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Sebastian Vladescu

Minister of Finance,
Romania



South-East Europe – A Region on the Move

President
Ladies and Gentlemen,

It is a great pleasure for me to have the opportunity to address this highly esteemed audience.

I am honoured to share with you some ideas related to the macroeconomic framework in Romania and to the European Investment Bank (EIB)'s role within the overall context of our country's accession to EU structures.

Romania has already passed through a series of decisive stages in the process of compliance to the European standards, in its efforts to become a full member of the EU family. Romania has succeeded to close all the negotiations chapters and signed the Accession Treaty.

Romania's accession to the EU in January 2007 has been confirmed by the European Commission.

Now, the challenges for us are to ensure a sustainable growth and continue the disinflation process while managing efficiently the pre-accession and post accession funds in order to finance the infrastructure, environment, health and education as well as to improve the business environment.

My country has made already significant progress in ensuring a macroeconomic balance, as an important prerequisite for sustainable and stable economic growth. Romania's economy has grown for the sixth consecutive year and the disinflation process continues. These developments must be strengthened through a better allocation of resources and by adopting a cautious fiscal and wage policy, finalizing the privatization process, restructuring the public services and developing the domestic financial markets.

The previous year we've started a process of reforms in the public finance area and probably the most important step was the introduction of the flat tax. We've achieved our objectives to reduce the taxation level and to change the tax structure in order to stimulate businesses and create jobs. Also, in order to reduce the underground economy and corruption we've simplified the tax system and tax administration procedures.

I would like to give you briefly some figures which show the effects of the measures we implemented:

- Gvt. revenues increased by 17,9% in nominal terms while expenditures decreased by 15,7%, despite the introduction of 16% flat tax on income in 2005;
- the budgetary deficit was 0.8% of GDP in 2005 generating a primary balance of 0,2% of GDP, with a favourable impact on the fiscal sustainability
- increased budget deficit in 2006 to 2,5% of GDP to start with internal resources projects in education, environment and transportation and to continue their financing with structural funds after 2007

I would like to underline some positive results of the tax reforms:

- Improving markets transparency and predictability
- Rendering the public debate more mature by moving the spotlight from cutting the tax rates to reducing administrative burden
- Accelerating gross fixed capital formation (to 13 percent in 2005 compared to an average of 9.13 between 2001 and 2004)
- Increasing employment by 2 percent in 2005 after successive years of negative numbers
- Overall consolidated budget revenues increased from 30,1 percent of GDP in 2004 to 30,4 percent of GDP in 2005
- Good real performance in the first 8 month of 2006: profit tax revenues increased by 8 percent, income tax revenues increased by 30 percent, excises increased 6 percent, health contributions increased 18 percent while pensions were up 7 percent.

Taking into account the new orientation of the monetary and exchange rate policy (implementation of inflation targeting regime and capital account liberalization) the Government is committed to continue the disinflation to avoid the excessive current account deficits and to maintain a robust economic growth (5-6% in the new years).

The expected overall Structural and Cohesion Funds allocation for Romania is EUR 17.0 billion, over the period 2007 – 2013, covering mainly:

- transport infrastructure 4 bln.,
- environment 4 bln,
- regional development 3.3 bln,
- human resources development 3 bln,
- economic competitiveness 2.2 bln,

In order to support the process of real convergence with European Union (EU) Member States, the Government approved a list of national projects for the 2006-2009 in the environment, health, education and transport sectors, with a total value of about EUR 13 billion.

According to the “Doing business” report published recently by the World Bank, Romania is the second reformer, after Georgia, this year in 6 of the 10 areas covered in this study:

- dealing with licenses
- employing workers
- getting credit
- protecting investors
- trading across borders
- closing a business

A new bankruptcy law aiming at:

- a simplified procedure for different categories of debtors
- relieving the syndic judge of non-judicial tasks
- extending the tasks of the judicial administrator/liquidator
- shortening of the procedural deadlines

In October 5th, 2006, Moody’s Investors Service has upgraded the Romanian government’s long-term and short-term foreign and local currency ratings to Baa3/P-3 with a stable outlook.

“Romania’s progress in most relevant areas has reduced credit risk to the point where the country can now be considered an investment-grade credit”

The reforms undertaken and still to come should encourage foreign investors to invest in Romania, which will contribute to growth and job creation and the modernisation of our economy.

In our efforts to keep the economy on a long-term sustainable path, we have to promote the same tight fiscal stance in the following years while ensuring the financing and co-financing for the projects.

Therefore, we expect the EIB to continue to be the same reliable partner for Romania and to remain one of the largest institutional financier.

I would like to stress again on how important it is for us – a country in an advanced transition phase, on the verge of joining the EU - that EIB is firmly continuing to invest in Romania, goes ahead with the policy dialogue and adds its effort to ours in order to end the transition started 16 years ago. I highly appreciate the positive impact made by the activity of the Bank on the development of our economy.

Concluding, I take this opportunity to thank the EIB once more for its significant involvement in supporting the sustainable development of Romania.