sup> In an email dated from 22 January 2016, the NSI expressed the following comment: "We will apply the new 50% test according to recommendations during SDV until April EDP Notification and we would like to know if you agree with the reclassification of the new units into S.13 for October2016 EDP Notification. In this respect, we ask for your permission to change the deadline for action point 9, in order to avoid revision of financial and non-financial accounts in March and also in October due to the result of quantitative (action point 9) and qualitative criterion related to the control of public companies where the government holds shareholding proportion 1-49% (action point 8)."

## *Discussion*

Eurostat enquired on the timeliness of the procedures undertaken in the context of the sector delimitation, as well as on the issues regarding the retropolation of data once a unit is reclassified.

The NSI explained that the reclassification of units were carried out automatically following a systematic annual review of the 50% criteria, following comments expressed in the past by Eurostat. In practice, units are reclassified inside government after the market test ratio falls below 50% in one year. Units are also reclassified outside government after the ratio has moved above 50% for two years.

Eurostat thought that this (new) practice of the NSI was in part based on a misunderstanding and led to an excessive volatility of the government sector. Eurostat clarified that whereas it strongly recommends to reclassify units that pass the 50% threshold without delay when there are very good reasons to believe that a change in structure or behaviour of the unit has taken place, it also recommends that when no such reason exist the NSI should wait for three years before effecting a reclassification (possibly with a retroactive effect).

The NSI agreed with Eurostat's arguments in theory, but informed that practical issues arose.

## *Main findings and conclusions*

Eurostat welcomed the fact that the NSI runs sector delimitation exercises every year but stressed the importance of stability and prudence in this exercise, in order not to repeatedly change the sector classification of borderline units across consecutive years.

**Action point 10:** *The National Institute of Statistics should find a satisfactory modality for the other operating costs by mid-year 2016, and inform Eurostat of its progress and results.*

*Deadline: October 2016 EDP Notification*

**Action point 11:** *The National Institute of Statistics should consider amending its sectorisation policy so to promote stability of units in government, adherence to accounting rules, and prudence.*

*Deadline: continuous work*

### 4.1.3. Questionnaire on government controlled entities classified outside the general government sector

#### *Introduction*

Before the EDP mission, the NSI provided an update of the Questionnaire on government controlled entities classified outside the general government sector for year 2013, in line with ESA 2010. Data for 960 units is reported. Out of these units, 3 are classified in S.12, all the others being classified in S.11. The total amount of liabilities of these entities for the



reference year 2013 was around 10% of GDP. Also, out of those, 72 units have liabilities<sup>8</sup> higher than 0.01% of GDP, for which more accounting detail is provided.

### *Discussion*

Eurostat enquired on whether information on liabilities towards government was available. The NSI explained to be aware that some of the liabilities reported are towards general government units, but that it cannot safely provide that information without a more closely analysis given that the source data, i.e. balance sheet information (*formular 10*), does not provide a cross-reference of counterpart information.

Furthermore, Eurostat took note that whereas no information on Non-profit institutions (NPI) classified in S.15 is provided in the Questionnaire, the general government sector already included approximately 500 government-controlled NPI (recently reclassified).

### *Main findings and conclusions*

The NSI stated again that to access the financial statements (and other information) of public corporations, the NSI GFS unit accessed an NSI database hosted by a different NSI department which is mostly extracted from the MoPF database upon request.

Eurostat observed from the Questionnaire some interesting cases and pointed these out to the attention of the statistical authorities during the discussions. Eurostat pointed out the case of 7 public corporations<sup>9</sup> with close to 0% in the market test. The NSI confirmed that these units are in fact in liquidation. The NSI accepted to reclassify these units inside S.13 although not seeing the accounting materiality of such reclassifications. Eurostat thought that the units in liquidation/bankrupt/dormant have material relevance both to the financial accounts and to Maastricht Debt.

Eurostat also took note that SC SIDERCA SA, which reportedly has only two employees, is a dormant unit and that the reason for the observed high 50% market test results might be due to the sale of inventories.

***Action point 12:*** *The National Institute of Statistics will examine the 7 public corporations with results close to 0% in the market test and reclassify them as appropriate (for an amount of total liabilities of around 2 billion lei, although likely mostly not Maastricht Debt), as well as SIDERCA.*

*Deadline: April 2016 EDP Notification*

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<sup>8</sup> These liabilities refer to liabilities as reported in Balance sheet information, and not specifically to Maastricht Debt liabilities.

<sup>9</sup> SC TRACTORUL-UTB SA; CN A CUPRULUI AURULUI SI FIERULUI MINVEST DEVA FILIALA ZLATMIN SA; SC COMTIM SA; SC NAVROM; SC RULMENTUL SA; SOCIETATEA COMERCIALA PENTRU INCHIDEREA-CONSERVAREA MINELOR SA; SC AQUA TERM SA

Likewise, Eurostat enquired on the 13 units<sup>10</sup> with relatively considerable market test results (i.e. above 200%). The NSI explained that these are big monopolies, namely from the energy/heating sector, with high turnover, that do not receive subsidies from government, although not further explaining the reasons for the observed market test results.

Eurostat envisaged the possibility that these results reflected artificial units (ESA2010 par. 2.24-2.26), e.g. with artificial separation of the seller of energetic/heating services (having the revenues) from the distributor of those services (bearing the costs).

**Action point 13:** *The National Institute of Statistics will send to Eurostat the P&L accounts of 13 units with very high market test results*

*Deadline: 12 February 2016*

**Action point 14:** *The National Institute of Statistics will verify that, for these entities, revenue and costs of operations are not recorded within separate legal units (artificial units) which could explain those seemingly abnormal market test results.*

*Deadline: 12 February 2016*

Finally, and in the context of the previous discussions during the mission regarding the practical implementation of the 50% market test, under the Agenda point 4.1.1., Eurostat pointed out to the NSI three public corporations with close to 50% market tests.

**Action point 15:** *The National Institute of Statistics will pay particular attention to the likely impact of the inclusion of the appropriate cost items on borderline entities and particularly for the 3 units discussed – FORTUS IASI, Transport IASI, ENET.*

*Deadline: April 2016 EDP Notification*

#### 4.1.4 Units in liquidation or dormant (and functioning units)

##### *Introduction*

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<sup>10</sup> SC COMPANIA NATIONALA A METALELOR PRETIOASE SI NEFEROASE REMIN SA; SOCIETATEA NATIONALA NUCLEARELECTRICA SA; SOCIETATEA NATIONALA DE TRANSPORT GAZE NATURALE TRANSGAZ SA; SC SOCIETATEA COMERCIALA DE PRODUCERE A ENERGIEI ELECTRICE IN HIDROCENTRALE -HIDROELECTRICA SA; SC SOCIETATEA COMERCIALA DE DISTRIBUTIE SI FURNIZARE A ENERGIEI ELECTRICE - - ELECTRICA – SA; SOCIETATEA NATIONALA DE GAZE NATURALE ROMGAZ SA; SOCIETATEA COMERCIALA FILIALA DE DISTRIBUTIE A ENERGIEI ELECTRICE ELECTRICA DISTRIBUTIE TRANSILVANIA NORD SA; SC SOCIETATEA COMERCIALA FILIALA DE DISTRIBUTIE A ENERGIEI ELECTRICE ELECTRICA DISTRIBUTIE TRANSILVANIA SUD; FILIALA DE DISTRIBUTIE A ENERGIEI ELECTRICE -ELECTRICA DISTRIBUTIE MUNTENIA NORD SA; SC ELECTROCENTRALE BUCURESTI SA; SC ELECTROCENTRALE GALATI SA; ELECTRICA FURNIZARE SA; REGIA AUTONOMA DE DISTRIBUIRE A ENERGIEI TERMICE CONSTANTA

While analysing the Fiscal Transparency Evaluation of Romanian by the IMF<sup>11</sup> (March 2015), Eurostat was alerted to the fact that information on hundreds of public corporations listed in the Trade Register were possibly not being reported to the NSI and the MoPF.

During the October 2015 EDP Notification, Eurostat requested further information on these units and had been informed, in the request for clarification, that 529 public corporations do not report their financial statements to the statistical authorities, out of which 137 are active units, 261 are units in liquidation, bankrupt or dormant, and 131 are closed units.

### *Discussion*

During the mission, the statistical authorities confirmed to Eurostat that the financial statements of 529 public corporations are not sent to the NSI given that these are not, in the point of view of the statistical authorities, classified inside the general government sector.

Eurostat took note that the 131 'radiated' units do not have employees, liabilities or any activity, i.e. these purely exist in the Trade Register from the legal point of view, but do not have any economic or financial existence.

Eurostat furthermore wondered how any sectorisation decision could be taken for the 137 active units in the absence of source data to use on the 50% market test, as well as to consider some of the qualitative criteria.

Eurostat deemed it necessary that the NSI gathers a complete list of entities that could potentially be classified inside government, so to allow the MoPF Treasury department to send a questionnaire on debt.

#### *- Units in liquidation or dormant*

Eurostat mentioned that whereas the summary information provided by the NSI prior to the mission regarding units in liquidation, bankrupt or dormant, was not complete from a coverage point of view, the information provided (for 2011) for 118 units out of a total of 261, pointed to a total employment of 21,220 persons and Maastricht Debt liabilities of 5,741 million lei (1.0% of GDP), proving the material relevance of the issue.

Additionally, Eurostat observed that in the context of the unit-by-unit information provided by the NSI before the mission on these 261 units, 33 of those units has a market test result below the 50% threshold and that hence, even disregarding the forthcoming MGDD guidance, these units should already be classified in the general government sector.

Eurostat made further inquiries regarding Oltchim, a public corporation classified in the non-financial corporations sector, which had a stock of liabilities of 3,663 million lei (as of end 2013) and which has filed for insolvency on 31 December 2013. Eurostat pointed out that Oltchim has a 1.2 billion lei debt (including 0.5 billion lei of principal and 0.7 billion lei of interest) towards the Authority for State Assets Administration (AAAS), which the NSI confirmed to be an S.13 entity. The MoPF indicated that this claim had been recorded, in

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<sup>11</sup> <https://www.imf.org/external/pubs/ft/scr/2015/cr1567.pdf>

national accounts, as a capital transfer at inception. Eurostat took note of this, and wondered if the claim was reported in the balance sheet of the State, as exploited by the BNR for its compilation of the financial accounts – which would then cause a discrepancy. Eurostat also queried whether, in government accounts, any interest revenue on the Oltchim claim was recorded and, in the affirmative, whether these amounts were excluded from national accounts.

The statistical authorities agreed that further detailed investigations on Oltchim liabilities towards government will be undertaken, in order to answer these questions.

- Functioning units

Regarding the 137 active units, Eurostat has also stressed the material relevance of the issue, observing that the partial summary information provided by the NSI prior to the mission pointed out to a total employment of 5,939 people in 48 units (out of an overall total of 137 units), for 2011, as well as to a total of 3,108 Maastricht Debt liabilities (0.5% of GDP). In this sense, Eurostat encouraged the statistical authorities to urgently determine the sector classification of these units.

*Main findings and conclusions*

**Action point 16:** *The National Institute of Statistics will apply the forthcoming MGDD guidance regarding units in liquidation or dormant, and accordingly reclassify the mentioned 261 units into the general government.*

*Deadline: April 2016 EDP Notification*

**Action point 17:** *The Ministry of Public Finance will verify that the claim on OLTCHIM is appropriately eliminated for the ESA Table compilation (otherwise leading to discrepancies), together with any accrued interest recording that arises on that claim (which could have an improper B.9 impact).*

*Deadline: April 2016 EDP Notification*

**Action point 18:** *The National Institute of Statistics will try to obtain the accounts and Balance sheets of the public corporations not included in the REGIS with a focus on those still in operation and examine the opportunity to include these inside government by default in the absence of any other information.*

*Deadline: October 2016 EDP Notification*

**Action Point 19:** *The National Institute of Statistics will provide the Ministry of Public Finance a list of entities potentially to classify inside general government, although not yet officially recognized as part of general government, so to allow the Treasury to send them its routine questionnaire on Debt.*

*Deadline: April 2016 EDP Notification*

#### 4.1.5. Discussion of specific cases

##### - Romanian public TV and Radio

###### *Introduction*

In the context of the new sub-section I.2.4.7 of the MGDD on the specific case of the provision of broadcasting services, Eurostat recalled the forthcoming guidelines on the borderline between fees and taxes regarding the payments made by economic agents to public broadcasting companies (transiting or not via other corporations, e.g. electricity companies), and its application to the Romanian case.

In the light of these guidelines and of the information provided by the Romanian statistical authorities previous to the mission, Eurostat expressed its view that those payments should be considered, and recorded, as taxes.

###### *Discussion*

The NSI recalled the article 40 of the Law nr. 41/1994, which states that "*individuals residing in Romania are required to pay a fee for public broadcasting and public television service fee, as the beneficiaries of these services, except those declaring on oath that do not have radio receivers and television, and those who, by law, are exempted from paying such fees*".

In the light of the most recent discussions in the EDP Methodological Task Force, the NSI agreed with Eurostat that the conditions set by the Law referred above are not sufficient to consider that there is an actual link between the payment by the user to the amount of public broadcasting services and thus proposed to classify these payments as general government revenue from taxes (D.29 for legal entities and D.59 for households) and a subsequent current transfer from the State to the public broadcasting entities.

The NSI will re-analyse the sector classification of the Romanian public radio and television companies in the light of this change in the accounting classification of the referred payment.

###### *Main findings and conclusions*

**Action point 20:** *The National Institute of Statistics agrees with the tax character of the fees on TV and Radio and will apply the forthcoming MGDD guidance, with results in the April 2016 EDP Notification.*

*Deadline: April 2016 EDP Notification*

##### - Guarantee and counter-guarantee units

###### *Introduction*

Eurostat enquired on the appropriate sectorisation of three entities specialized in providing guarantees: Rural Credit Guarantee Fund (FGCR-IFN SA), National Credit Guarantee Fund

for SME (FNGCIMM IFN S.A.) and Fondul Român de Contragarantare. These three institutions are currently classified in Financial Corporations sector (S.12), subsector Other financial intermediaries, except insurance corporations and pension funds (S.125).

The **Rural Credit Guarantee Fund** (FGCR-IFN SA) was created in 1994, based on a Memorandum concluded between the EU and the Ministry of Agriculture and Rural Development (MARD), on behalf of Romania's Government, as a commercial company mostly owned by private entities: the Romanian Commercial Bank (33.3%), the Romania Bank for Development - Groupe Societe Generale (33.3%), and Raiffeisen Bank SA (33.3%), aside from MARD (0.007%).

Its main field of activity is to assume guaranteeing commitments and guarantees issuing, either on behalf of public funds or on its own funds. This can take the form of guaranteeing credits or other financial instruments granted by Romanian financing institutions, and of issuing guarantee letters in favour of APDRP or of public beneficiaries of NPRD. The FGCR-INF also manages a scheme of guarantees for deposit certificates.

The **National Credit Guarantee Fund** for Small and Medium-Sized Enterprises (FNGCIMM IFN S.A.) was created in 1999 with a unique shareholder, the Romanian state (Ministry for Small and Medium-Sized Enterprises and Co-operatives), with the legal mission to improve the Romanian SMEs access to financing, through issuing guarantees and committing to guarantee credits or other financing tools that can be obtained by small and medium-sized enterprises from banks or other sources.

The **Fondul Român de Contragarantare** (Romanian Counter-guarantee Fund) was set up in 2009, with the goal to improve access to financing for SMEs by taking over part of the risk assumed by the other guarantee funds. The Romanian Counter-guarantee Fund is owned by the Romanian Government (68% of share capital) and the Post-Privatization Foundation (32% of share capital).

According to Regulation no. 4/2014 on the reporting of statistical data and information to NBR, chapter IV *Statistical reporting of balance sheet assets and liabilities of non-bank financial institutions*, these institutions report to the National Bank of Romania statistical data on a quarterly basis within the next 30 calendar days following the end of the reporting quarter. This reporting population includes the National Guarantee Fund for SME and the Rural Credit Guarantee Fund S.A. Starting with the first quarter of 2008, these entities report amounts of funds granted by Central Government, classified as loan under financial instrument AF.4, given that, according to the statistical authorities interpretation, these amounts must be repaid to the Central Government in accordance with legal agreements, are reported as interest bearing, and the initiative concerning these funds lay with the borrower. This direct reporting is used as data source for financial accounts production and EDP notifications.

### *Discussion*

Eurostat enquired on the appropriate sectorisation of these three entities specialized in providing guarantees: Rural Credit Guarantee Fund (FGCR-IFN SA), National Credit Guarantee Fund for SME (FNGCIMM IFN S.A.) and Fondul Român de Contragarantare.

While the two latter are clearly under government control, because of their majority ownership, there was an issue in relation to the public/private control of FGCR-IFN. While out of 11 members of the Council Board, 5 members are appointed by government and 4 more members are appointed by the private associations, it remained to explain who appointed the General Director and the Director of the company. In addition, public financing and guaranteeing of the FGCR-IFN activities may be an additional criteria for public control. To the extent that the majority of the Council Board members is not constituted by civil servants, it was plausible that the FGCR-IFN had the feature of an institutional unit, i.e. it had autonomy of decision in the ESA 2010 meaning.

With respect to the activity of these funds, while noting that FGCR-IFN and the FNGCIMM IFN were deemed to charge fees established on a commercial basis (with fees priced to cover expected costs), Eurostat wondered whether those entities were operating in competition with other actors (providing also guarantees to clients), as referred in ESA2010 paragraph 20.22, or were merely carrying government-supported interventions that no private operator would be inclined to engage in. Eurostat also wondered whether the guaranteeing schemes of those entities could be considered of the standardised guarantee type (more likely), implying a possible financial intermediation activity, or was more of the non-standardized type.

It was noted that the FNGCIMM IFN was operating a guarantee scheme, de facto competitor to the EXIMBANK scheme, run on behalf of government, which itself is considered a government standardised guarantee scheme rerouted via government accounts, and thus already reported under EDP Questionnaire Table 9.4.

The Romanian statistical authorities mentioned also the existence of another small guarantee fund: *National Guarantee fund for private investors and entrepreneurs*. In the case of the Fondul Român de Contragarantare, it seemed likely the unit neither was engaged in standardized guarantee schemes nor had competitors, although it could be seen as a kind of re-insurer.

Eurostat also wondered to what extent those funds met the captive financial institution definitions as per ESA 2010 paragraphs 2.21-2.23, and as described in the chapter I.6 of the MGDD. Captive financial institutions are characterised by an insufficient degree of independence from the parent, notably demonstrated by the ability of the parent to exercise substantive control of the assets and liabilities (ESA2010, para. 2.22). The FGCR-IFN could also be seen as a captive financial institution controlled by government (albeit not owned), to the extent that government would carry the risks and rip the rewards associated with the assets and liabilities (ESA2010, para. 2.22)

*Main findings and conclusions*

**Action point 21:** *The statistical authorities will enquire on the constitution of the board of the FGCR-IFN SA and on some other facts in relation to guaranteeing units that will be listed in a forthcoming note of Eurostat.*

*Deadline: end February 2016.*

- Units dealing with deposit guarantee and with resolution in the context of the establishment of the Single Resolution Board

### *Introduction*

The Romanian Deposit Guarantee Fund (FGDP) was created by law as a guarantee fund, ensuring deposits up to 100,000 euro. In December 2014, a Law entered into force changing the status and governance of the fund and granting additional powers to the FGDP in the field of banking resolution. As regards its financing, the FGDP collects premiums from banks, but if it cannot meet claims from depositors, the government must, as defined by law, lend to it the necessary financing within 5 days.

According to the NIS, this unit is currently classified in the S.126 (financial auxiliaries). ESA2010 paragraph 2.63 states "*financial auxiliaries do not put themselves at risk by acquiring financial assets or incurring liabilities*" and "*they facilitate financial intermediation*".

### *Discussion*

Eurostat took note that the contributions from the banks to the FGDP are recorded as F.5, equity held by the banks, rather than as taxes, being reimbursable. Hence, every year, there is an addition to the equity of the FDGP held by the banks commensurate to those contributions.

Eurostat enquired further on the (legal) obligation of the State of Romania to provide financing to the FGDP if the funds of the former are not sufficient to cover the claims from depositors. The BNR explained that, albeit the legal provisions exist, until now no intervention from government had been needed in past liquidations. It stressed that, in the event of emergency Treasury lending, those funds would be classified as a loan from the State to the FGDP. The BNR mentioned also that in the 1990s the central bank had been providing lending to the FGDP, which is now forbidden, and that current assets of the Fund of 4.5 billion lei seemed ample enough. It did not remember if the Fund had borrowed from commercial banks in the past, to meet financial obligations.

Eurostat enquired on the statement made in the presentation by the CEO of the FGDP. It notably asked how to interpret in the statement, "*use of DGS funds in bank resolution may be assimilated to State Aid as long as the decision making is done by the State's Authorities, with consequences of distorting the competition in the market*", and notably what were the 'State Authorities'.

Eurostat stressed that, in practice, guarantee funds in other Member State, while seemingly independent from government, had to recourse to emergency lending in the case of large



bankruptcies. This largely motivated the classification of these units inside the general government sector.

Furthermore, the BNR informed Eurostat of a new Law, approved in the days before the November 2015 mission, concerning resolution activities.

#### *Main findings and conclusions*

The NSI will examine the appropriate classification of the FGDP in the light of the discussion carried out with Eurostat.

**Action point 22:** *The statistical authorities will provide to Eurostat the new Law concerning resolution activities in Romania.*

*Deadline: as soon as available*

**Action point 23:** *Eurostat will further analyse and reflect on the issue of the classification of the FGDB, in cooperation with the Romanian statistical authorities.*<sup>12</sup>

*Deadline: April 2016 EDP Notification*

- Government controlled units (2) engaged in financial activities

#### *Introduction*

Prior to the mission, the NSI provided to Eurostat documentation regarding CEC Bank and EXIMBANK. Eurostat recognized that CEC Bank is a normal commercial bank acting on its own behalf, with usual financial commercial activities, notably taking deposits. It still had some concerns regarding EXIMBANK, namely its activities on behalf of the State of Romania.

EXIMBANK is an institution held in majority (95.4%) by the State of Romania, specialised in activities for supporting the Romanian business environment and international transactions, through specific banking, financial, guaranteeing or insurance instruments. According to the Law, beside the activity on its own behalf, EXIMBANK S.A. is acting as the secretary of CIFGA (Inter-ministerial Committee for Financing, Guarantees and Insurance), a governmental body managing the support given by government to the export activities, subsidies for bank loans interest rates, guarantees for bank loans, export insurance, etc... For the performing of this activity, EXIMBANK S.A. receives amounts from the state budget for which evidence is kept separate from the own funds of the bank (recorded under Other creditors). On a monthly basis, EXIMBANK S.A. reports to the MoPF the amounts being used, and the figures reported are included in the budget execution data (in the working balances). The activity related to the management of the support given by the Government to the export activities is recorded by EXIMBANK S.A. off-balance sheet.

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<sup>12</sup> The FGDP was reclassified inside government in the October 2016 notification. The repayable contributions were reclassified as AF8, pending ongoing discussions at European level.

The EXIMBANK S.A. is currently classified in “Deposit-taking corporations except the central bank” S.122.

### *Discussion*

Eurostat enquired on the activities of the EXIMBANK, notably on the level of government interventions in the day-to-day operations. The Romanian statistical authorities believed that EXIMBANK was behaving like any regular bank, including managing bank accounts for private companies. It noted that EXIMBANK was carrying activities in the name of the State as well as in its own behalf. The activities in the name of the State, which also earned commission fees to EXIMBANK, were recorded in the accounts of government (in both public accounts and national accounts).

Eurostat enquired on the relative size of the activity carried out on behalf of government. The statistical authorities asked Eurostat on the most appropriate indicator to use to assess this relative size: financing or guarantees granted, commission fee earned, staff devoted, number of operations, etc.

The statistical authorities added that the operations on behalf of the State involved so far two schemes: First House Program (incentives to households for the acquisition of main residences) and a program for supporting SMEs. The relative share of the State operations by size of loan or guarantees has tended to decline over recent years, although remaining above 50%.

The MoPF indicated a forthcoming Law was in preparation aiming at using the EXIMBANK more actively as a development bank, in the context of banks' current unwillingness to provide finance as well as of the Juncker Plan. It wants to finance and/or provide guarantees to various firms, including start-ups, to use EXIMBANK as a 'fund of funds' for European Funds and to use privatisation receipts. The plan is to leverage the EXIMBANK expertise, to roll the new schemes as quickly as possible, and to accelerate absorption of co-financed operations.

The MoPF recalled that the Treasury had pre-funded the EXIMBANK in the past in the context of the operations on behalf of the State, even though the EXIMBANK had not necessarily used these funds. As a result, the State holds 1.9 billion lei of claims as of end-2014, representing the excess pre-funding to date by the Treasury. The statistical authorities mentioned that those pre-funding had been recorded as capital transfers (D.99) expenditure of government until 2009. Following the remark of the CoA, the claim of 1.7 billion lei (at that time) was recognised, in 2009, with a counterpart government revenue (D.99). Eurostat took note of this and suggested to reclassify those D.99 amounts in the financial accounts.

Currently, any pre-funding of EXIMBANK by the Treasury is recorded in the financial accounts, and all expenditure and revenue carried out on behalf of the State (including fees charged by EXIMBANK) as well as loans granted on behalf of the State and their reimbursements are recognised as government transactions in the national accounts, as well as in public accounts. Eurostat enquired on what basis the operations on behalf of the State

would be recorded in the State Budget if the latter were on a payment-order basis, as seen in Agenda point 1.2.2. on Data Sources.

#### *Main findings and conclusions*

**Action point 24:** Eurostat will send to the statistical authorities a request for information regarding the management, activities and sectorisation of EXIMBANK.

*Deadline: end-January 2016*

**Action point 25:** Eurostat and the National Institute of Statistics will assess the relative size the activities of EXIMBANK on its own behalf (commercial) versus its activities on behalf of the state.

*Deadline: 15 February 2016*

**Action point 26:** The National Institute of Statistics will promptly provide the new regulation concerning the enlargement of the activities of EXIMBANK, upon its approval.

*Deadline: 15 February 2016*

**Action point 27:** The statistical authorities will include an adjustment line in EDP T2A to depict the net loans of EXIMBANK on behalf of government currently recorded in the BGC accounts of the State Budget.

*Deadline: April 2016 EDP Notification*

**Action point 28:** The National Institute of Statistics will remove the D.9 entries associated to the acquisition of claims on EXIMBANK in the past (until 2009).

*Deadline: April 2016 EDP Notification*

## **4.2. Implementation of the accrual principle**

### **4.2.1. Taxes and social contributions**

#### *Introduction*

Information on taxes and social contributions is collected by the National Agency of Fiscal Administration (ANAF). The time lag applied is one month for most taxes and contributions, while profit tax has a time lag of three months.

#### - New Fiscal Code

#### *Discussion*

Prior to the mission, the statistical authorities provided to Eurostat detailed information regarding the new Fiscal Code. During the visit, Eurostat further enquired on the changes in the taxation framework in Romania.

The MoPF explained that the new Fiscal Code is mainly consolidating the Fiscal Code introduced in 2004 to include the successive legal modifications introduced since then, and that this new fiscal framework Law will enter into force in 2016.

#### *Main findings and conclusions*

The MoPF clarified that the fiscal code is not expected to lead to a change in method of taxes in national accounts.

#### - Taxes on property

##### *Discussion*

Following on the information provided by the statistical authorities prior to the mission that stated that no time-adjustment is made for tax on property, Eurostat further enquired on the issue. Eurostat took note that taxes on real estate on natural persons and legal entities collected by local governments are recorded on a cash basis largely in March and otherwise in September, in the Romanian accounts.

#### *Main findings and conclusions*

Eurostat recalled the discussions held in the GFS Task Force in 2013 and 2014 regarding the classification and time of recording of real estate taxes, where it was agreed that the government revenues from real estate tax should be spread approximately equally over the quarters when compiling accrual-based accounts.

**Action point 29:** *The National Institute of Statistics agreed to enforce an accrual recording, spreading the RET over the 4 quarters of the year, since the year 2000, for the March 2016 GFS/EDP delivery.*

*Deadline: April 2016 EDP Notification*

#### - Tax arrears and penalties

##### *Discussion*

Eurostat enquired on the recording of the interest charged on tax arrears and penalties. The MoPF explained that, in public accounting, interest on tax arrears and penalties are not distinguished, except for VAT. The NSI and the MoPF clarified that interest and penalties are netted into taxes in national accounts, even in the case of VAT.

Eurostat therefore suggested that, in the case of VAT, given that source data is available, the statistical authorities should classify interest on tax arrears and penalties as D.41 and D.75, respectively.

Regarding the unavailability of disaggregated data on interest on tax arrears and penalties for other taxes, the MoPF explained that it had discussed the issue in the past with ANAF and that the latter had argued for showing explicitly interest and penalties in general for all taxes,

and not on a tax by tax basis. Eurostat agreed that the position of ANAF was sound, being sufficient to correctly record interest on tax arrears and penalties in national accounts.

#### *Main findings and conclusions*

Eurostat recalled that interest and penalties should be booked as D.41 and D.75, respectively, although this issue was B.9 neutral.

**Action point 30:** *The National Institute of Statistics will adapt, when convenient, the bridge table to record interest and penalties in VAT as appropriate, according to ESA2010.*

*Deadline: October 2016 EDP Notification*

**Action point 31:** *The Ministry of Public Finance will suggest to ANAF to add separate codifications for tax and interest penalties. The Ministry of Public Finance will report to Eurostat on their achievements.*

*Deadline: June 2016*

#### - Tax amnesties

##### *Discussion*

Eurostat wondered whether tax amnesties, such as approving debt regularisation schemes for outstanding tax and social contributions, allowing tax payers to settle their tax and contribution situation (normally with remission of interest and fiscal costs), had occurred in Romania in the past.

The MoPF mentioned that a tax amnesty had taken place in 2011, with forgiveness of penalties, and that a new one was now in force from 1 December 2015 until 31 May 2016, based on the tax payable observed on September 2015.

#### *Main findings and conclusions*

Eurostat indicated that, since Romania use a time-adjusted cash method and not a coefficient method, the amount collected from the tax amnesty would need to be booked as government revenue. Furthermore, Eurostat indicated that recording this revenue as pure cash or with some time-adjustment would depend on administrative arrangements surrounding the tax amnesty.

**Action point 32:** *The Ministry of Public Finance will provide an English translation of Ordinance 24/2015 on the tax amnesty (December 2015-May 2016) to Eurostat. The statistical authorities will reflect on the appropriate accounting treatment.*

*Deadline: end-February 2016*

#### 4.2.2. Interest

##### *Introduction*

In Romania, for all sub-sectors of general government, data on interest in public accounts are recorded in cash system. In national accounts, the data are adjusted and reported on accrual basis for both non-financial and financial accounts according to ESA2010 provisions.

#### - Reporting issues

##### *Discussion, main findings and conclusions*

Prior to the mission, Eurostat had sent an annex on interest as recorded in EDP Tables 2A and 3B, to be filled by the Romanian statistical authorities. Eurostat congratulated the statistical authorities for the detailed supplementary table on interest recording with detail on coupon accrued and paid, premium/discount at issue and accrued, coupon sold, etc, and enquired on some presentational issues. Eurostat noted that the annex as filled by the statistical authorities would need to be balanced by including F.2 flows where applicable.

##### *Main findings and conclusions*

The MoPF indicated that it would be useful to have instruction for the compilation of this table and noted that no line was dedicated for coupon sold, contrary to an earlier version of the table.

**Action point 33:** *Eurostat will amend the supplementary annex on the recording of interest, sent to the statistical authorities in the context of SDVs, where applicable (coupon sold, etc.) and will produce instructions to compilers.*

*Deadline: end-January 2016*

#### - Coupon sold

##### *Discussion*

Eurostat took note that the 'Issuances above(-)/below(+) nominal value', of 862.5 million lei in 2014, with a negative entry in EDP table 3 relating to coupon/interest paid (cash), refers to coupon sold on securities, which are recorded as receipts in the accounts of the State Budget and the Treasury Budget, for 30 million lei and 832 million lei, respectively.

Eurostat clarified that it considers preferable that amounts regarding coupon sold are recorded in EDP Tables 3 line 'Difference between interest accrued and paid', following the rationale that interest is the sum of cash flows (among which, coupon) in a contract. The MoPF agreed that coupon sold could usefully be recorded as in the line 'interest accrued – interest paid' rather than premiums and discounts.

##### *Main findings and conclusions*

**Action point 34:** *The Ministry of Public Finance will amend the presentation of the EDP tables in order that the coupon sold could usefully be recorded in the line 'interest accrued – interest paid' rather than under premiums and discounts, after Eurostat confirms that this approach is to be preferred (following an internal and an EDPS WG consultation).*

*Deadline: After Eurostat confirmation, preferably before April 2016 EDP Notification*

- Premium and discounts

*Discussion*

Eurostat further enquired on the annex on interest as provided by the Romanian statistical authorities, namely on the difficulties to match the recording of the cash discounts in EDP Table 2A (652 million lei in line interest paid-accrued) and EDP Table 3B (438 million lei in line regarding issuance above/below par and -22.1 million lei in line interest accrued-paid)

*Main findings and conclusions*

**Action point 35:** *The Ministry of Public Finance will clarify why the cash discounts is reported for 652 million lei in EDP T2A and, conversely, for 433 million lei under “issuance above/below par” in EDP Table 3B, as well as the origin of the minus 22 million lei under “difference between interest accrued and paid”.*

*Deadline: April 2016 EDP Notification*

- Others

Furthermore, Eurostat took note that the line interest accrued minus paid in EDP Table 3 seemed consistent with the increase in interest expenditure in 2012/13 and stabilisation in 2014 (this stabilisation reflecting a fast increase in debt compensated by a falling yield on newly issued debt). The faster dynamic of debt, despite smaller and falling deficits, is largely driven by large accumulation of cash by the Romanian Treasury (30 billion lei over 2010-2014).

Finally, Eurostat took note that the revaluation line of EDP Table 3 appeared broadly consistent with the observed exchange rate movements of the lei, the dollar, the euro, etc., when the government debt is 60% labelled in foreign currency. The MoPF confirmed that the debt was not hedged, including the debt to the IMF (labelled in SDRs). The MoPF pointed to a new project aiming at conducting hedging on debt as well as on the large deposits in foreign currency held by the Treasury.

4.2.3. EU grants and subsidies

*Introduction*

EU funds normally cover periods of 6 years. The last period was 2007-2013 and the current period is 2014-2020. The EU provides advance payments at the beginning of each 6-year program. As national agencies provide funds to beneficiaries and the justification of these payments is sent back to the EU, the EU then proceeds to reimburse part of the amounts. Eventually, the reimbursement plus the initial advance can cover up to 95% of the amounts provided to beneficiaries. A final adjustment is then done at the end of the Programme.

Regardless of whether the beneficiary is outside government or inside, amounts related to EU flows should not impact government B.9.

According to the Final Findings of the SDV to Romania in June 2013, there are seven agencies involved in receiving EU funds and seven management authorities (MA) which monitor and control amounts granted to final beneficiaries, all classified in central government.

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

### *Discussion*

As explained by the statistical authorities during the October 2015 EDP Notification, as well as in point 1.2.4 of this mission, the revenues from the EU are reported in the State Budget on an accrual-basis, that is: the revenue from the EU reported in the State Budget is set equal to the reported expenditure being financed/co-financed. Hence, according to the statistical authorities, an accrual-to-cash adjustment to this item is made in order to provide a pure cash working balance in EDP Table 2A.

Regarding a possible mismatch in the BGC identified by Eurostat, between the proceeds from EU and the EU related expense, the statistical authorities explained that only 85% of the expense under line "*proiecte cu finantare din fonduri externe nerambursabile*" in BGC relates to expense on behalf of EU grants, as the other 15% relate to the co-financing part of the Romanian government. Likewise, the statistical authorities explained that, under the line '*cheltuieli aferente programelor cu finantare rambursabila*', were being reported only expenses financed from EIB loans as well as from other international organizations, and other expenses financed by the State Budget (and not expenses financed from the EU as previously understood by Eurostat).

Furthermore, Eurostat enquired on the ESA recording of the 'EU funds corrections', given the material relevance of these amounts, as reported in EDP Table 2A under 'other adjustments'. The statistical authorities explained that these amounts are not paid to the EU per se, but are rather deducted by the EU from future transfers to the Romanian government. Hence, these are netted from revenues, when the decision from the EU is taken.

Eurostat agreed with the time of recording of these corrections, and the B.9 impact, albeit disagreed with their treatment in GFS accounts. Along the line taken by the MGDD regarding Court Decisions with retroactive effect, Eurostat considered that the most correct way to book these corrections would be through a D.99 capital transfer paid.



Finally, Eurostat enquired on the account of the State Budget in the BNR, where cash regarding advance payments from EU grants are deposited.

### *Main findings and conclusions*

Eurostat took note of the explanations regarding the differences between the proceeds/expenses in BGC and cash receipts/payments related to EU grants.

**Action point 36:** *The amounts not paid by the EU due to administrative corrections (e.g. non-compliance) should be booked gross in GFS tables, and not net as currently seems to be the case, following the logic under the court decision methodology.*

*Deadline: April 2016 EDP Notification*

#### 4.2.4. F8 receivable: 'F.8 advances for fixed assets/supplier/debtor' and 'F8 claims from customers'

##### *Introduction*

At the end of 2014, the stock of other accounts receivable of the State Budget (whose associated flow is reported in EDP Table 2A as F.8 advances for fixed assets/supplier/debtor) was equal to 0.49% of GDP. The total stock of other accounts receivable B.9-relevant, defined as Commercial claims and advances (*Creante commerciale si avansuri*), was 0.67% of GDP, as reported by the statistical authorities in an annex prior to the mission. The difference between the two items refers to the receivables from Military Expenditure.

Eurostat controlled, observing the annexes provided prior to the mission, that the difference between the initial and final stocks of commercial claims, commercial advances, and trade credits and advances (used as source data for the compilation of other accounts payable and receivable) matched perfectly the flows, i.e. there was no indication of the existence of other changes in volume.

- Practical issues regarding the compilation of other accounts payable and receivable

##### *Discussion*

Eurostat noted that the accrual national accounts were based on budget/cash information, adjusted for payables/receivables calculated for change in balance sheets. Eurostat welcomed the existence of balance sheet information and its use for GFS compilation. Eurostat enquired on the consistency of the data in the budget, balance sheets and profit and loss statements, and on the extent of monitoring conducted by statistical authorities.

The statistical authorities reported on test exercises carried out, trying to comparing the cash-to-balance sheet adjustment mentioned above with the expenditure/revenue as derived from the profit and loss account. It acknowledged that the detail was insufficient to draw effective conclusions. The MoPF indicated that, once the IT system would be in place (for accounting year 2016), this comparison could be carried out effectively and efficiently.

Eurostat noted that the flows of receivables and payables was directly compiled from changes in stock, possibly leading to erroneous revenue or expense, when the stocks are in fact driven also by write-offs (or reversals), which should be in fact OCVs. Eurostat invited the NSI and the MoPF to carefully monitor this issue.

*Main findings and conclusions*

**Action point 37:** *Regarding the compilation of both other accounts payable and other accounts receivable, the Ministry of Public Finance will continue its monitoring of the cash-adjusted data, and comparison with aggregated profit and loss, in order to detect cases where the non-matching between the two sets of data is sizeable. It will develop a strategy to carry this comparison more systematically once this IT system will be in place (accounting year 2016).*

*Deadline: April 2017 Notification*

**Action point 38:** *The Ministry of Public Finance will pay attention to the fact that difference between stocks may include transactions as well as OCVs, namely write-offs or reversals, and will exclude movements in balance sheets driven by write-offs, write-downs, provisions or reversal, thereof. Enquiries should be carried out, notably when large movement in balance sheets are observed.*

*Deadline: continuous work*

- Other accounts receivable

*Discussion*

Eurostat enquired on whether the receivable of government were mostly related to sales (received with a lag) or to purchases (paid in advance), while acknowledging that a large volume of cash from sales received with a lag would not be expected in government units. The MoPF indicated that the balance sheet information used for the compilation of these (annex 40) did not distinguish in between receivables on purchases or on sales, although it used to be the case in the past (until 2006).

*Main findings and conclusions*

**Action point 39:** *The Ministry of Public Finance will enquire if a qualitative assessment on the split of other accounts receivable between sales (received with a lag) and purchases (paid in advance) could be found (e.g. Annex 40).*

*Deadline: October 2016 EDP Notification*

4.2.5. F8 payable: ‘Changes in due for payments’

*Introduction*

At the end of 2014, the stock of other accounts payable related to trade credits and advances of the State Budget was of 0.24% of GDP. The total stock of other accounts receivable that are B.9-relevant (and reported in EDP Table 2A as 'changes in due for payments') was of 0.69% of GDP.

- 'Micola case'

#### *Discussion*

Eurostat enquired on the amounts reported as 'other court decisions' in the annex received prior to the mission. The MoPF indicated that 694 million of payable had been recognised in 2014 and would be de-recognised in 2015, with a corresponding expenditure in 2014 and revenue in 2015, following a rocambolesque 'Micola case'. Following an international arbitrage in Washington in 2014, the Republic of Romania was liable to pay a compensation for this amount to the referred Micola brothers. The State of Romania accepted the arbitrage conditional on the fact that the commission would not rule the case as illegal State Aid, and accordingly put money in an 'escrow' account in 2015. Later on, in 2015, the commission ruled the case to be illegal state aid, which will lead to a recovery of the money from the escrow account.

#### *Main findings and conclusions*

Eurostat recalled that MGDD's guidance on court decisions with retroactive effects advise prudence, i.e. the accounts should be booked only "*when it is no longer possible for parties to lodge an appeal*".

**Action point 40:** *In the context of the 'Micola case', given that no final legal decision has been reached in this case, no amounts should be recorded. The national authorities will exclude the 694 million lei currently recorded as capital transfer expenditure from 2014, as well as the associated payable.*

*Deadline: April 2016 EDP Notification*

- Reclassification of trade credits as loans

#### *Discussion*

Eurostat enquired on the implementation in Romania of the Eurostat Decision of 2012 concerning the reclassification of some trade credits as loans (e.g. claims confirmed by the debtor, such as under some factoring arrangements), regarding relevant quantitative information or the existence (or not) of any specific case for significant amounts. Furthermore, Eurostat enquired if such a case would happen in units in liquidation or bankruptcy.

#### *Main findings and conclusions*

Eurostat took note that Eurostat's 2012 trade credit decision had been enquired in detail by the MoPF, which found no such case for budgetary units, and a few cases concerning

companies reclassified in government for very small amounts, stemming from the second criteria (restructuring of trade credits). Furthermore, the MoPF indicated that no case of reclassification of trade credits into loans occurred concerning units in liquidation.

#### - Health payables

##### *Discussion*

Eurostat enquired on the measures taken by the Romanian government in order to find the necessary resources to reduce the arrears in the health sector, and took note that, following the Directive on the Late Payments, the previous delays of 90 days (and even 180 days) for subsidized medicines had switched to 30 days. This led to a large reduction in payables achieved through the levying of a new tax (3.5 bn lei in 2012-2014) and to related transfers from State Budget to Social Security in 2013.

Eurostat further observed that the considerable increase in the cash payments of *Fondul national de asigurari sociale de sanatate* regarding goods and services ('*Bunuri si servicii*') in 2013, is compatible with the observed decrease in the AF.81L as observed in ESA Table 27. Eurostat also took note that the improvement of the B.9 of S.1314 in 2013 was due to the related transfers from State Budget to Social Security to cover that outflow.

Eurostat enquired on the growth rate of intermediate consumption of the Social Security from 2013 to 2014, notably the fact that intermediate consumption decreased in 2014 by almost 50%.

The NSI explained that the health payables were recorded when due, as social benefits, and that hence no explanation on the observed evolution of intermediate consumption can come from the considerable cash payments of health arrears in 2013. The NSI pointed out that the considerable decrease in intermediate consumption seems to be compensated by an increase in social benefits and that hence a problem could have occurred in the split while bridging budget execution data to national accounts.

##### *Main findings and conclusions*

**Action point 41:** *The statistical authorities will analyse the considerable decrease of P.2 between 2013 and 2014 in the social security accounts.*

*Deadline: April 2016 EDP Notification*

### **4.3. Recording of specific government transactions**

#### **4.3.1. One-off guarantees and standardized guarantees**

##### *Introduction*

In Romania, guarantees are provided by Ministry of Public Finance, EXIMBANK and local authorities, to companies, local government and individuals.

The records on government guarantees are kept in government public accounts, except guarantees issued by EXIMBANK in the name of the State (which are kept by this institution) and guarantees issued for housing loans (which are also kept by National Guarantee Fund for Loans to SMEs).

Government guarantees issued in accordance with EOG no 64/2007 (that means except those issued by EXIMBANK) are reported in the annual general account of public debt, which is approved by law and the annex with information on an individual basis is published in the Official Gazette.

### *Discussion*

Eurostat enquired on the activity of the three standardized guarantee schemes existing in Romania: 'First House Programme' (FH program), 'Program of government guarantees scheme for working capital financing of SMEs' (SMEs program) (both already operating), and 'Program to support the purchase by individuals of new vehicles' (operating from 2015 onwards). The Ministry of Finance informed that, in 2014, regarding the FH program, 10 million lei were recorded as guarantees called/paid and 21 million lei were recorded as provisions (F.66). Regarding the SMEs program, the Ministry of Finance informed that in 2014 a total 7 million lei were recorded as provisions (F.66).

Furthermore, Eurostat enquired on the considerable cash calls in 2011 and 2012 regarding S.C. Electrocentrale Bucuresti, also associated with extremely high ratio observed for the 50% market test for this unit over these years. Whereas the MoPF explained not having any further information to provide in that moment, the NSI clarified that it is at this moment working on a new questionnaire to provide to Eurostat, with 2015 as the reference year.

Eurostat also detected, in the documents provided prior to the mission, that for some corporations the guarantee calls were higher than the debt guaranteed to the specific corporations, assuming this to be a mistake. The MoPF explained that while compiling this ad-hoc information, it had misunderstood the concept of debt of the companies benefitting from government guarantees, and that it had provided detail on debt contracted from the MoPF rather than the companies' total debt.

Finally, Eurostat observed that, for CET Iasi, there were several cash calls regarding different loans, i.e., that information was being provided on a debt by debt approach rather than on a debtor by debtor approach, making less easy a proper analysis. Eurostat noted that for the relevant rules on guarantee calls and debt assumption, a debtor by debtor approach should be taken, not a claim by claim approach.

### *Main findings and conclusions*

**Action point 42:** *The statistical authorities will collect the information on the total financial debt of each beneficiary of government guarantees, at least for those above 0.01% of GDP.*

*Deadline: October 2016 EDP Notification*

**Action point 43:** *The statistical authorities will review their tables on guarantees for the consistency issues noted. Concerning CET IASI (and others), they will apply a debtor by debtor approach to debt assumption instead of a debt by debt approach.*

*Deadline: April 2016 EDP Notification*

#### 4.3.2. Capital injections in public corporations, dividends, privatization

##### - Capital injections

###### *Introduction*

According to the EDP Inventory, the amounts provided by government to public companies from the state budget for investments are recorded in the national accounts either as capital transfer (non-financial transaction) with negative impact on B.9 or as financial transactions with no impact on B.9. Furthermore, the EDP Inventory describes in detail how the decision on the borderline between financial and non-financial is determined and with which frequency such exercise is done.

###### *Discussion*

Eurostat enquired on some differences observed in the total capital injections between EDP Questionnaire Table 10 and the supplementary information provided prior to the mission. The NSI elucidated that the file provided prior to the mission contained only information regarding investment grants, and no other types of capital injections. Regarding the presence of a line of investment grants to CNADNR, the NSI confirmed that such transfers are consolidated at the S.13 level.

##### - Dividends

###### *Introduction*

According to the documents provided for the mission, the main data sources on dividends received by the government are financial statements of public companies at central and local level. The super-dividends test is applied annually by the NSI in March based on these data. The information used for test from financial statements of public companies is the net profit from previous years and the dividends paid to state in current year.

###### *Discussion*

Eurostat enquired on what the NSI considered as 'net profit' and used for the super-dividend test. The NSI clarified that, by 'net-profit,' they referred to the profit recorded in the profit and loss accounts of the corporations. Eurostat enlightened the statistical authorities regarding the disadvantages of using such an indicator, namely regarding the potential presence of holding gains and exceptional sales. In principle, the profit to consider is an 'operating profit' measure. This more appropriate profit measure should be examined at least for the big amounts.

### *Main findings and conclusions*

**Action point 44:** *At least for cases of payments of large dividends (0.01% of GDP), a special inquiry should be made by the statistical authorities to assess that the net profit concept used has not been influenced by holding gains and exceptional sales.*

*Deadline: April 2016 EDP Notification*

**Action point 45:** *The statistical authorities will consider using for the future a net operating income when calculating the superdividend test, instead of total profit.*

*Deadline: April 2016 EDP Notification*

### *- Privatization*

#### *Introduction*

According to the EDP Inventory and the documents provided for the mission, there are five agencies in Romania involved in privatization, all classified in S.1311. In public accounts, privatization proceeds are reflected in the budget of public institutions financed partially or totally from own revenues. Both the BGC and in EDP tables and national accounts eliminate from the nonfinancial accounts these proceeds, which are to be recorded in the financial accounts (in EDP Tables 3). In EDP Table T2C, local budgets privatization proceeds are recorded under "equities".

Eurostat noted that the property funds was not carrying financial intermediation as mostly investing funds for government (rather than for many clients), and seemed a captive of government.

#### *Discussion*

Eurostat enquired on the activities of the National Authority of Property Restitution (Property Fund). The NBR explained that, in 2012, the Property Fund was reclassified outside the S.13 according to the qualitative criteria. The MoPF further explained that the Property Fund was set-up with the purpose to provide restitutions in the form of shares, but that, since the years 2010/2011, it has started to widen the profile of its activity to become an investment fund. Eurostat hence further enquired if such change in profile was due to a legal change in the responsibilities of the Property Fund. The MoPF clarified that Law 165/2013 provided such a change.

### *Main findings and conclusions*

**Action point 46:** *The statistical authorities will provide to Eurostat the new restitution law (not yet implemented) in English and will reflect on the appropriate accounting treatment of transactions carried out.*

*Deadline: as soon as it is available*

### 4.3.3. Court decisions with impact on government accounts

#### *Introduction*

In the years 2011-2014, there were several court decisions regarding wage rights/disputes in Romania. Although there is no methodological issue on the recording of such transactions, during past 'requests for clarification', Eurostat and the Romanian statistical authorities have been discussing details on some quantitative aspects.

The statistical authorities provided documentation with qualitative and quantitative data on these court decisions prior to the mission.

#### *Discussion*

Following the discussions held during the past request for clarification and the information provided prior to the mission, where Eurostat was not able to match the amounts recorded at the moment of court decisions with the estimated amounts of cash payments, Eurostat enquired the statistical authorities, namely the MoPF, on the exact amounts concerned by all the court decisions taken in Romania regarding wage rights/disputes.

The MoPF explained that the first court decision on wage rights/disputes had taken place in 2011, and concerned solely the workers who had themselves taken legal action against the public administration. Hence, in EDP Tables 2A, C and D the negative impact in B.9 of such decisions in 2011 is observable. These amounts were well determined and the spending agencies have recorded them as provisions, according to an Ordinance issued to that effect, in which the cash payment deadlines were also defined.

Nevertheless, following this favourable court decision, other civil servants have, in the following years, also taken legal action against the public administration, which has resulted in several, disperse and smaller court decisions, again favourable to the civil servants, with the practical result that it is harder for the MoPF to determine specifically the amounts concerning every decision.

Eurostat explained that the accounting treatment in the EDP Tables 2 demands a balancing through the years regarding such court decisions, i.e. that the amount negatively impacting B.9 in the year the decision is taken is followed by neutralising 'positive' impacts (i.e. neutralising the cash payments included in the working balance later on) in the following years. Eurostat further explained that for such a treatment to be consistent in this respect, full coverage of data regarding these decisions is needed.

#### *Main findings and conclusions*

**Action point 47:** *The Ministry of Public Finance will send to Eurostat a table summarizing the court decisions on wage rights, decision by decision, with associated cash payments by decision, so to be in a position to monitor the application of the accounting rules.*

*Deadline: April 2016 EDP Notification*



#### 4.3.4. Pension Reform

##### *Introduction*

On 27 May 2015, the Romanian National Institute of Statistics asked Eurostat to assess the eligibility of the Romanian Pension Reform as being systemic reform (or not), as well as the costs implied for the government.

On 11 June 2015, Eurostat made its first request for information, soliciting the provision of the legal acts and an explanatory note describing the new scheme (namely, the coverage, the rules for admission/exiting and the complete calculations of the net costs of government). The Romanian NIS replied to this request on 18 June 2015. On 29 June, Eurostat sent an email requesting further clarifications. The Romanian NIS replied on 19 September 2015.

The Regulation 1467/97, as amended, lists the following conditions for the pension reform to be considered as a systemic reform: “*a reform introducing a multi-pillar system that includes a mandatory, fully funded pillar*”. A newly introduced or amended existing pension schemes have to fulfil all of the above listed conditions.

After the 2008 pension system reform, a new multi-pillar pension system was established in Romania, comprising:

- i. Pillar I: mandatory PAYG public scheme;
- ii. Pillar II: mandatory private defined contribution scheme;
- iii. Pillar III: voluntary private defined contribution scheme.

Eurostat considers that Pillar II is a mandatory scheme with a broad coverage given that:

- 1) From the year it entered into force, all employees aged under 35 years old started mandatorily contributing indirectly to the second pillar, through transfers from the National House of Public Pensions and dedicated pension houses to the private pension schemes;
- 2) All new employees automatically contribute to the second pillar;
- 3) According to Art. 35 (1) of Law no. 411/2004, “*Following the adhesion or the random distribution, the participants must contribute to a private pension fund and cannot withdraw from the private pension funds system during the entire period that they make payments to the public pension system, until they are eligible for the payment of a private pension*”, i.e. there is no opt-out clause;
- 4) As could be seen by the information provided by the Romanian authorities, the number of participants in Pillar II has been rising since its beginning, covering already 73.3% of the total labour force in 2014.

Moreover, Eurostat considers that Pillar II is a defined contribution scheme given that the transfers from the Romanian state to the private pension funds are made on the basis of a predetermined proportion of the social contributions to the public pension system (Pillar I) and the right acquired depend on the contributions (i.e. the amounts transferred). According to information by the Romanian NIS in its letter from 27 May 2015:

	2008	2009	2010	2011	2012	2013	2014	2015	2016 (onwards)
Rate of social insurance contribution to the public pension system	9.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Of which, to Pillar II	2.0	2.0	2.5	3.0	3.5	4.0	4.5	5.0	6.0

Eurostat does not consider that Art. 134 (2) of the law, stating that the total amount due for private pension cannot be less than the amount of contributions paid (minus the transfer penalties and legal fees), can be seen as a sufficient argument to conclude that Pillar II is a defined benefit scheme.

### *Discussion*

Eurostat recalled its understanding of the pension reform in Romania, as described above, and enquired the statistical authorities on some other specificities, namely whether there are any pension amounts directly or indirectly guaranteed by the State of Romania, as well as others. Firstly, the MoPF confirmed that there is no government guarantees on any amounts regarding these pensions, i.e. there is not a minimum guaranteed amount. Secondly, the MoPF further described the practical adhesion to Pillar II, stating that whereas at inception this Pillar was voluntary for workers aged between 35 and 45 years old, most opted in. All workers below 35 years old, the adhesion is mandatory. Furthermore, according to the MoPF, in 2015, 5.3 million workers were insured by Pillar II, out of which transfers were made regarding 3.8 million workers actually contributing in 2015.

Moreover, Eurostat expressed some doubts on how to correctly interpret the quantitative information provided by the statistical authorities prior to the mission. Such data is extremely relevant in order to calculate government's net costs (an indicator for DGECFIN) as well as, possibly, to determine if the scheme is 'fully funded' in practice. Eurostat wondered whether the transfers to the private pension funds had not been bigger, in the years reported, than they should have been. The MoPF suggested that it may have misinterpreted which data it should exactly have provided, and promised to look deeper into the issue.

### *Main findings and conclusions*

Eurostat considers that, a priori, the Romanian Pension Reform implemented in 2008 can be considered as a systematic Pension Reform, given its mandatory character, the fact that, with time, it will cover the whole working population paying social contributions to the social security funds and the fact that it involves defined contribution funds classified outside the general government. However, Eurostat did not fully understand the amounts reported by the NSI with respect to the transfer to the Pillar II, which was probably important to ascertain to what extent the pension funds in question were 'fully funded' or not.

**Action point 48:** *The statistical authorities will send to Eurostat updated figures on the amounts paid as social contributions to the private pension funds of Pillar II.*

*Deadline: 15 January 2016*

Furthermore, the NSI will discuss with the GFS on the recording in national accounts, and whether the most appropriate way-forward is a gross or net recording of flows.

#### 4.3.5. Transactions with the IMF

##### *Introduction and discussion*

Eurostat recalled the context where one Member State had recently used SDRs to repay its government obligations towards the IMF. This event has inspired a new work stream on the appropriate recording of SDRs in national accounts, an issue that was discussed at the EDPS WG of December 2015 (as well as the GFS TF in November 2015). At core, the issue is to examine who has control on those specific assets: the central bank or the Ministry of Finance (directly, or indirectly through IMF membership)?

Eurostat had observed some movements in SDR positions of Romania over recent years, and enquired with statistical authorities what had been the circumstances for these movements, and in particular who took the initiative, and what was the use of the mobilised funds.

##### *Main findings and conclusions*

**Action point 49:** *The National Bank of Romania will investigate the circumstances surrounding the sudden fall of the SDR positions in 2009/2010. The statistical authorities will clarify whether the SDRs were ever used to reimburse IMF loans addressed specifically to government.*

*Deadline: end-February 2016*

#### 4.3.6. Others

- PPP

##### *Introduction*

The only PPP project in Romania that Eurostat was ever aware of was the road project Comarnic-Brasov. In the context of ex-ante advices (not published in Eurostat's website), two contracts have been sent to Eurostat, in 2013 and 2014, regarding this project. To both, Eurostat had replied that the signing of the contract and execution of the project would imply an on-balance sheet recording. In the meanwhile, Eurostat understood from the media that the Romanian government gave up on the idea of building this road connection through a PPP project.

On 6 November 2015, the NIS sent to Eurostat their analysis on a potential concession contract of public works that concerns financing, design costs, building, operation and maintenance of the southern section of Bucharest External By-pass and financing, design costs, rehabilitation, operation and maintenance of A1 and A2 motorways. It appears that the potential contract is being designed in order not to consider these as government assets.

##### *Discussion*

Given that no contract was still signed, and in fact no contractor or consortium was still chosen, Eurostat could not express its view.

#### *Main findings and conclusions*

**Action point 50:** *The National Institute of Statistics will send the contract regarding the new PPP Bucharest By-pass as soon as it is signed.*

*Deadline: as soon as available*

#### - Concessions contracts and permits

##### *Introduction*

As requested by Eurostat, the Romanian authorities have provided, prior to the mission, a note on the revenues from concession contracts and permits to the Romanian state.

##### *Discussion*

Eurostat enquired on several issues, namely the data on local budget revenues, in 2013 and 2014, on the national accounts treatments (rentals vs. sales), and the exploitation contracts providing for mining and oil royalties.

#### *Main findings and conclusions*

**Action point 51:** *Eurostat will send a request for information regarding Concessions in the context of the information provided for the SDV by the statistical authorities.*

*Deadline: end-January 2016*

#### - Re-arrangement of transactions

##### *Introduction*

Prior to the mission, Eurostat asked for general information on the re-arrangement of transactions and of assets/liabilities through government accounts, providing an annex for filling to the Romanian statistical authorities. Eurostat received, as a reply, that no such transactions are recorded in the accounts.

##### *Discussion*

Eurostat enquired on some possible operations which could in principle be considered as re-arranged transactions, namely in relation to TV, Radio and EXIMBANK operations on behalf of the State of Romania. The NSI explained that, regarding EXIMBANK, as such operations are already included in the working balance, they have not been considered as re-arranged transactions.

#### *Main findings and conclusions*

**Action point 52:** *The statistical authorities are encouraged to reflect and fill in the table on the re-arrangement of transactions, notably in relation to the TV and Radio taxes as well as EXIMBANK operations on behalf of the State of Romania (possibly, as already re-arranged in BGC/source data).*

*Deadline: April 2016 EDP Notification*

## - UMTS licences

### *Introduction*

The issue regarding the recording of the mobile phone proceeds was discussed during October 2015 EDP Notification.

In that request for clarification, Eurostat wondered on the appropriate recording of these revenues, in the light of the revised interpretation of ESA2010, notably paragraphs 15.23-15.28.

### *Discussion*

Eurostat presented its understanding of the issue to the Romanian statistical authorities.

In summary, the ESA2010 admits the possibility of recording the sale of a non-produced asset only when “the owner permits the resource asset to be used to extinction” – but, the radio spectrum is not an extinguishable natural resource. Furthermore, it is stated in ESA2010 that if “*the owner may allow the resource asset to be used for an extended period of time in such a way that in effect the user controls the use of the resource during this time with little, if any intervention from the owner [among others, it can transfer the asset]*”, then the recording of a rent is the appropriate way forward (ESA 15.27 and table 15.3).

It is thus Eurostat understanding that a correct interpretation of this transaction should favour the recording of a rent, hence spreading equally the revenues for years 2012-2021, rather than the on-off recording (in 2012) of the sale of an asset.

The Romanian Statistical authorities have supported not revising this treatment, in the light of the document presented by Eurostat in the FAWG December 2013. Nonetheless, Eurostat noted that the referred document does not prevent the recording that Eurostat is proposing.

To be clear, for the recording of mobile phone proceeds in Romania, national accountants are dealing with three assets: the spectrum (AN.21 type), a prepayment of rent for the proceeds collected (AF8), and a non-produced asset when the permit is transferable (of the AN22 type).

The transaction between government (the owner) and the mobile phone companies (the holder) implies selling a license for the use of the radio spectrum. The radio spectrum (AN.2151) is a non-produced non-financial asset and is a non-extinguishable asset: i.e., after ten years (the length of the contract in question) of use by the holder, the asset still exists, as it also completely maintains all its natural and operative characteristics.

Hence, in accordance with paragraph 15.27 of ESA2010, option c) is not valid and thus a sale of an asset cannot be recorded. This leaves us with options a) and b), both advising the recording of a rent: given that there is a (10 year) limit to the contract and that the permit to use the radio spectrum asset seems to be transferrable to other holders, option b) appears as the straightforward approach in this case.

The payment arrangements, from the holder to the owner, are not important for the issue of deciding whether the transaction shall be recorded either as a rent or as a sale of an asset. As the Romanian government received the full cash payments in 2012 and 2013, this gives rise to a second asset (which is in fact a liability for government, AF.89 payable, capturing government obligation resulting from the prepayment by the holder to ensure availability by the latter for the use of the radio spectrum).

In accordance with paragraph 15.27 of ESA2010, with the Box on the Allocation of mobile phone licences in the MGDD, and with paragraph 13 of the Chapter VI.1 of the MGDD, the fact that the license for the use of radio spectrum is freely transferrable by the holder is enough to say that a new asset (Permits to use natural resources, AN.222) arises, initially for a zero value, and that it shall be as such recognised in the Balance Sheet of the holder. This asset represents the opportunity cost/gain to be realised by the holder, in case the permit was to be sold to another holder. Only in case the permit is in fact sold by the initial holder, a gain or cost in re-selling is recorded in the accounts of the initial holder as NP (acquisitions less disposals of non-produced assets), i.e. the sale of an asset, for the difference between the value of the sale and the existing receivable accrued at that date.

Eurostat also enquired whether there was genuine transferability, and notably whether government held de facto a veto right to the resale to third parties. The statistical authorities expressed that they are not entirely sure whether the UMTS permits recently sold in Romania were genuinely transferable or not.

#### *Main findings and conclusions*

Eurostat invited the statistical office to enquire on whether the mobile phone licence was genuinely transferable, as well as to reflect on the accounting rules embedded in Chapter 15 of ESA 2010.

**Action point 53:** *The statistical authorities will examine and send to Eurostat a copy of the contract concerning recently sold UMTS permits, with a view to assess the transferability of the permit to third parties, with or without interference of the government.*

*Deadline: end-February 2016*

## **ANNEX: LIST OF PARTICIPANTS**

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