International Monetary Fund

Romania and the IMF

Press Release:
IMF Completes Third Review Under Stand-By Arrangement for Romania
December 19, 2011

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Romania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 2, 2011

The following item is a Letter of Intent of the government of Romania, which describes the policies that Romania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Romania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

ROMANIA: LETTER OF INTENT

Bucharest, December 2, 2011

Mme. Christine Lagarde
The Managing Director
International Monetary Fund
Washington, DC, 20431
U.S.A.

Dear Mme. Lagarde:

1. The Romanian authorities reaffirm our commitment to its economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). The track record to date is strong. We have met all quantitative targets for the third program review and continue our efforts on a large structural agenda, though further progress is needed in some areas, as described in the attached Memorandum of Economic and Financial Policies (MEFP). Our achievements in economic stabilization and reforms are beginning to bear fruit, as economic growth has turned positive this year after two years of decline. Continued firm policy implementation and maintaining fiscal, monetary and financial buffers are required to safeguard against risks, as the recovery remains vulnerable to adverse developments in international financial markets and pronounced downside risks to euro area recovery.

2. Our performance on the quantitative targets and the structural reform agenda for the third review has been strong (MEFP Tables 1 and 2).

- *Quantitative performance criteria and indicative targets.* All end-September 2011 quantitative performance criteria and indicative targets were observed. The floor on general government balance was met with a significant margin of 0.7 percent of GDP. Inflation returned to within the inner band of the inflation consultation mechanism.

- *Structural benchmarks*. We have completed the review of the investment portfolio, and expect to complete work on the prioritization of investments by the board meeting. We also will approve corporate governance reform legislation of state-owned enterprises. (SOEs). However, in the remaining areas of SOE reforms and the selection of transaction and legal advisors progress has been inadequate. We aim to fulfill the remaining components of the structural benchmarks by the time of the Board meeting. Finally, we are advancing on the revisions on the clawback tax and intend to fulfil the benchmark before the Board meeting.

3. In the attached MEFP, we set out our plans to further advance towards meeting the objectives laid out in our macroeconomic program. In view of our strong performance under the program supported by the IMF and the EU, the Government of Romania and the National Bank

of Romania (NBR) request completion of the third review. We intend to continue to treat the arrangement as precautionary.

4. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. We propose for a modification of the December 31, 2011 quantitative performance criteria and the establishment of such criteria for March 31, 2012 as set out in the attached MEFP, where an adjustor to performance criterion on Net Foreign Assets is introduced, and changes to the adjustor on general government balance have also been made (and described in the Technical Memorandum of Understanding (TMU)). As detailed in the MEFP, we also propose new structural benchmarks against which to measure progress under the program (MEFP Table 2). The TMU explains how program targets are measured.

5. We believe that the policies set forth in the letters of March 10, 2011, June 9, 2011, September 14, 2011 and in this Letter are adequate to achieve the objectives of our economic program. We stand ready to take additional measures as appropriate to ensure achievement of its objectives. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached Memorandum or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the EC with the necessary information for program monitoring.

6. We authorize the IMF and the EC to publish the Letter of Intent and its attachments, and the related staff reports. This letter is being copied to Mr. Olli Rehn.

Sincerely,

/s/

Gheorghe Ialomiţianu
Minister of Public Finance

/s/

Mugur Isarescu
Governor of the National Bank of Romania

ROMANIA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Economic Developments and Outlook

1. Romania's growth is now resuming, but severe headwinds from the regional economic slowdown and financial turbulence are making the recovery fragile. We continue to forecast growth of around 1½–2 percent in 2011, rising modestly to about 1¾–2¼ percent in 2012. The favorable agricultural harvest will likely boost farm incomes and offset slowing external demand in the short run. This has also reduced significantly the inflationary pressures that were evident earlier in the year due to high global food and energy prices. We now expect inflation to remain within the inflation target range despite some increases in administered prices. Amidst signs of a gradually improving labor market and the anticipated absorption of EU funds, growth is expected to be mainly driven by domestic demand in 2012. The current account deficit is projected to remain below 5 percent of GDP in 2011–12 on the back of improved trade performance. Continued firm policy implementation is required to safeguard against downside risks, as there remain significant vulnerabilities to adverse developments in international financial markets and the euro area recovery.

Fiscal Policy

2. For 2011, we remain committed to the previously agreed cash deficit target of 4.4 percent of GDP or below 5 percent in ESA terms. In the third quarter, revenues were below expectations, but tight control on current spending allowed us to meet the fiscal balance target with a comfortable margin. We have continued to reduce public employment by another 20,000 positions in the third quarter, in line with our commitment to keeping the wage bill below 7.5 percent of GDP in 2011. In August, we eliminated central government heating subsidies and improved the legislation to provide heating allowances for the most vulnerable population. Local governments are also required to fully budget and fund their heating subsidies. To safeguard the deficit target, we will continue our prudent management of expenditures to ensure that there will be room to counteract any continued revenue underperformance. The November budget rectification will allocate the necessary funds to avoid the accumulation of new arrears in the health sector.

3. In order to bring closer the cash and ESA measures of the fiscal balance, we will start monitoring selected state-owned enterprises (SOEs) as defined in the attached TMU on a monthly basis beginning in November; once this system is fully functional, we will request that the performance criterion on the general government cash overall balance be amended to include the operating balance of these entities. This system will—as far as possible—include the SOEs that are to be added to the ESA definition of the general government, and with the technical assistance of Eurostat, enhance our ability to measure the fiscal deficit on an accrual basis.

4. For 2012, we remain committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP. To achieve this with ample margin for unforeseen shocks, we will approve a

budgetary cash deficit of 1.9 percent of GDP, although our deficit target as measured under the IMF program will be 2.1 percent of GDP due to off-budget spending under the National Development and Infrastructure Program (PNDI). Achieving this ambitious fiscal deficit will require sustained expenditure restraint. We will initially freeze wages in the public sector as well as pensions (by postponing this element of the implementation of the pension law until 2013). However, if economic conditions permit we will consider prudent wage and pension increases later in the year. We will make savings in the capital budget by eliminating the non-performing projects identified during the prioritization exercise and by reducing the national co-financing of EU-funded projects. A new EU regulation will allow us to temporarily reduce the co-financing rate by 10 percentage points (as long as Romania is covered by this current IMF/EU program) and a national regulatory framework renders non-recoverable VAT from projects financed by EU structural funds eligible for reimbursement. We will also replace budget subsidies given to the agricultural sector with funds received from the EU. Implementation of health sector reforms and restructuring of public enterprises included in the general government will also be crucial to achieve the 2012 target. Means-testing of social benefits programs is also expected to generate savings.

5. We intend to bring the wage bill below 7.2 percent of GDP in 2012. Public employment reductions will continue with the policy of replacing only 1 out of 7 employees; however, we will implement it with more flexibility, by applying the rule at a sectoral or higher level rather than for each institutional unit. This flexible approach will allow elimination of some bottlenecks in sectors where problems with staff shortages are becoming acute, as identified by the recently conducted functional reviews.

6. In the medium-term, we remain committed to continued responsible fiscal policy, consistent with our fiscal strategy and Fiscal Responsibility Law (FRL). We will continue to support the independent Fiscal Council, by providing it with adequate information and funding. We will ask the Fiscal Council to recommend improvements to the FRL to increase flexibility while strengthen the commitment to transparency and responsible fiscal policy. We will strictly limit further *ad hoc* changes to the tax system to ensure predictability and stability. We will close tax loopholes and improve the efficiency of the tax system, while ensuring its revenue neutrality, taking stock of the recommendations of the technical assistance of the IMF. The government will appoint an interministerial group to implement the functional review action plans. We will begin implementation of the action plans by focusing on "quick-win" measures requiring no additional financing. By mid-January 2012, we will ensure that a central coordinating entity is operational and will submit to the EU, WB, and IMF the first quarterly implementation reports.

7. Arrears and unpaid bills of the general government (excluding SOEs) have been declining since the beginning of the year. Arrears now stand below 0.2 percent of GDP (almost entirely in local governments). In SOEs monitored under the program, arrears have fallen in the third quarter of 2011 by some 0.2 percent of GDP to 3.4 percent of GDP. Overall, central government SOE arrears fell some 0.3 percent of GDP to 3.8 percent of GDP. With the

assistance of Fund and EC staff, we are implementing our action plan to deal with arrears as follows:

- In the ***health sector***, arrears in registered bills have now been completely eliminated and we will pay the unregistered bills revealed during the stocktaking exercise by end-2011. We have registered about two thirds of the RON 500 million unpaid bills uncovered in the stocktaking exercise. We will register the remaining bills by the end of the year, and will specify in the 2012 budget that all new bills must be registered within 60 days of delivery of the relevant good or service. Additional budget allocations to the health sector were made in July and RON 750 million will be included in the November supplementary budget to avoid new arrears, but new allocations will be conditioned on progress on systemic reforms.

- At the ***local government level***, arrears have leveled off since the second quarter. The new amendments to the local government public finance law (LGPFL) are effective in preventing the accumulation of new arrears, but we need to better enforce its provisions and explore possibilities to further reduce the stock of existing arrears. In particular, we will ensure adequate financing, within line ministries' budget ceilings, of local government projects co-financed by the state budget. Medium-term financing of these projects will be guaranteed through multi-year contracts signed between line ministries and local governments, according to the provisions of the LGPFL. These projects shall be included in the capital investment database to ensure that line ministries can prioritize and adequately fund these projects.

- For ***SOEs***, we are making progress in the process of reducing arrears in monitored companies through swap operations, payments, and other financial operations. Together, we anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 5 to 6 billion (1 percent of GDP) by early 2012. As part of this process, any overperformance against the 2011 cash fiscal deficit target (after central government and social security) will be used to help fund arrears clearance in CFR Infrastructure, conditional upon the subsequent viability of the firm and on negotiation of elimination of payment penalties with suppliers.

- The next phase in the integration of the accounting reporting system with the ***Treasury payment system*** is underway, including the commitment control and reporting module for all levels of government. The design of the system has been finalized and the contract with the software provider will be signed by end-March 2012. This system will help control spending commitments to avoid accumulating future arrears.

- Over the next two years the ***period for paying bills submitted*** to the central government and social security system will be gradually reduced. The EU directive 7 in this area will be transposed into Romanian law on a timely basis. Towards this end, we will seek to use revenues from the clawback tax to begin shortening the period for paying bills submitted for pharmaceuticals.

- To prevent possible future arrears due to unfunded contracts, we will ensure that any commitments made at the **central government** level for multiannual capital projects are appropriately reflected in the fiscal accounts and new guarantees issued for bank financing of these projects are transparently recorded within the program guarantee ceiling of RON 14 billion.

8. We have improved our financing strategy and will continue to focus on building the yield curve and consolidating the financial buffers. We launched our euro medium-term notes program with a June issue for €1.5 billion. We will continue regular external bond issuance 1-2 times per year at a range of maturities. We remain committed to consolidating our financial buffer (including WB DPL-DDO financing) to around four months of financing needs to protect government finances against unforeseen external shocks. Less favorable external market conditions have led us to temporarily reconsider further extension of the maturity of our domestic debt issuances, but we will continue to issue a range of maturities at market interest rates. We are conducting a formal review of our debt management strategy with the assistance of IMF, EC, and WB experts by Q1 2012; in August and October 2011, we received training on a debt management system in order to strengthen our capacity to optimize debt portfolios. We will also further improve treasury information technology (IT) systems and increase senior staffing.

9. Improving the absorption of EU funds remains a difficult challenge, and further efforts are needed. We have moved the EU structural funds coordination unit to a newly created Ministry of European Affairs. In order to significantly boost absorption next year, we have undertaken measures for identification of high priority projects, strengthen capacity of management authorities, and reduce procedural bottlenecks. We have approved a list of 100 priority projects and will strictly monitor their implementation. In addition, we will negotiate with the EC a reallocation of EU funding between operational programs and funds in order to finance additional needs that occurred and were not envisaged for financing within the current programming period 2007–13. We have increased accountability of public procurement agencies in the tendering process and have made progress in developing standard bidding documents in four key subsectors and standardized procurement procedures, where possible, which we expect to complete by end-2011. We are also seeking to simplify procedures, increase staffing and technical expertise of managing authorities, and improve transparency regarding project implementation and payment claim status.

10. We are focusing on prioritizing investment to assure sufficient financing for key projects. We have completed a comprehensive review of the existing investment portfolio and have prepared a database of all government projects. This database will be used to prioritize and evaluate projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. In particular, we will strictly prioritize EU funded projects in 2012. The prioritization of investment projects should be based on feasibility studies, and take account of criteria such as cost benefit analysis, estimated share of completion, how well the project implementation has been managed to date by the ministry, their matching to the strategic

priorities of the government, as well as on the analysis produced by the capital monitoring unit of the Ministry of Public Finance (MOPF). The Ministry of Regional Development and Tourism (MRDT) and the Ministry of Environment and Forest (MEF) will ensure that this spending does not exceed RON 1.0 billion in 2012 (RON 820 million for MRDT and RON 180 million for MEF). In addition, the authorities overseeing public private partnerships (PPPs) commit to joint reporting by mid-April 2012 on the functioning of their working arrangements.

11. To address the persistent budgetary shortfalls in the healthcare system and enhance service quality, we are preparing a comprehensive reform of the system. Over the medium-term, given that public healthcare spending in Romania is among the lowest in the EU as a share of GDP, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy while factoring in the challenge of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services, and to raise additional resources. We are preparing a framework law based on these principles, which will be finalized by end-2011 (structural benchmark), and approved by end-March 2012.

12. In 2012, budget allocations to the health sector will be consistent with a realistic spending program, while incorporating savings from reforms already underway, including:

- ***Basic benefits package.*** With the technical assistance of the National Institute for Health and Clinical Excellence under the WB financed project, we are assessing and revising the package of benefits insured by the government to exclude coverage of costly nonessential health services and drugs. A negative list of services and revised list of reimbursed drugs will be prepared by the end of the year.

- ***Pharmaceutical expenditures.*** In September, we included generics in the C2 list, and changed references prices accordingly. In the context of the revision of the basic benefits package, we will also revise settlement prices and the list of compensated and free drugs.

- ***Expenditure controls.*** We will continue to monitor aggregate hospital budgets to ensure that they are consistent with the expenditure programmed in the general government budget, and will take all necessary actions to avoid new arrears, including at the level of hospitals under the responsibility of local governments.

- ***Revenue enhancements.*** The copayment law for medical services has already received a positive recommendation from the expert commission of the Chamber of Deputies and is expected to be implemented during the first half of 2012. The current version of the claw-back tax for pharmaceuticals, introduced in October, presents some shortcomings that we will address by the end of the year. A revised law, agreed with IMF, EU, and WB staff, will be approved by end-2011. Enactment of the copayment and of the revised clawback legislation will be prior actions for conclusion of the third review.

- Progress continues on implementing new ***healthcare IT systems***. The auditing of patient registries is underway and will be completed by end-2011. In 2012, we will begin rolling out new health cards for all participants, which will help control fraud and abuse in the system and better monitor spending commitments. We will also introduce a new electronic prescription module for the National Health Information System in the second half of 2012. We will internalize the National Health Accounts System and will initiate the development of the Health Technology Assessment System by end-2011. These mechanisms will help ensure that future spending remains within allocations.

13. Improving tax administration and fighting tax evasion are crucial elements of our strategy to increase revenue. We are making progress on a comprehensive reform of ANAF. However, sustained improvements in tax collections have not yet been achieved and we hope that our continued efforts will bring such results in the future. Among the key developments are the following:

- We have reconsidered our previous plans to introduce ***simplified taxation for smaller taxpayers.*** We now plan to use administrative means to cancel the registration for VAT purposes of the low contributors, who constitute 60 percent of firms registered but contribute only 1 percent to the fiscal revenues of the budget. In consultation with EU and IMF experts, we will agree on measures to reduce VAT registrants by 20 percent by end-September 2012 (compared to end-September 2011) (modified structural benchmark, end-December 2011). This system will help reduce fraud, and allow us to redirect tax administration resources towards large taxpayer compliance control.
- We have started implementing the ***indirect audit method*** strategy, with a view to starting audits of individuals in 2012. To access third party information, we concluded agreements with most of the institutions providing such data, including the Land Registry.
- We passed the government decision on ***ANAF restructuring*** and have closed 141 regional offices to reduce collection costs. ANAF staff has been reduced by 8 percent since end-2010. We have also initiated a regionalization reform, with long-term benefits for efficient administration, commencing with the large taxpayer directorate.
- We will decrease the number of large taxpayers under the supervision of the ***large taxpayer directorate***, to around 2000 starting with 2012.
- We have adopted a ***compliance risk strategy*** in accordance with best practices in September. As a first step, we have already established a department in charge of risk assessment and work is under way to collect information for risk analysis purposes. A risk analysis procedure has been adopted in September, and selection of individual taxpayers for auditing will be based on this procedure.

- We are planning expansion of ***e-filing*** and further simplification of tax forms and the number of payments required with a view to providing a ***one-stop shop*** for tax declaration and payments. Between January and September 2011, 40 percent of all tax returns filed to ANAF were using e-filing facilities.
- We will also review ***VAT refund processes*** to streamline the timeframe for issuance and address difficulties from the expiration of the temporary reverse VAT scheme. Recently, the large taxpayers directorate abandoned its practice of requesting supplementary documents to examine VAT refund requests.
- To reduce ***tax arrears*****,** which have increased sharply with the economic crisis, a new scheme for agreed installment arrangements was approved in March. In October, we introduced another scheme allowing penalties to be partially or fully cleared for arrears prior to August 2011. We will consider other options if the situation does not improve materially in the next months.

Financial Sector

14. The tensions in euro area sovereign debt markets weighed upon the economic and financial market conditions in Romania during the third quarter. The Romanian banking sector as a whole recorded a loss in the quarter, due to rising provisions. Non-performing loans ratio (loans that are past due over 90 days and/or for which legal proceedings have been initiated) rose to 14.2 percent in September. Lending aggregates are picking up, with an increase in corporate lending more than offsetting a slight decline in household lending, but credit growth remains weak in real terms. The banking system remains well-capitalized, with an average capital adequacy ratio of 13.4 percent and a tier one capital ratio of 12.9 percent at end-September.

15. The final amendments to bank resolution legislation to introduce bridge bank powers are due to be completed by end-November. In light of the adverse developments in the external environment, we will take further steps to buttress the operational preparedness and strengthen the institutional underpinnings of the financial safety net by the end of the year. Specifically: (i) the Deposit Guarantee Fund (DGF) will join the National Committee for Financial Stability as a full member; (ii) the NBR and the DGF will sign a memorandum of understanding, which includes the appropriate procedures to enhance information sharing, warrant the early identification of problematic credit institutions and prepare contingency plans to deal with such institutions; (iii) under the guidance of the supervision department, the NBR will set up a joint working group of the NBR and DGF aiming at, *inter alia*, preparing contingency plans, finalizing intra- and inter-institutional operational procedures and undertaking practice runs and simulations. This working group will be given adequate expertise and resources to meet these objectives on a priority basis. The additional funding needed to fulfill the DGF's obligations (including for bridge banks and purchase and assumption transactions) will be available within five working days from the MOPF on the ("cost recovery") terms and conditions agreed by the MOPF and will no longer be capped by the balance in the privatization account, and legislative amendments will allow for it to be financed via the MOPF's treasury operations.

16. In meeting our commitment to introduce International Financial Reporting Standards (IFRS) for the banking sector at the beginning of 2012, the NBR will ensure that, if prudential provisions exceed IFRS provisions, the calibration of prudential filters for provisions and solvency will substantively preserve the current approach, and not result in a reduction in banks' solvency ratios compared to the present provisioning regime. The NBR will urgently complete consultations with the banking community to reach a common agreement on the calibration issues by end-November 2011. Net amounts arising at the start of 2012 from the release of provisions due to the new accounting treatment and which are treated as retained earnings from specific provisions to support regulatory capital will not be taxed as long as they remain in the corresponding retained earnings account. On an ongoing basis, the authorities will ensure that the IFRS provisions, and any additional prudential filters applied by the NBR, are tax deductible when they are made and taxable when they are released. To maintain its current capacity to effectively supervise the banking sector, the NBR will strengthen its expertise on IFRS, including via consultations with international experts.

17. The NBR will closely monitor the impact of the recent regulations on foreign currency lending to households and recalibrate the limits as necessary going forward to ensure that foreign currency lending to households, including for mortgages, remains prudently priced to reflect the risks to households. As preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability, we will continue to refrain from adopting legislative initiatives (such as the personal insolvency law or proposals on the debt collecting law), which would undermine credit discipline. The NBR will ensure that any future consolidation process in the banking sector would lead to the emergence of well-capitalized credit institutions backed by a strong private shareholder base. We will amend the legislation on the bankruptcy of insurance undertakings, which will be enacted by end-April 2012.

Monetary Policy

18. Headline inflation has dropped more than previously forecasted since July, on the back of food price deflation and the disappearance of the first-round effect of VAT hike. The NBR is now seen to meet its 2011 inflation target, as we now expect inflation to continue declining to around 3.3 percent by the end of the year. Barring significant supply shocks and exchange rate depreciation, 2012 inflation is also likely to be within the central bank's target band. However, risks to inflation remain, particularly from additional needed adjustments in administered prices and a rebound in wage cost dynamics. These pressures, together with the ongoing instability in international financial markets and the attendant risk of exchange rate pressures and volatile capital flows, mean that a continued prudent monetary policy stance is required. We will maintain banks' reserve requirements ratios unchanged in the coming months and will act judiciously on the monetary policy rate.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

19. We remain convinced that comprehensive reforms in the energy and transport sectors are crucial for improving public sector efficiency, enhancing medium-term growth prospects, and increasing the absorption of EU structural funds. In the transport sector, in the coming months we will develop a new general transport strategy and master plan for Romania, balancing the increasing demand, ensuring the complementarities between the different transport modes in an efficient way, and the available fiscal means while defining priorities for medium- and long-term investment. We continue to implement measures to cut expenditures and raise revenues, in line with those specified in our letters of June 9 and September 14, 2011. Renegotiations of existing contracts and applying standard costs will substantially reduce costs in the road, urban transport, and rail industries. We have been able to reduce arrears of the passenger and infrastructure rail companies via specific schemes and are considering additional steps, conditional on the post-reform financial viability of these firms and EU regulations on state aid. In order to bring the rail sector closer to economic viability, we will continue the process of closing 1000 underutilized line kilometers. In addition, we will tender out the remaining 1600 line kilometers agreed and, in case the tendering fails, close them. Finally, we will develop by end-March 2012 ways to improve revenue generation and management of the real estate of the various transport sector SOEs, possibly through the establishment of a special real estate company.

20. For the energy sector we envisage major reforms. We have changed our national energy strategy with a view to attract more private capital and allowing for more transparent, flexible, and competitive energy production and supply. To enhance the pricing and regulatory framework we will undertake the following steps[8]:

- The government will approve and submit legislation to Parliament by mid-December ensuring a complete transposition of the 3rd Energy Package as agreed with the EC, including the functional and financial independence of the energy regulator (ANRE), an appropriate unbundling regime, and the definition of vulnerable consumers.

- We will approve by end-January 2012, a government memorandum (after agreement with the IMF and EC), a roadmap for phasing out regulated prices in gas and electricity specifying the timetable and intermediary steps, as defined in the EU Supplemental Memorandum of Understanding. We will also submit to Parliament the corresponding legislation by the same date. In order to ensure the good functioning of the price deregulation process, we will remove all legal, regulatory and physical barriers to cross-border trade of electricity and gas. We will also ensure that competition on energy markets is maintained, in particular in the gas market.

[8] If EU infringement procedures require faster action, we will comply with their requirements.

- We have already undertaken action to ensure that existing bilateral energy contracts of SOEs are not extended and that their prices are adjusted to prevailing market prices as quickly as legally permissible and that new bilateral contracts are made transparently and non-discriminately through OPCOM (electricity) and other competitive procedures, including the possibility to develop a platform of exchange (gas) and are published.

- To better align the CUG with actual costs, we will issue a decision to increase the CUG for non-households by another 5 percent as of January 1, 2012 (prior action).

State-Owned Enterprises

21. We maintain our ambitions reform agenda for SOEs, though additional action is needed to realize it. Our efforts contributed to achieving the third quarter indicative targets on the operating balance and arrears in key companies. We have also enhanced our monitoring of central government SOEs and made progress with a similar database for local SOEs. Restructuring of central government SOEs is advancing. Restructuring plans of all 154 companies specified in the LOI of June have been finalized. The process of implementing and sharpening these plans has started. For remaining central government SOEs in our database, we will develop plans by end-December 2011 in line with guidance given by staff concerning aim and content of these plans.

22. Our privatization efforts have not progressed as quickly as we had anticipated, but we remain committed to offering minority and majority stakes in a series of companies over the coming months. The structural benchmark on the appointment of privatization advisors was not met, but we intend to rectify this by the time of the IMF Board meeting (prior action). Privatization of these companies will be done in a market-friendly process and we will consult closely with IMF and EC staff. The transaction consultants will have the task of drafting evaluation reports, and recommending and justifying the offer price of the shares in view of a successful closing transaction. Our planned privatization actions are as follows:

- The first group of companies to be offered by end-April 2012 includes: i) Oltchim (sale of remaining public shares to strategic investor), ii) Tarom (IPO of 20 percent), iii) Transelectrica (SPO of a 15 percent stake plus a later capital increase of about 12 percent), iv) Transgaz (SPO of a 15 percent stake); and v) Posta Romana (minority stake). In addition, the copper mining company, Cuprumin, will be privatized by mid-February and the IPO of a 15 percent stake in Romgaz will be undertaken by end-June.

- The second group of companies includes i) Hidroelectrica (IPO of 10 percent to increase capital) and ii) Petrom (SPO of 9.84 percent stake will be re-launched), iii) CFR Marfă (majority privatization, possibly with the support of the EBRD and IFC). Appointment of transaction advisors for this group will be completed by mid-February 2012 (structural benchmark).

- The third group comprises i) Electrica Serv (majority privatization of all regional companies currently under creation); ii) Nuclearelectrica (at least 10 percent via capital increase); iii) S.C. Electrica Furnizare S.A. (including the supply activity transferred from SC Electrica SA, majority privatization); iv) the three remaining Electrica distribution subsidiaries (minority privatization). Appointment of legal advisors for this group will be concluded by mid-February (structural benchmark).

- Appointment of legal advisors will be concluded by end-June for (i) the new energy producer Hunedoara to be created by merging the power plants in Paroşeni and Mintia and purchasing the four viable mines of CNH (majority privatization); and (ii) the new energy producer to be created by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni; and (iii) ElCen Bucuresti (majority privatization).

23. In addition to the privatizations, we continue preparations to resolve the financial situation of Termoelectrica. By end-2011, valuable assets will either be extracted via forced execution by ANAF or be sold. The remaining part of the company will be placed into voluntary liquidation proceeding also by end-2011.

24. A general corporate governance reform has been prepared, which requires regular independent external audits, quarterly publication of financial data, reinforcement of OECD principles on corporate governance and strengthening the rights of minority shareholders. We have approved the legislation in November 2011, somewhat later than originally envisaged in the structural benchmark in order to allow for full public comment. For SOEs, a clearer distinction between the role of line ministries and management is included in this law, along with requirements on the appropriate qualification of management and board members. A government ordinance has been approved to move the financial control of SOEs from line ministries to the MOPF, including enhanced reporting mechanisms. Private management experience will be brought into the largest SOEs that remain under majority government ownership, in line with the criteria described in the letter of intent of September 2011. This management search will begin in November and private management teams will be selected by end-January 2012 to take office as soon as legally possible thereafter. In cases where significant minority stakes are to be sold, this timetable may be adjusted to allow for participation of the new minority shareholders. Based on the experience of this exercise, we are firmly committed to increasing the number of SOEs with private management in the course of 2012.

Other Structural Reforms

25. We are continuing with labor market reforms and the newly implemented legislation has shown positive impact. After the new Labor Code entered into force on April 30, along with economy recovery, more than one million new contracts have been signed, with 33 percent being fixed-term contracts. We will continue to monitor closely implementation of the new Labor Code and its effects on labor market outcomes. The implementation of the Social Dialogue Code stalled due to prolongation of the consultation process with social partners on sector definition in

a collective bargaining. We will facilitate the tripartite consultation to reach an agreement and also ensure the new legislation observes EU directives and core ILO conventions. The Social Assistance Law, which aims to streamline social benefits and improve the efficiency of social protection, was approved by the Parliament. This will be followed by significant changes in secondary legislation. The overall measures on social assistance reforms will result in fiscal savings of around 0.8 percent of GDP in 2010–13.

26. We are committed to improving entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. In this regard we will eliminate by end-January 2012 undue barriers for opening large surface retail stores. We will undertake a Report on Observance of Standards and Codes (ROSC) on corporate insolvency systems and creditor rights in early 2012.

27. Measures to reform the judiciary are underway, with a view to make it more effective, unifying the jurisprudence, and fighting against corruption, which will provide for a transparent business environment and boost the economic performance. One of the top ranking objectives of the Government related to the reform of the judiciary is the successful implementation of the new fundamental legal codes for Romania: the civil code, the criminal code, the civil procedure code and the criminal procedure code. The civil code went into effect on October 1, 2011, and the government put in place measures to support its smooth implementation. In addition, the Ministry of Justice is supporting the transition to the new legal framework. Measures to implement the other three new codes, and any additional measures needed for the new civil code, will be identified by the impact studies currently underway. We will also undertake reforms in the agricultural sector—including by speeding up the surveying and registration of agricultural land—to improve food security and increase export prospects.

Table 1. Romania: Quantitative Program Targets

	2010	2011					2012			
	Dec	March	June	Sept		Dec	March	June	Sept	Dec
	Actual	Actual	Actual	Prog.	Prelim.	Prog.	Prog.	Indicative	Indicative	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	-150	292.8	500	0	250	250	250
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-17,500	-13,685	-23,953	-3,100	-6800	-8500	-12210
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.13	0.11	0.15	0.10	0.10	0.08	0.07	0.06	0.05
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	14.0	5.8	14.0	14.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	…	…	…	6.2	…	5.7	4.1	4.4	5.9	5.2
Inner band (upper limit)	…	…	…	5.2	…	4.7	3.1	3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	*4.2*	3.5	*3.7*	*2.1*	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	…	…	…	3.2	…	2.7	1.1	1.4	2.9	2.2
Outer band (lower limit)	…	…	…	2.2	…	1.7	0.1	0.4	1.9	1.2
IV. Indicative Target										
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei)	131,938	30,670	62,578	96,350	94,133	130,700	31,600	63,400	93,900	128,300
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs. 4/ (as defined in TMU (bn. lei))	-6.8	-0.7	-1.8	-3.6	-2.4	-4.0	-1.5	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei)) 4/	17.9	19.2	19.7	19.2	18.5	15.9	17.0	15.0	10.0	5.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.85	0.82	0.80	0.70	0.60	0.50	0.40
11. Ceiling on the execution of the PNDI program (mln, lei) 5/	…	…	…	…	…	…	200	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to previous year end stock. 2011 September target is adjusted down from 250 million to -150 million due to the delayed disbursement of 400 million from World Bank.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ Adjusted indicative targets for end-September and end-December.
5/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Third Review

Measure	Target Date	Comment
Prior Action		
1. Appoint legal advisor for Hidroelectrica, transaction advisor for Oltchim, Transelectrica, and publish tender for transaction advisor for Romgaz, Tarom and Transgaz.		
2. Enact the copayment law and the revised clawback tax law.		
3. Increase gas price for non-resident consumers, in order to further align with CUG formula, by 5 percent.		
Quantitative performance criteria		
1. Floor on net foreign assets	Sept. 30, 2011	Met
2. Floor on general government overall balance	Sept. 30, 2011	Met
3. Ceiling on central government and social security domestic arrears	Sept. 30, 2011	Met
4. Ceiling on general government guarantees	Sept. 30, 2011	Met
5. Non-accumulation of external debt arrears	Sept. 30, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Sept. 30, 2011	Met
2. Floor on operating balance of key SOEs	Sept. 30, 2011	Met
3. Ceiling on stock of arrears of key SOEs	Sept. 30, 2011	Met
4. Ceiling on stock of local government arrears	Sept. 30, 2011	Met
Inflation consultation band		
Inner band	Sept. 30, 2011	Met
Outer band	Sept. 30, 2011	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Partially met / partially reset as prior action
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Partially Met
3. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions.	Sept. 30, 2011	Met
4. Selection of advisors for SOE reform: (i) select transaction advisors for group 1 and (ii) legal advisors for group 2	Oct. 31, 2011	Partially met/ partially reset as prior action
5. Approve legislation to improve governance of SOEs.	Oct. 31, 2011	Met
6. Impose a revised clawback tax on the pharmaceuticals based on the growth in their costs or above a pre-determined threshold.	Nov. 30, 2011	Reset as prior action
7. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000.	Dec. 31, 2011	Modified
8. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services.	Dec. 31, 2011	
New Structural Benchmarks		
1. Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(compared to end-September 2011).	Dec. 31, 2011	
2. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	

ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 2, 2011

1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, the methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2011 and 2012 are listed in Tables 1 and 2 of the MEFP, respectively.

2. For the purposes of the program, *the exchange rates* of the Romanian Leu (RON) to the euro is set at RON 4.2848 = €1, to the U.S. dollar at RON 3.2045 = $1, to the Japanese yen at RON 3.9400 = ¥100, and to the pound sterling at RON 4.9673 = £1, the rates as shown on the National Bank of Romania's (NBR's) website as of December 31, 2010. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of December 31, 2010.

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the 2011 and 2012 budgets*. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the MEFP (¶3) and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat.

QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, INFLATION CONSULTATION BAND, AND CONTINUOUS PERFORMANCE CRITERIA

A. Floor on the Change in Net Foreign Assets

4. For program purposes, Net Foreign Assets (NFA) are defined as the NFA of the NBR minus Treasury liabilities to the International Monetary Fund.

5. NFA of the NBR are defined as the euro value of gross foreign assets of the NBR (including reserve requirements of the commercial banking system held at the NBR) minus gross foreign liabilities of the NBR; and will be measured on the basis of the NBR's

operational rather than accounting definitions. Non-euro denominated foreign assets and liabilities will be converted into euro at the program exchange rates.

6. Gross foreign assets of the NBR are defined to include the NBR's holdings of SDRs, the country's reserve position at the IMF, holdings of cash, securities and deposits abroad in convertible foreign currencies. Excluded from reserve assets are: (i) gold and other precious metals; (ii) assets in nonconvertible currencies; (iii) illiquid assets; (iv) any assets that are pledged, collateralized, or otherwise encumbered, unless there is also a gross foreign liability associated with it; (v) claims on residents; and (vi) claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

7. Gross foreign liabilities of the NBR are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF, but excluding (i) banks' foreign currency deposits against reserve requirements; and (ii) government foreign currency deposits at the NBR. This definition is meant to bring the concept of foreign liabilities closer to the balance of payment definition, on which the targets are based.

Floor on cumulative change in NFA from the beginning of 2011 and 2012 (in mln. euros)[1]

	2010	2011				2012			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	stock	actual	actual	actual	PC	PC	indicat.	indicat.	indicat.
Cumulative change in NFA	20,026	119[2]	1,896	293	500	0	250	250	250
Memorandum Item: Gross Foreign Assets	32,432	996	2,793	1206	1000	0	250	-350	-1250

[1]PC = performance criterion; data for end-month. Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012). Current year stocks are obtained by adding the flows to the previous end-year stock.
[2] PC met with an adjustment for the WB disbursement of €300 million.

8. The NFA target for December 31, 2011 and March 31, 2012, will be adjusted upward (downward) by the full amount of the surplus (shortfall) relative to the baseline of external bond placement by the Ministry of Public Finance (MOPF). NFA targets will also be adjusted (i) upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection (Program disbursements are defined as external disbursements from official creditors (WB and the EC) that are usable for the financing of the overall central government budget) and (ii) upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December 2010 (€6,797 million), measured at program exchange rates.

External program and MOPF disbursements–Baseline projections (in mln. euros)

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative flows from end of 2010 under external program	1,200	1,650	2,050	2,050	2,050	2,050	2,050	2,050
Flows of external MOPF bond placement				1,000	0	-	-	-

B. Consultation Mechanism on the 12-month Rate of Inflation

9. The quarterly consultation bands for the 12-month rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Romanian Statistical Institute), are specified below. Should the observed year-on-year rate of CPI inflation fall outside the outer bands specified below, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the NBR will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the table below.

Inflation consultation band

	2010	2011				2012			
	Dec. actual	Mar. actual	Jun. Actual	Sep. actual	Dec. target	Mar. target	Jun. indicat.	Sep. indicat.	Dec. indicat.
Outer band (upper limit)					5.7	4.1	4.4	5.9	5.2
Inner band (upper limit)					4.7	3.1	3.4	4.9	4.2
Actual / *Center point*	7.9	8.0	8.0	3.5	*3.7*	*2.1*	*2.4*	*3.9*	*3.2*
Inner band (lower limit)					2.7	1.1	1.4	2.9	2.2
Outer band (lower limit)					1.7	0.1	0.4	1.9	1.2

C. Performance Criterion on General Government Balance

10. The budget deficit will be monitored quarterly through the cash balance of the general government in GFS 1986 classification. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.

Cumulative floor on general government balance[1]

	(In millions of lei)
End-December 2010 (actual)	-33,621
End-March 2011 (actual)	-5,254
End-June 2011 (actual)	-11,260
End-September 2011 (actual)	-13,685
End-December 2011 (performance criterion)	-23,953
End-March 2012 (performance criterion)	-3,100
End-June 2012 (indicative)	-6,800
End-September 2012 (indicative)	-8,500
End-December 2012 (indicative)	-12,210

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

11. Starting from end-March 2012 performance criterion, the budget deficit will be measured from above the line using the budget execution data. Expenditure will include the value of the works executed under the contracts from the National Program for Infrastructure Development (PNDI).

12. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government, which will include the following SOEs: C.N. de Autostrãzi si Drumuri Nationale din România SA, Fondul Proprietatea SA, Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, Termoelectrica, Societatea Nationala "Aeroportul International Mihail Kogalniceanu", SC Electrificarea SA, CN Administratia Canalelor Navigabile Constanţa SA , SC CN Romarm SA Buc Filiala SC Uzina Mecanica Cugir SA, SC Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, Societatea de Transport Maritim si de Coasta CFR Ferryboat SA, SC Avioane Craiova SA, SC Petromin SA, SC Constructii Aeronautice SA, SC Sanevit 2003 SA, SC Uzina AutoMecanica SA Moreni, SC Terom SA, SN Plafar SA, and SC Nicolina SA.

13. The Ministry of Public Finance (MOPF) will also provide monthly data to measure the deficit from below the line. The balance of the general government measured from below the line will include:

+ (i) net external financing, excluding valuation gains and losses;
+ (ii) change in net domestic credit from the financial system, excluding valuation gains and losses from deposits denominated in foreign currency and including adjustments for;
  + (a) received EU funds not yet spent (advance payments);

+ (b) claims of the government on EU funds;
+ (c) property fund obligations not yet paid;
+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing.

14. If the difference between the general government deficit measured from above the line and from below the line is larger than lei 200 million each quarter during 2011 and 2012, the MOPF will consult with IMF staff.

15. The performance criterion for the general government balance for end-March 2012 (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount that capital spending (including spending related to EU funds and arrears reduction plans, but excluding the works executed under the contracts from the PNDI) exceeds lei 6,970 million up to a limit of lei 1,400 million.

D. Performance Criterion Limiting the Issuance of Government Guarantees to the Non-Financial Private Sector and Public Enterprises

16. The issuance of general government guarantees to the non-financial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.

Ceiling on new general government guarantees issued from end-2008 until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (performance criterion)	14.0
End-March 2012 (performance criterion)	14.0
End-June 2012 (indicative)	14.0
End-September 2012 (indicative)	14.0
End-December 2012 (indicative)	14.0

E. Performance Criterion on the Stock of Domestic Arrears by the Central Government and Social Security System

17. The performance criterion established on the stock in domestic payments arrears of the central government and social security sector (as defined in ¶3 above) contemplates their elimination during the program period. The stock will be measured net of intergovernmental

arrears, but both gross and net arrears will be reported by the government. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past due date by 90 days (in line with ESA95 definitions for expenditures).

Stock of central government and social security arrears	(In billions of lei)
End-December 2010 (actual)	0.19
End-March 2011 (actual)	0.15
End-June 2011 (actual)	0.11
End-September 2011 (actual)	0.10
End-December 2011 (performance criterion)	0.10
End-March 2012 (performance criterion)	0.08
End-June 2012 (indicative)	0.07
End-September 2012 (indicative)	0.06
End-December 2012 (indicative)	0.05

F. Continuous Performance Criteria on Non-Accumulation of External Payments Arrears by the General Government

18. The general government will not accumulate external payment arrears during the program period. For the purposes of this performance criterion, an external payment arrear will be defined as a payment by the general government that has not been made within seven days of falling due. The performance criterion will apply on a continuous basis.

G. Indicative Target on General Government Current Primary Spending

19. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables. Actual data (to which the target will be compared) should include payments related to arrears reduction plans.

Cumulative change in general government current primary expenditures[1]	(In millions of lei)
End-December 2010 (actual)	131,938
End-March 2011 (actual)	30,670
End-June 2011 (actual)	62,578
End-September 2011 (actual)	94,133
End-December 2011 (indicative)	130,700
End-March 2012 (indicative)	31,600
End-June 2012 (indicative)	63,400
End-September 2012 (indicative)	93,900
End-December 2012 (indicative)	128,300

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

H. Indicative Target on the Execution of the PNDI Program

20. An indicative target on the ceiling is set for the execution of the PNDI program.

Ceiling for the execution of the PNDI Program	(In million of lei)
End-March 2012 (indicative)	200
End-June 2012 (indicative)	400
End-September 2012 (indicative)	700
End-December 2012 (indicative)	1,000

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

I. Indicative Target on Local Government Arrears

21. The indicative target on the stock of domestic payments arrears of local governments contemplates no accumulation of new arrears and their reduction during the program period. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past the due date by 90 days (in line with ESA95 definitions for expenditures).

Stock in local government arrears	(In billions of lei)
End-December 2010 (actual)	0.91
End-March 2011 (actual)	0.82
End-June 2011 (actual)	0.81
End-September 2011 (actual)	0.82
End-December 2011 (indicative)	0.80
End-March 2012 (indicative)	0.70
End-June 2012 (indicative)	0.60
End-September 2012 (indicative)	0.50
End-December 2012 (indicative)	0.40

J. Monitoring of Public Enterprises

22. Public enterprises are defined as all companies, research institutes and *regii autonome* with a cumulative public capital share of 50 percent or more, held directly or indirectly by local governments and the central government.

23. A quarterly indicative target for 2011 is set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A., C.N. de Autostrãzi si Drumuri Nationale din România S.A., C.N. a Huilei S.A., C.N. Poşta Românã S.A., S.C. Complexul Energetic Turceni S.A., S.C. Filiala de Intretinere si Servicii Energetice “Electrica Serv” -

S.A., S.C. Metrorex S.A., S.N. de Transport Feroviar de Marfã ”CFR Marfã” S.A., S.N. Transport Feroviar de Călători ”CFR Călători” S.A., C.N. Tarom S.A., S.C. Electrocentrale Bucuresti S.A., S.C. Electrica Furnizare Transilvania Nord S.A., S.C. Oltchim S.A., S.C. Termoelectrica S.A., SNa Lignitului Oltenia S.A., S.C. Electrificare CFR S.A., S. C. Interventii Feroviare S.A., S. C. Telecomunicatii C.F.R. S.A. The data shall be reported with operating results by firm. The targets will be as follows:

Floor on cumulative operating balance[1 2]	(In billions of lei)
End-December 2010 (actual)	-6.8
End-March 2011 (actual)	-0.7
End-June 2011 (actual)	-1.8
End-September 2011 (preliminary)	-2.4
End-December 2011 (adjusted, indicative)	-4.0

[1] Cumulative figure during calendar year (e.g., March 2011 figure is cumulative from January 1, 2011).
[2] End September actual data and end-December target exclude operating balance of S.C. Electrica Furnizare Transilvania Nord S.A.

24. A quarterly indicative target for 2012 is set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. de Autostrãzi si Drumuri Nationale din România S.A., S.C. Metrorex S.A., C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), S.C. Electrificare CFR S.A., S. C. Telecomunicatii C.F.R. S.A., S.N. Transport Feroviar de Călători ”CFR Călători” S.A., S.N. de Transport Feroviar de Marfã ”CFR Marfã” S.A.,C.N. Tarom S.A., S.C. Oltchim S.A., C.N. a Huilei S.A., S.C. Termoelectrica S.A., S.C. Electrocentrale Deva S.A., S.C. Electrocentrale Paroseni S.A., S.C. Electrocentrale Galati S.A., S.C. Electrocentrale Bucuresti S.A., SNa Lignitului Oltenia S.A., S.C. Complexul Energetic Craiova S.A., S.C. Complexul Energetic Rovinari S.A., S.C. Complexul Energetic Turceni S.A., S.C. Hidroelectrica, S.C. Electrica S.A., C.N. Poşta Românã S.A. The data shall be reported with operating results by firm. The targets will be as follows:

Floor on cumulative operating balance[1]	(In billions of lei)
End-March 2012 (indicative)	-1.5
End-June 2012 (indicative)	-2.2
End-September 2012 (indicative)	-2.7
End-December 2012 (indicative)	-3.2

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

25. In case one of these firms is liquidated, or its majority share is privatized or merged with a company not listed above, the aggregate target listed above will be adjusted by the

original operating balance target for this firm. If any of the companies listed above is split into a new company, both companies will remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

26. A quarterly indicative target for 2011 is set on the stock of arrears of the public enterprises listed in ¶23. The data shall be reported at the firm level. The targets will be as follows:

Ceiling on stock of arrears [1]	(In billions of lei)
End-December 2010 (actual)	17.9
End-March 2011 (actual)	19.2
End-June 2011 (actual)	19.7
End-September 2011 (adjusted, preliminary)	18.5
End-December 2011 (adjusted, indicative)	15.9

[1] End September actual data and end-December target exclude arrears of S.C. Electrica Furnizare Transilvania Nord S.A.

27. A quarterly indicative target for 2012 is set on the stock of arrears of the public enterprises listed in ¶24. The data shall be reported at the firm level. The targets will be as follows:

Ceiling on stock of arrears	(In billions of lei)
End-March 2012 (indicative)	17.0
End-June 2012 (indicative)	15.0
End-September 2012 (indicative)	10.0
End-December 2012 (indicative)	5.0

In case one of these firms is liquidated, its majority share is privatized or is merged with a company not listed above, the aggregate target listed above will be adjusted by the original arrears target for this firm. If any of the companies listed above is split into a new company, both companies will remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

K. Private Management for Key SOEs

28. Private management will be selected, in line with MEFP ¶24, at least for the following state-owned enterprises: i) C.N. Poşta Românã S.A., ii) C.N. Tarom S.A., iii) S.C. Electrificare CFR S.A., iv) SNa Lignitului Oltenia S.A., v) S.C. Electrica Furnizare S.A., vi) S.C. Hidroelectrica, vii) C.N. Romarm aparat central, and viii) S.C. Oltchim S.A..

29. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) C.N. Căi Ferate CFR S.A., ii) S.N. Transport Feroviar de Călători

"CFR Călători" S.A., iii) SN Nuclearelectrica, iv) S.N. Transgaz, v) CN Transelectrica, vi) S.N. Romgaz and vi) C.N. Adm. Port. Maritim Constanta S.A.

L. Reporting Requirements

30. Performance under the program will be monitored from data supplied to the IMF and EC by the NBR and the MOPF as outlined in the table below. The authorities will transmit promptly to IMF and EC staff any data revisions as well as other information necessary to monitor the arrangement with the IMF and EC.

Romania: Data Provision to the IMF and EC

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95	Monthly, on the 25th day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25th day past the test date
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th day past test date
The budget deficit of the general government using ESA95 definition	Quarterly, with a lag of three months
Preliminary data on below-the-line financing for the general government	Monthly, with a lag of no more than 35 days past the test date
Final quarterly data on below-the-line financing for the general government	Quarterly, no later than 45 days past the test date
Total accounts payable and arrears of the general government, including local governments	Preliminary monthly, within the next month. Quarterly, within 55 days
Stock of the central government external arrears	Daily, with a lag of not more than seven days
Public debt and new guarantees issued by the general government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Preliminary monthly data within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date

Preliminary data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, within 30 days
Final data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, end May for the previous year and end-August for first half of the current year
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
The balance of the TSA in RON	Monthly, within two weeks of the end of each month
The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period)	Monthly, within two weeks of the end of each month
The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows.	Monthly, within two weeks of the end of each month
Reporting of progress in the implementation of the Romanian public administration's functional review	Quarterly, to be sent two weeks before each mission for each of the 12 ministries
To be provided by the National Bank of Romania	
NFA data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data
Monetary survey data in the format agreed with IMF and EC staff	Monthly, within 30 days of the end of the month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporate	Monthly, 45 days after the end of each month

Balance of payments in the IMF format currently used to report	Monthly, 45 days after the end of each month
Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency).	Monthly, 20 days after the end of each month
Financial soundness indicators[1]	Monthly, 15 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly
The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence

[1] Data on solvency should be provided on quarterly basis.

ANNEX
Measures to Improve Performance of SOEs under Monitoring

C.N. de Autostrãzi si Drumuri Nationale din România S.A.

- Ensure sufficient public support (via EU structural funds and national budget) for investments in road infrastructure needed in budget for 2012, by end-2011.
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points will be signed by end-2011.
- Finalize customization of internal management control standards by end-March 2012.
- Reduce costs by applying standard costs both for existing contracts, through a renegotiation process, and for new contracts.

S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A.

- Amend the company's budget by end-November 2011, as the originally included capital increase is not included in the government's budget revision.
- Negotiate with the Ministry of Public Finance, Ministry of Internal Affairs and Ministry of Economy possibilities of arrears cancellation schemes by end-2011.
- Appoint the investment bank / SSIF (Financial Investments Services Company) which will also provide the legal advice for privatization for majority privatization to strategic investor by end-January 2012.
- Merger of the maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea comerciala de reparaţii locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by end-June 2012.
- Publish prospectus by mid-June 2012.
- Conclude privatization by end-October 2012.
- Continuous reinforcement of efforts to collect outstanding invoices, including by giving notice on contracts and taking legal measures against companies with substantial arrears.
- Reduce costs by applying standard costs both for existing contracts, through a renegotiation process, and for new contracts.

S.N. Transport Feroviar de Călători "CFR Călători" S.A.

- Approve remaining standard costs for maintaining rolling stock by end-November 2011, to be required on all new contracts.
- Allocate in investment budget for 2012 amount needed to start replacing the old rolling stock with diesel railcars and electric multiple units, by end-2011.
- Develop assessment of viability of lines and develop plan for suspension of services by end-January 2012.
- Scrap 240 depreciated cars by end-June 2012.
- Merger of the maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea

comerciala de reparaţii locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by end-June 2012.

- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive.

C.N. Căi Ferate CFR S.A.

- Sign consultancy contract by end-November 2011 for analysis of rail system and develop strategy for sustainability by end-January 2012.
- Revise PSO contract in February 2012 in line with findings of study, aiming at a substantial reduction of lines under management of CFR towards 10,000 over the coming years, while preserving and enhancing the actual and future TEN-T network, and including a corresponding personnel reduction while preserving the necessary personnel in charge with the implementation of structural funds.
- Assuming a corresponding agreement concerning the payment of electricity related receivables from CFR Infrastructure, issue a corresponding legal act to wave penalties for receivables of S.C. Electrica S.A. by end-2011.
- Ensure sufficient public support (via EU structural funds and national budget) for investments in rail infrastructure needed in budget for 2012, by end-2011.
- Develop plan how to increase revenues from renting out and better administrating commercial space, including potential public-public partnerships, by mid-January 2012.
- Use expected government capital increase to repay arrears to the central budget and social security contributions, including those to be taken over from CFR Electrificare, by end-2011.
- Use excess budgetary means in 2011 and / or a credit guaranteed by the state to reduce arrears to electricity suppliers by end-March 2012, strictly conditioned on reform measures.
- Develop by end-March 2012 ways to improve management of the real estate of the various transport sector SOEs, possibly through the establishment of a special real estate company.
- Continue tendering process for public service obligations and infrastructure maintenance for 1600 line kilometers of extended railway, bringing the total number of line kilometers under private management to 4000 kilometers. Close all lines for which tenders failed by end-April 2012, bringing network under management of CFR down to 15.500 line kilometers.
- In light of the reduction of lines to be maintained and technology modernization, reduce personnel by 2000 (compared with end-September 2011) while not reducing personnel managing structural funds, by end-April 2012.
- Continue insolvency procedure for the Tipografia subsidiary; if liquidation can be avoided, the process to full privatization of the company will be started immediately.
- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive.

- Present a short report on which measures have been implemented during last month, key findings of the various studies and which new measures are envisaged, during first week of every month.

S.C. Interventii Feroviare S.A.

- Complete integration into mother company by end-2011.
- Reduce personnel by 28 positions until end-2011.
- Enforce 4 days leave without pay for remaining personnel by end-2012.

S.C. Electrificare CFR S.A.

- Arrears to the state budget will be taken over by the mother company C.N. Căi Ferate CFR S.A. together with ANAF by end-2011.
- Appoint private management and board members by early-2012.
- Continue the restructuring and modernization program, including a further reduction of 85 positions by end-2012 (compared with September 1, 2011).
- Ensure the acquisition of electricity via OPCOM when taking over supply and distribution activity for traction energy for the whole railway system.

S.C. Telecomunicatii C.F.R. S.A.

- Complete administrative formalities for subordinating SC Telecomunicatii S.A. under the authority of the Ministry of Transports and Infrastructure.
- Continue to elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system.

S.C. Metrorex S.A.

- Develop plan how to increase revenues from commercial activities like renting advertising and commercial spaces by mid-January 2012.
- Increase revenues by introducing 16 new metro trains into circulation in 2012.
- Include S.C. Metrorex S.A. in the list of potential beneficiaries of SOP – Transport 2014 – 2020 in order to use European Structural Funds.

C.N. Tarom S.A.

- Publish tender for investment bank / SSIF (Financial Investments Services Company) which will also provide the legal advice for privatization of at least a 20 percent stake via IPO, prior action.
- Elaborate the TAROM 2012-16 Development Plan, signing the consulting services contract until end-November 2011.
- Publish prospectus by end-January 2012.
- Conclude privatization offer by end-April 2012.
- Appoint private management and board members shortly after conclusion of privatization.

- Reduce costs (e.g. by renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, by renegotiation of lease-in contract for flying staff, extending the saving oil consumption program).
- Increase revenues (e.g. by alternative sales strategies and optimizing pricing policies, developing strategy for additional lines to Eastern Europe in cooperation with Skyteam partners, resuming on-board sales and sale of TAROM branded products).

C.N. Poşta Românã S.A.

- Reduce postal subunits from 7100 at end-2010 to around 5800 by end-December 2011.
- Ensure respecting 2011 budget allocation for wage bill by end-2011.
- Repayment of all arrears (depending on court decision, where applicable) by end-2011.
- Hire legal and transaction advisor for capital increase by at least 20 percent by end-January 2012.
- Start process of collective layoffs in line with restructuring plan by end-2011.
- Publish prospectus for capital increase of strategic investor by end-February 2012.
- Finalize capital increase by end-April 2012.
- Appoint private management and board members shortly after capital increase has been implemented in close cooperation with new shareholder.

S.C. Oltchim S.A.

- Appoint investment bank for full privatization (prior action), publish prospectus for SPO by mid-February 2012, conclude privatization offer by end-April 2012.
- Appoint team of private management and board members to prepare the company for privatization by end-December 2011.
- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

S.C. Termoelectrica S.A., including subsidiaries S.C. Electrocentrale Paroseni S.A. and S.C. Electrocentrale Deva S.A.

- Dismantle production capacity in groups 1, 2 and 3 of Electrocentrale Paroseni of at least 150 MW (compared with end-2010) by end-December 2011.
- Put group 1 of Electrocentrale Deva of 210 MW into conservation by end-April 2012.
- Use forced execution by ANAF for the subsidiaries Paroseni and Deva by end-December and start forming the new energy company Hunedoara by merging these two companies.
- Use forced execution by ANAF for Electrocentrale Bucuresti by end-December 2011 and put it under direct ownership of the Ministry of Economy.
- Approve voluntary liquidation of Termoelectrica and appoint special single administrator by end-2011 in order to appoint liquidator by end-February 2012.

- Appoint legal advisor for majority privatization of new energy company Hunedoara by end-June 2012.
- Appoint transaction advisor for majority privatization of new energy company Hunedoara by end-August 2012.
- Complete majority privatization offer of new energy company Hunedoara by end-2012.

S.C. Electrocentrale Bucuresti S.A.

- Accelerate discussions between ElCen Bucuresti, Radet Bucuresti, and Radet Constanta, the Ministry of Economy, and the municipality of Bucharest to find a solution for outstanding payments.
- Use payments from government under district heating related arrears reduction schemes (about 0.1 bn. lei) for arrears reduction by end-November 2011.
- Elimination of all arrears to Romgaz by end-December 2011.
- Use forced execution by ANAF against Termoelectrica by end-December 2011 and put it under direct ownership of the Ministry of Economy.
- Appoint legal advisor for the majority privatization by end-June 2012.
- Appoint transaction advisor by end-August 2012.
- Publish prospectus by end-October 2012.
- Finalize privatization offer by end-2012.
- Continue process of creating joint ventures with strategic investors to built new power units in Bucharest, Constanta and Fantanele with private majority share.

S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" S.A.

- Appoint legal advisor for majority privatization of regional companies via IPO or to strategic investor by mid-February.
- Appoint transaction advisor for privatization by end-March 2012.
- Conclude privatization for the new company active in the area of Transilvania Sud, Transilvania Nord and Muntenia Nord by end-June 2012, finalize the process for the other 5 companies by autumn 2012 and file for liquidation for all subsidiaries for which privatization failed immediately thereafter.

S.C. Complexul Energetic Turceni S.A., including energy complexes in S.C. Complexul Energetic Craiova S.A. and S.C. Complexul Energetic Rovinari S.A.

- Turceni: Reduce personnel by 200 (compared with end-2010) by end-December 2011.
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni by end-March 2012.
- Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by end-June 2012.
- Appoint transaction advisor by end-August 2012.
- Publish prospectus for privatizations by end-October 2012.

- Conclude privatization offer by end-2012.

C.N. a Huilei S.A

- Start forced execution by ANAF to take over non-viable parts of CNH for tax liabilities as soon as legal acts have been approved. Thereafter, create by end-2011 separate, independent company for non-viable mines for closing them down in line with EU regulations.
- Sell viable mines in open and transparent tendering process in spring 2012.
- Start liquidation process thereafter.

SNa Lignitului Oltenia S.A.

- Use government payments under district heating and heavy water related arrears reduction schemes (about 0.3 bn. lei) for arrears reduction by end-November 2011.
- Decrease personnel by 200 compared with end-September 2011 by end Mach 2012.
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni by end-March 2012 (see above under S.C. Complexul Energetic Turceni S.A.).
- Appoint private management and board members as from the formation of the new Complexul Energetic Oltenia.
- Continuous reduction of underground operation with aim to terminate it by end-March 2013.

S.C. Hidroelectrica S.A.

- Appoint legal advisor for 10% capital increase via IPO, prior action.
- Giving cancellation notice to all bilateral contracts not having been traded on Opcom by end-December 2011.
- Appoint private management and board members by end-December 2011.
- Appoint investment bank by mid-February 2012.
- Publish prospectus by end-July 2012.
- Conclude IPO by end-October 2012.

S.C. Electrica S.A. and S.C. Electrica Furnizare SA

- Keep remaining 3 distribution subsidiaries in separate companies as merging them could lead to competition restrictions.
- Assuming a corresponding agreement concerning the payment of electricity related receivables from CFR Infrastructure, issue a corresponding legal act to wave penalties for receivables of S.C. Electrica S.A. by end-2011.
- Transfer the own supply activity of SC Electrica SA to SC Electrica Furnizare SA by the end January 2012.
- Appoint legal advisor for majority privatization of Electrica Furnizare SA, including the own supply activity of SC Electrica SA, and minority privatization of all 3 distribution subsidiaries by mid-February 2012.

- Appoint investment bank for privatizations by mid-June 2012.
- Publish prospectus for privatizations by mid-August 2012.
- Conclude privatization offering by end-October 2012.
- Reduce personnel in parallel to privatization of subsidiaries and own supply activity.