

International Monetary Fund

[Romania](#) and the IMF

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

Press Release:

IMF Completes Sixth

Review Under the

Stand-By

Arrangement for

Romania

September 28, 2012

September 12, 2012

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.

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Romania: Letter of Intent

Bucharest, September 12, 2012

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

Dear Mme. Lagarde:

1. The Romanian authorities reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). Implementation of the program was good in most areas, but the broader structural reform agenda continues to progress slowly. We met all but one performance criteria for the sixth program review. We are committed to the additional actions described in the attached Memorandum of Economic and Financial Policies (MEFP), including the acceleration of structural reforms. We expect growth to remain subdued this year, after the economy contracted in the last quarter of 2011 and the first quarter of 2012. The recovery remains vulnerable to difficulties in international financial markets, which require continued firm policy implementation and maintenance of fiscal, monetary, and financial sector buffers to safeguard against risks.

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

Quantitative performance criteria and indicative targets. All but one end-June 2012 quantitative performance criteria were observed. The performance criterion (PC) on central government arrears was missed by a small margin. All indicative targets, except the ceiling on the stock of local government arrears, were met. Corrective actions are being taken to reduce arrears as described in the attached MEFP (¶5). Inflation remained within the inner band of the inflation consultation mechanism.

Structural benchmarks. We met all the structural benchmarks for June 30, 2012. We increased electricity prices by five percent, launched a tender for providing software to integrate the accounting reporting system with the Treasury payment system, and prepared comprehensive amendments to the health care legislation. We continue to improve the health care amendments as part of the consultation process with the IMF, the EU, and the WB.

3. In the attached MEFP, we set out our plans to further advance towards meeting the objectives of our macroeconomic program. In view of our performance under the program supported by the IMF, the EU, and the World Bank and proposed remedial measures, the Government of Romania and the National Bank of Romania (NBR) request a waiver on the missed performance criterion and completion of the sixth 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, as well as structural benchmarks. We propose a modification of the September 30, 2012 quantitative performance criteria and the establishment of such criteria for December 31, 2012, as set out in the attached MEFP. The modification consists of a downward revision to the performance criterion on Net Foreign Assets (as described in the Technical Memorandum of Understanding, TMU) due to lower net capital inflows. As detailed in the MEFP, we propose four new structural benchmarks and four prior actions against which to measure progress under the program (MEFP, Table 2). We also request that the structural benchmark on holding of IPOs of government shares in Romgaz and Hidroelectrica to be reset from October 15, 2012, to March 15, 2013. 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, December 2, 2011, February 28, 2012, June 8, 2012, 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 these objectives. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached MEFP 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/
Florin Georgescu
Deputy Prime Minister
and Minister of Public Finance

/s/
Mugur Isarescu
Governor of the National Bank of Romania

Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Two consecutive quarterly declines in economic activity (q/q) point to a stronger growth slowdown than previously expected. Real GDP grew by 2½ percent in 2011 on the back of a very good harvest, a modest recovery in private demand supported by export growth. However, real GDP declined by 0.2 percent in the fourth quarter of 2011 (q/q) and by 0.1 percent in the first quarter of 2012 (q/q) as economic activity slowed and adverse weather conditions dampened domestic demand. Preliminary data indicate that second quarter growth will be positive on account of strong retail sales and construction activity. Headline inflation fell to 2 percent in June on account of food price declines from the high levels of a year ago and phasing out of base effects related to earlier VAT rate increases. Annual inflation jumped to 3 percent in July, reflecting the anticipated reversal of base effects and pass through of the exchange rate depreciation. Core inflation in July remained close to 2 percent reflecting the sizeable output gap and the prudent monetary policy stance.

2. We expect growth for the year as a whole to be subdued at around 1 percent. Growth is likely to slow more than previously anticipated as weak external demand and the impact of the recent drought weigh on economic activity. Moreover, the absorption of EU funds is likely to be lower than expected earlier in the year. Inflation should stay within the central bank's target band, although it will temporarily increase towards the upper end of the band in the third quarter due to rising food prices and reversal of base effects. The current account deficit is expected not to exceed 4 percent of GDP for 2012, reflecting a faster slowdown in import growth compared to exports. Risks to economic activity continue to be tilted to the downside, particularly from developments in international financial markets, lower-than-expected EU funds absorption, the impact of the drought, and increased political uncertainty. Firm policy implementation will thus be crucial in building confidence and securing policy buffers.

Fiscal Policy

3. In the second quarter of 2012, we met our fiscal deficit target. Tax revenues over-performed slightly, reflecting a gradual recovery in wages and enhanced tax collection efforts, while nontax revenues recovered due to dividends from state-owned enterprises (SOEs). Overall spending was below projections as we maintained strict control over current spending, with a continued decline in public employment. Some resources were reallocated to higher capital spending and co-financing for EU-funded projects, while the execution of National Development and Infrastructure Program (PNDI) projects was contained. However, the arrears targets for the general government were missed. Arrears of the local governments continued to increase, while arrears of the central government were unchanged.

4. For 2012, we remain fully committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP, in compliance with our commitment under the EU Excessive Deficit Procedure. For 2013, we will reduce the structural deficit by at least 0.5 percent of GDP. To ensure meeting our goal for 2012, we will limit the cash deficit target to 2.2 percent of GDP, which entails a consolidation of some 2 percent of GDP in structural terms. Achieving this target will require continued expenditure restraint and strengthened tax collection efforts. We have already taken measures to protect against possible adverse developments by freezing 10 percent of state budget allocations. The public sector wage bill will remain at 6.7 percent of GDP, as in 2011. In light of the interruption of EU fund reimbursements for a number of programs, capital outlays, including for co-financing of EU-funded projects, will need to slow down to remain within the budgetary envelope. Co-financing of EU-funded projects from the privatization fund will not be undertaken and any unspent funds from the PNDI will be saved. Pressures to relax fiscal discipline ahead of parliamentary elections in the fall will be firmly resisted. We will undertake measures to ensure strict discipline of local government finances and a reduction of arrears.

5. After a year of declining arrears and unpaid bills in the general government (excluding SOEs), arrears have increased again since early 2012, causing program targets to be missed for both the central and local governments. Government arrears increased by RON 205 million since March 2012 and now stand at around 0.2 percent of GDP (concentrated mostly in local governments). In SOEs monitored under the program, arrears in the second quarter of 2012 stood at 3.3 percent of GDP, below the indicative program ceiling.

- We are making progress in the integration of the accounting reporting system with the Treasury payment system, including the commitment control and reporting module for all levels of government. We launched a tender for the software provider for the system. We will select the consultant by mid-October 2012 and finalize a detailed definition of the structure architecture of the system by end- December 2012 (structural benchmark). This system will help control spending commitments to avoid future arrears.
- Rising arrears at the local government level are a key challenge. These arrears reflect late payments for current spending such as on utilities, especially among smaller local government administration units with limited own revenues. The increase in arrears also reflects unfunded commitments made during the pre-election period, which shows serious shortcomings in the monitoring and enforcement of the Local Government Public Finance Law (LGPFL). To strengthen enforcement, we have conducted a thorough audit of the use made of the allocated additional transfers from the central government for arrears reduction and will undertake a comprehensive analysis of local government arrears to determine their causes and the entities to which the arrears are owed. We will approve a government ordinance to: (i) ensure that tax-sharing resources available to local governments, currently limited to co-financing investment can be used for paying arrears; and (ii) allow the central

government to directly pay off arrears of local government from shared taxes (prior action). Accordingly, the central government will begin to pay off local government arrears from September and will jointly with the Court of Accounts strictly enforce sanctions on local governments that breach the LGPFL. We will also seek technical assistance to improve insolvency procedures for local governments. We will submit by September 15 a report on the distribution of local government arrears across local authorities, its sources, the progress made in clearing these arrears, and the status of enforcement activities undertaken.

- In the health sector, arrears in registered bills have now been eliminated. The clawback tax has yielded RON 716 million in the first half of 2012, which will be fully used to pay down outstanding bills. We have updated the formula of the clawback tax with the pharmaceutical industry. All revenues from the clawback tax will be used to reduce payment periods and ensure non-accumulation of arrears in the pharmaceutical sector. In preparation of the implementation of the EU Late Payments Directive, which will become effective as of March 2013, we will identify measures to cover the fiscal needs arising from the timely payment of unpaid bills.
- For SOEs, we are making progress in reducing arrears in monitored companies through swap operations, payments, and other financial operations. We anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 4 to 5 billion (three-quarters of a percent of GDP) in the second half of 2012.

6. To address health sector financial imbalances in 2012-13, we are committed to implementing the following key measures:

- We adopted the revised co-payment formula on July 18, 2012. The new formula is based on a modest fixed amount depending on services provided but independent of income, and copayments will be implemented as of January 1, 2013. Emergency services are excluded from the co-payment law.
- To control expenditures and ensure efficiency gains in the short term, we will continue to revise and implement the negative list of health services and drugs, and have agreed with health service providers to reduce hospitalization periods. The national hospital bed plan, which established the number of hospital beds that can be contracted in 2012 with health insurance houses in every county, is being implemented through Ministry of Health Order No 1577/2011. We will not introduce any new drugs or indications in the list of compensated drugs without an interim health technology assessment (HTA). To this end, we will elaborate an interim HTA based on objective and quantifiable criteria by end-October 2012. We will continue to encourage generics where possible in the list of compensated and free drugs and pharmacies will be required to better inform their clients of available products. In addition, we will improve the procurement system for hospitals, in particular by

centralizing tenders.

- We will continue to monitor public hospital budgets to ensure that they are consistent with the expenditure programmed in the general government budget. We will publish up-to-date financial statements of all public hospitals on a web page of the Ministry of Health by end-October 2012 (structural benchmark). Moreover, we will establish mandatory financial audits of all public hospitals (under national or local governments) and financial audits of the use of public funds, and introduce sanctions for hospital managers overspending their available budgets.
- We will continue implementation of a new healthcare IT system. We have initiated the auditing of patient registries, which will be completed by end-2012. The contract for the production of patient cards and for the IT system was signed and we began distributing electronic health cards in August. This will help control fraud and abuse in the system while enabling better monitoring of spending commitments. A new electronic prescription module for the National Health Information System became operational in June 2012. Efforts are ongoing under an EU-funded project to build a central data base with electronic health records, which is expected to be in place by mid-2013.

7. We continue our efforts to prepare and implement a comprehensive reform of the healthcare system. We published a revised draft of a new framework law in June (structural benchmark), with public debate between July and October before submitting the law to Parliament by the end-2012. We will publish impact assessments of the reform options before parliamentary discussion and also provide a timetable for the implementation of subsequent legislation. The reform will aim to raise the efficiency of healthcare spending in Romania, enhance service quality, and address the persistent budgetary shortfalls. Over the medium and longer term, given that public healthcare spending is among the lowest in the EU, we will ensure adequate financing of the system, while factoring in the costs of population ageing into future spending needs. To contain the growth of public spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. On the revenue side we will explore options to broaden the contribution base to the social health insurance scheme and, if necessary, to raise contribution rates.

8. In July 2012, we enacted measures to streamline the tax system, building on recommendations of IMF technical assistance. These measures aim to: (i) simplify the declaration and payment of taxes on capital gains by changing to a system based on withholding of advance payments made by intermediaries (brokers) and a single statement filed by the taxpayer at the end of the year; and (ii) provide a neutral tax treatment for the sale of bank receivables to Romanian companies. In addition, we will introduce from January 2013 further measures aimed at: (i) simplifying the depreciation schedules for fixed assets; (ii) revising the base for property taxes, which will vary depending on use of the

property and not the legal status of the property owner, and options for property tax collection; and (iii) moving VAT collection onto a cash accounting basis for companies with annual turnover below EUR 500,000. From September 1, we will increase tax deductibility for research and development expenditures from 20 percent to 50 percent. We also intend to enlarge the tax base in agriculture and for the self-employed, and to assess the effects on employment and the public finances of tax policy options aimed at reducing the number of long-term unemployed. We are implementing measures to increase excise tax collections, particularly by reducing evasion of excise duties on alcoholic beverages, and will ensure that excise rates are better correlated with the alcohol content and the production process. We will consult with IMF/EC staff before undertaking any further changes of the tax system.

9. We are making progress on a comprehensive reform of the tax administration (ANAF):

- We are applying the deregistering criteria for small VAT payers and maintain the commitment to reduce the total number of small taxpayers registered for VAT purposes by 20 percent between December 2011 and December 2012. To further streamline the tax rolls, the government will introduce a mandatory simplified tax regime for small taxpayers. With technical assistance from the IMF and EC, we will prepare draft legislation in this area by end-October 2012, with the goal of implementing it as of January 1, 2013.
- We have identified 300 High Net-Wealth Individual (HNWI) taxpayers for the dedicated compliance program. A notification campaign to encourage voluntary declaration of incomes from abroad was undertaken in May. In order to strengthen capacity, we will undertake training programs with the assistance of partner-country tax administration specialists. We are currently seeking financing for an IT tool for risk analysis.
- As part of ANAF restructuring and modernization, we aim to consolidate the current 221 tax offices to eight regional directorates (by mid 2013) and 47 local tax offices (by 2015). We will approve by end-2012 a multiannual project with the World Bank to support this process.
- We are strengthening tax enforcement efforts by increasing our capacity for risk analysis and audit, and by improving the inter-operability with the Customs Authority and the Financial Guard. In July, we set up a central unit for fighting intra-community VAT fraud, with a focus on high-risk areas. We will improve the procedure for transmitting referrals for tax crimes and enhance the cooperation between ANAF, police and the Prosecutor's Office.
- We will strengthen monitoring and control of the production, procurement, and import of energy products and alcoholic beverages. Controls at the EU's external

border will be strengthened to combat illicit traffic of cigarettes and other processed tobacco products.

- We continue to expand e-filing and improve the one-stop shop for tax declarations. We will also improve procedures for legal interpretations of the tax code by introducing a single channel for communication with taxpayers.
- ANAF took over the collection of health contributions by self-employed individuals as scheduled in July. By December 2012, we will adopt the necessary regulations to complete the integration of social contributions within the tax collection processes of ANAF and to allow individual taxpayers to submit a single declaration for income tax and social contributions as of January 2013. We will study the feasibility for ANAF to collect property taxes on behalf of the local authorities.

10. We continue to make progress in the implementation of the action plans based on the recommendations of the functional reviews of government ministries and agencies conducted last year. A new monitoring procedure was put in place, which was used by line ministries in their progress reports submitted in July 2012. We will develop a staffing plan for the line ministries within the parameters of the wage bill allocation in the budget by end-September 2012, based on the functional reviews of these ministries where possible. Separately, we consider improvement of the efficiency and transparency of public procurement procedures as a top priority. In line with the agreed timetable, we will implement by end-December 2012 the recommendations of the assessment carried out by the EC.

11. Although we have made some progress in absorbing EU funds in the first half of the year, further efforts are still required. The Romanian audit authority found problems in system management in previous years. Consequently, some parts of certain programs were interrupted. For high-priority EU-funded projects with problems, we will allocate the funds to offset the interruption of EC reimbursement from the budgets of the respective line ministries. For other projects, we will suspend payments until the situation has been clarified with the EC. We will take all necessary measures to rectify identified problems. Moreover, we will step up our efforts to boost absorption and are closely working with the EC to simplify the procedure that will help with quicker absorption up to the beneficiaries' level. Furthermore, we will continue to implement fully the April 2011 Priority Action Plan for the absorption of Structural and Cohesion Funds.

12. We have compiled an investment portfolio of all government projects to ensure proper monitoring and prioritization, such that funding can be fully secured within a medium-term horizon (3–5 years). As required under Decision 577, we will seek to ensure that national programs co-financed with local governments are fully funded. No new investment projects will be initiated while low priority projects will be discontinued and a list of these projects will be published. The investment database will be updated to identify priority projects funded through budgetary and EU funds by end-September 2012 (structural benchmark). We will work with the World Bank, through a project financed with EU funds,

to enhance the capacity of the Ministry of Public Finance (MOPF) to evaluate and monitor public investment projects. The Ministry of Regional Development and Tourism and the Ministry of Environment and Forests are committed to ensure that execution spending under the PNFI does not exceed RON 1 billion in 2012 and RON 1 billion in 2013, and no new PNFI projects will be signed.

13. Market conditions for public debt financing have become more strained owing to heightened domestic political uncertainty and conditions in external markets. We remain committed to consolidating the fiscal buffers, and maintain our ultimate objective of four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on these buffers represents a necessary cost for insurance against shocks. We intend to return to the external market again in the second half of this year, as market conditions permit. We are continuing our efforts to widen the investor base and improve outreach efforts. We have now published the debt management strategy, albeit with delay, and are undertaking a project financed with European funds and implemented with support of the World Bank to strengthen the debt management department. We will publish the update of the 2013-15 debt management strategy in the first quarter of 2013.

Monetary Policy

14. Core inflation has remained relatively low. In the third quarter, headline inflation is expected to temporarily rebound towards the upper end of the central bank's target band of 3 ± 1 percent as disinflationary base effects recede. Rapid exchange rate pass through and eventual food price increases will put upward pressure on core inflation. Nonetheless, inflation is expected to remain within the central bank's target band throughout the year. Upside risks persist, however, including from exchange rate volatility and higher-than-expected global food prices.

15. We have kept the policy rate at 5.25 percent since May on account of domestic and external uncertainties. Lower net capital inflows have resulted in a depreciation of the leu of more than five percent against the euro since the beginning of the year, while the central bank's stock of foreign reserves has adjusted. The risks of higher inflation and excessive volatility in capital flows and the exchange rate continue to require a prudent monetary policy stance, supported by a consistent macroeconomic policy mix. In the event exchange rate pressures persist, we will tighten our monetary policy stance. We will continue regular repurchase operations as needed to ensure adequate liquidity in the banking system. We will also design and implement the necessary arrangements and internal procedures to allow unlimited numbers (ISIN) of government securities to be eligible for the central bank's open market operations by end-October 2012. Furthermore, in an effort to enhance the redistribution of liquidity across the banking sector, we will encourage the finalization of the master repurchase agreement and all procedures needed for banks to be able to engage in collateralized T-bill repo interbank lending.

Financial Sector

16. The Romanian banking sector maintains reassuring capital buffers and provisions but continues to be vulnerable to spillovers from the ongoing euro area crisis. Annual credit growth to the nonfinancial corporate sector (in real terms and at a constant exchange rate) at end-June remained subdued and declined somewhat to households. Nonperforming loans (NPLs) continued to rise and stood at 16.8 percent in June compared to 14.3 percent at end-2011, driven by the deterioration of the economic environment and partly by tighter supervisory enforcement. Total prudential provisions at end-June were sufficient to cover 98 percent of NPLs while the IFRS provisioning ratio stood at 69 percent. Bank profitability remains poor with an overall system loss during the first half of the year, mainly due to higher provisioning. The capitalization of the banking sector remained strong at 14.7 percent at end-June, albeit with some differences between banks. Overall, system household and corporate deposits have increased by around three percent since end-2011. However, the interbank market remains fragmented, due to perceived counterparty risk, and funding has become more heterogeneous in the deposit segment. Compared to regional peers, foreign-owned bank deleveraging has been orderly and moderate so far.

17. The NBR will continue to intensively supervise the banking system and take any necessary measures to ensure that banks have sufficient capital and liquidity, especially in light of the uncertain environment. The NBR, Deposit Guarantee Fund (DGF), and the MOPF will continue to coordinate the implementation of operational preparedness plans and the arrangements for the acquired bank resolution powers according to their competencies. The NBR will finalize the regulation on the authorization of the bridge bank and internal procedures for the recently introduced bank resolution measures by end-September 2012. The details of the updated NBR contingency planning framework will be shared and agreed with the IMF and EC staff by end-October 2012. The NBR is preparing detailed contingency plans on an ongoing basis. Based on the Memorandum of Understanding between the NBR and the DGF, the two institutions will finalize the necessary internal arrangements to provide the DGF with access to the already agreed set of relevant financial and prudential information. The DGF will build up its expertise in analyzing the financial information provided by the NBR. The NBR will continue to closely oversee bank practices to avoid evergreening so as to ensure that IFRS loan-loss provisioning and collateral valuations, as well as the assessment of credit risk of restructured loans, remain prudent and in line with good international practices. The NBR will continue to collect periodic and detailed supervisory data on restructured loans. As part of the permanent prudential arrangements that will apply in 2013, the prudential filter will remain in place in the current form, in line with the EU regulatory developments. Any amendments to measures adopted in 2011 to restrict foreign-currency lending to unhedged households will be agreed with the IMF and EC staff.

18. We will examine the impact of the recent amendment to the fiscal code that aims at ensuring a neutral tax treatment of bank receivables sold to Romanian firms so that banks can mitigate the rise in impaired loans and improve their balance sheet management. The law

amending the Law 503/2004 on the bankruptcy of insurance undertakings will be enacted by end-October 2012. As preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability, we will refrain from adopting legislative initiatives (for instance, proposals for the personal insolvency law and for the debt collecting law) or amending Ordinance 50/2010, which would undermine credit discipline.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

19. Comprehensive reform of the energy and transport sectors is a critical element of the program to boost investment and growth. In the transport sector, we have merged the subsidiaries of the railway companies CFR Marfa (freight) and CFR Calatori (passengers) into their parent companies and we will complete the merger of CFR Infrastructura (rail infrastructure) subsidiaries by mid-September 2012. We will bring down the total railway network under management of CFR Infrastructura to 15,500 line kilometers by end-September.

20. We have granted a bridge loan to clear CFR Infrastructura arrears to energy providers and will eliminate penalties and principal on arrears owed to the state-owned electricity supply company, Electrica, by mid-September. This bridge loan will be replaced in part by a government-guaranteed loan to the rail infrastructure company by end-November 2012. As a condition for this arrears clearance scheme, CFR Infrastructura has begun executing cost reduction and revenue enhancement measures to move towards financial viability from 2013. This requires that decisive action is taken to ensure that the state-owned passenger and freight companies pay access charges in full to the infrastructure company. To facilitate full payment, we intend to reevaluate the provision of subsidies and the public service obligations (PSO) of the passenger company, and take profitable services out of the PSO starting in 2013. In addition, further measures will be taken to reduce the costs and increase the revenues of the rail passenger company.

21. For the energy sector, we have taken a number of actions to establish a framework to improve the sector's efficiency. Electricity and gas legislation, in line with EU energy directives, was promulgated and gazetted. We expect the law on the energy regulator (ANRE) to be promulgated by end-September 2012. We also approved a roadmap to deregulate gas prices that envisages complete liberalization of gas prices for non-residential consumers by January 1, 2015, and for households by October 1, 2018. This follows earlier approval of a roadmap to deregulate electricity prices. Regulated electricity prices were also increased by five percent at end-June (structural benchmark).

22. We took the extraordinary step of placing the hydro-electric power producer, Hidroelectrica, into insolvency in June, in view of its deteriorating financial position. The judicial administrator has cancelled all contracts at below-market prices with the energy traders (so called "smart guys"). Hidroelectrica will sell the electricity being released from

the cancelled all contracts on the electricity trading platform (OPCOM). In addition, the administrator is pursuing cost savings throughout the company, with a target to reduce costs by at least 10 percent. These measures will result in a significant improvement in Hidroelectrica's financial position. The results of the renegotiated contracts will be published (price, volume, and maturity reductions).

23. We plan to further enhance the pricing and regulatory framework in the energy sector by undertaking the following additional steps:

- We will publish the full versions of the electricity and gas price-liberalization roadmaps by mid-September on the websites of all relevant institutions and start phasing out regulated electricity and gas prices in September and December 2012, respectively. We will provide quarterly progress reports on the implementation of both the gas and electricity roadmaps starting from October 1, 2012.
- The pass-through mechanism for electricity and gas purchases by the supply companies provided for in the electricity and gas supply regulation will be applied in line with the regulatory framework, in order to strengthen investment in this sector. To better align the current regulated end-user prices of gas with the actual cost of supply and distribution, we will increase tariff rates for non-residential consumers by 10 percent and for households by five percent by September 15 (prior action). This alignment is necessary because, in recent years, ANRE has not been permitted to fully implement its regulations on gas supply and distribution, which generated a backlog in price adjustments.
- We are taking steps to strengthen OPCOM as a trading platform. A working group of OPCOM and large electricity consumers has designed a new trading instrument tailored for the needs of large consumers. OPCOM will submit the new instrument for ANRE's review and approval. OPCOM is also making progress, in consultation with the gas industry, on the design of a gas trading platform. OPCOM plans to launch the gas platform on December 1, 2012, in a testing/participant training mode and start commercial operation in March 2013. All new bilateral contracts of SOEs will be made transparently and non-discriminatorily through OPCOM (electricity) and other competitive procedures (gas), and the terms of the contracts will be published. As soon as the new gas trading platform is operational, all non-regulated bilateral gas contracts will be traded through it.
- We have set-up an inter-ministerial committee, chaired by the MOPF, to prepare in consultation with the oil, gas, and electricity industry a draft package of tax, royalty and regulatory measures for these sectors. The package will cover two parts: (a) a levy to capture part of the extraordinary revenue to firms resulting from the liberalization of gas and electricity prices, as specified in the roadmaps. Funds raised will help finance measures to protect vulnerable consumers from the impact of the

necessary retail price adjustments; and (b) a new oil and gas regulatory and taxation regime for the period 2015–24, to be prepared, with professional advice, by end-2012. We plan to put in place the windfall levy from January 2013 and introduce the new oil and gas regulatory and taxation regime by mid-2013. In line with our obligations as a member of the EU, we are ready to begin negotiations on the Inter-Governmental Agreement (IGA) with Russia and will also strive to take steps to diversify our gas supply. We will take the necessary steps to lift the existing implicit export restrictions, and take measures to implement reverse flows on the gas interconnectors.

- We will take steps to ensure prompt application of Emergency Ordinance 69/2011 on subsidies for district heating. Municipalities have allowed for some increase in end-consumer prices. We will continue to monitor, and report to the IMF, EC, and WB on a quarterly basis, the financial situation of the district heating system and ensure prompt application of the provisions of the emergency ordinance. We will also ensure that the district heating companies will report to the Ministry of Administration and Interior, which will issue a decision, together with the MOPF, within 30 days, Reimbursement will begin in the following month.

State-Owned Enterprises

24. The second quarter indicative targets on the operating balance and arrears in key companies were met. We note that achievement of the third quarter arrears target is dependent upon finding a buyer for Oltchim and achievement of the fourth quarter arrears target on finalization of the liquidation of C.N. Huilei. While we have achieved improvements in some companies over the last months, overall progress has been slower than anticipated and substantial measures remain to be taken. The specialized divisions of financial control within the MOPF has reviewed and approved most of the 2012 budgets for 117 SOEs under its purview and will complete the budget approval process by mid-September 2012. Ten of these companies are being liquidated. Moreover, the directorate has reviewed all but two of the restructuring plans. The directorate plans to meet with all the companies whose restructuring plans could not be quantified by mid-September 2012. We will monitor performance against those targets on a quarterly basis. We will also prepare and publish the comprehensive reports on SOEs required under Article 58 of ordinance (109/2011) by end-October 2012, and annually thereafter by end-May.

25. Our efforts to accelerate the SOE governance reform agenda by concentrating our efforts on the sale of shares in Transgaz, Romgaz, Hidroelectrica, and Nuclearelectrica (companies in the Ministry of Economy's portfolio) have not yet yielded any tangible results (with the exception of the significant measures being taken by the insolvency administrators of Hidroelectrica). The planned secondary public offering (SPO) of government shares in Transgaz by end-June 2012 was delayed due to technical problems, but the tender will be launched by mid-September 2012 (prior action). We will miss the deadline for the sale of shares in Romgaz and Hidroelectrica by mid-October 2012 (structural benchmark). The

transaction advisor for Romgaz recommended that a valuation of Romgaz's natural gas holdings be completed before an initial public offering (IPO) is launched. We are in the process of hiring a consultant to conduct the study, which we expect to be completed by the end of the year. We are firmly committed to launch the IPO of Romgaz by end-March 2013. We plan to hold an IPO of 10 percent of the shares in Hidroelectrica after the company exits the insolvency process. We will expedite preparations for the sale of Nuclearelectrica shares but will miss the previously agreed deadline of end-2012 by one quarter. We will privatize Oltchim, a large chemical manufacturer, by offering it for sale by mid-September (prior action). The privatization of Tarom (SPO of 20 percent) and CFR Marfă (majority privatization) this year remains a priority for the Ministry of Transportation and Infrastructure.

26. As for other companies in the Ministry of Economy's portfolio, we plan to sell a majority stake in Electrica Furnizare and Electrica's three distribution companies by early 2013, followed by an IPO of Electrica by mid-2013. Other companies slated for privatization offerings by early 2013 are: (i) the new energy producer Hunedoara, to be created by end-September 2012 by merging the power plants in Paroșeni and Mintia and four mines of C.N. Huilei (majority privatization); and (ii) the new energy producer Oltenia (majority privatization). The privatization of Oltenia Energy Complex is critical given its large investment needs and key role in Romania's energy security. With this mind, we will sign a contract with a legal and transaction advisor for the privatization of Oltenia by end-November 2012 (structural benchmark). We may pursue dual listings for some public offerings but will ensure that this does not lead to unnecessary delays in the privatization process. In addition, we will liquidate non-viable companies and plan to file for liquidation of C.N. Huilei by end-September 2012 and Termoelectrica by early October 2012.

27. We are in the process to appoint professional boards and management for key SOEs that remain under majority government ownership as required under the new SOE corporate governance law. New management teams and board members were to be selected by end-June 2012 for Oltchim, Hidroelectrica, and Electrica Furnizare. We now plan to appoint professional boards for Electrica Furnizare by end-August and Hidroelectrica by mid-September 2012. The appointment of a general manager for Electrica Furnizare will take place by end-September. For Hidroelectrica, the appointment of a general manager will take place promptly after the company exits the insolvency process. Given the difficult operating and financial position of Oltchim, we have appointed a special administrator in July to prepare the company for full privatization. We also plan to appoint a professional board and general manager for Oltenia with help from a independent human resource firm by end-September 2012.

28. Going forward, we will accelerate implementation of the SOE corporate governance law. We will only select professional board members and management from lists of qualified candidates prepared by independent firms hired to assist in the process. We recognize that doing otherwise would undermine the credibility of our reform program for the public and

for prospective investors. We intend to improve the law through modifications that establish a limited negative list of three companies exempted from the law on defense, public order, and national security grounds. The modifications will also require SOEs to implement the provisions to appoint professional boards and general managers and complete this process within a maximum period of nine months. Moreover, the modifications will specify that the appointment of interim boards and general managers will be only for a limited time period.

29. We have launched a coordinated process to search and appoint professional board members and general managers for the other priority SOEs in the Ministry of Economy's portfolio, including Romgaz, Nuclearelectrica, and Transgaz. We now plan to complete this process for Romgaz, Nuclearelectrica, and Transgaz by end-2012. All appointments will be published for full transparency. For SOEs under the Ministry of Transportation and Infrastructure, we have hired a human resource firm to select qualified candidates for the boards of directors and managements of eleven firms in its portfolio, including CFR Calatori and CFR Infrastructura. We will appoint the new boards of directors and professional management by end-September 2012.

Other Structural Reforms

30. We continue to make progress in implementing new labor market and social assistance legislation. The new Labor Code has significantly improved the functioning of the labor market, and already contributed to a recovery in employment with substantial number of informal work arrangements being converted to newly registered contracts. Nearly one third of these new contracts are fixed term. We will monitor implementation of the Social Dialogue Law and ensure that any amendments will only be undertaken in consultation with all stakeholders and do not introduce undue rigidities and distortions in the collective bargaining process. We will also continue cooperation with the International Labor Organization (ILO) to ensure that the new legislation respects core ILO Conventions. The government, in consultation with its international partners, will prepare by October a package of measures aimed at job creation for people younger than 25 years and older than 55 years.

31. We will coordinate with all relevant stakeholders the speedy implementation of the forthcoming recommendations from the World Bank Report on Standards and Codes on insolvency and creditor rights.

Table 1. Romania: Quantitative Program Targets

	2010	2011					2012			
	Dec	March	June	Sept	Dec	March	June	June	Sept	Dec
	Actual	Actual	Actual	Actual	Actual	Actual	Prog.	Prelim.	Prog.	Prog.
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	1696	-557	-457	-250	-800
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11,260	-13,685	-23,837	-3,421	-7,770	-7631	-9,700	-14,660
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.14	0.06	0.15	0.04	0.02
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	7.0	14.0	7.7	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)	...	...	...	...	...		4.4		5.9	5.6
Inner band (upper limit)	...	...	...	...	...		3.4		4.9	4.6
Actual/Center point	8.0	8.0	7.9	3.5	3.1	2.4	2.4	2.0	3.9	3.6
Inner band (lower limit)	...	...	...	...	...		1.4		2.9	2.6
Outer band (lower limit)	...	...	...	...	...		0.4		1.9	1.6
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	94,133	128,317	30,921	64,800	63,968	99,000	133,700
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	-2.4	-2.0	-0.4	-2.2	1.4	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn lei))	17.9	19.2	19.7	18.5	14.9	16.2	15.0	13.6	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.82	0.50	1.17	0.75	0.30
11. Ceiling on the execution of the PNDI program (mln lei) 4/	...	...	...	...	...	66	400	67	700	1,000

1/ The end-December 2010 figure is a stock.

2/ The June 2012 target is adjusted downward by 817 million Euros to reflect less than projected Eurobond placement of the MoPF, and the target is adjusted upward by 10 million Euros to reflect higher than projected commercial bank reserve requirement held with the NBR.

3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011). March 2012 target is adjusted by RON 1,450 million to RON 4,550 for capital spending. June 2012 target is adjusted by RON 769.8 million to 7769.8 million for the loan to CFR Infrastructura.

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

Table 2. Romania: Performance for Sixth Review

Measure	Target Date	Comment
Prior action		
1. Approve government ordinance to allow that: (i) resources available to local governments, currently limited to co-financing investment, can be used for paying arrears; and (ii) the central government can directly pay off arrears of local governments from shared taxes.		
2. Increase gas prices for non-residential consumers by 10 percent and for households by 5 percent.		
3. Launch the tender for a secondary public offering of 15 percent of Transgaz shares.		
4. Launch the tender for the majority privatization of Oltchim.		
Quantitative performance criteria		
1. Floor on net foreign assets	September 30, 2012	
2. Floor on general government overall balance	September 30, 2012	
3. Ceiling on central government and social security domestic arrears	September 30, 2012	
4. Ceiling on general government guarantees	September 30, 2012	
5. Non-accumulation of external debt arrears	September 30, 2012	
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	September 30, 2012	
2. Floor on operating balance of key SOEs	September 30, 2012	
3. Ceiling on stock of arrears of key SOEs	September 30, 2012	
4. Ceiling on stock of local government arrears	September 30, 2012	
5. Ceiling on the execution of the PNFI program	September 30, 2012	
Inflation consultation band		
Inner band	September 30, 2012	
Outer band	September 30, 2012	
Structural benchmarks		
1. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services.	June 30, 2012	Met
2. Launch tender for providing software to integrate the accounting reporting system with the Treasury payment system.	June 30, 2012	Met
3. Increase by 5 percent the electricity price for both residential and nonresidential consumers.	June 30, 2012	Met
4. Hold IPOs of government shares in Romgaz and Hidroelectrica.	October 15, 2012	Reset to March 15, 2013
New structural benchmarks		
1. Update the investment database to identify priority local government projects funded through budgetary and EU funds, and publish a list of low priority projects which will be discontinued.	September 30, 2012	
2. Publish up-to-date financial statements of all public hospitals on a webpage of the Ministry of Health.	October 31, 2012	
3. Sign a contract with legal and transaction advisor for the majority privatization of Oltenia.	November 30, 2012	
4. Finalize a detailed definition of the structural architecture of the accounting and treasury reporting system.	December 31, 2012	

Technical Memorandum of Understanding

September 12, 2012

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 entities *as defined in the 2012 budget*. 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), and the road fund company. 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 operation of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform the IMF staff of the creation of any such new funds or programs immediately. As mentioned in ¶12 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 and successful implementation of the monitoring system being undertaken by the Ministry of Public Finance (MOPF).

Quantitative Performance Criteria, Indicative Targets, Inflation Consultation Band, and Continuous Performance Criteria

A. Floor on the Change in Net Foreign Assets

1. For program purposes, Net Foreign Assets (NFA) are defined as the NFA of the NBR minus Treasury liabilities to the International Monetary Fund.
2. 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.
3. 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).
4. 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. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. actual	Jun. actual	Sep. PC	Dec. PC
Cumulative change in NFA	20,026	119 ²	1,896	293	-457 ³	19,569	1,696 ⁴	-457 ⁵	-250	-800
<i>Memorandum</i>										
<i>Item: Gross Foreign Assets</i>	32,432	996	2,793	1206	464	32,897	1,662	-496	-850	-2300

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.

³ PC met with an adjustment for the Eurobond issue of €1000 million.

⁴ PC met with an upward adjustment by €533 million due to the more than projected Eurobond issue of MoPF.

⁵ PC met with a downward adjustment by €817 million due to lower than projected Eurobond issue of MoPF and an upward adjustment by €10 million due to higher than projected commercial bank reserve requirements held with the NBR.

5. The NFA targets will be adjusted upward (downward) by the full amount of the surplus (shortfall) relative to the baseline of external bond placement by the 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 2011 (€6,037 million), measured at program exchange rates.

External Program and MOPF Disbursements—Baseline Projections (in mln. euros)¹

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative change under external program	1,200	1,650	2,050	2,050	0	0	0	0
Cumulative change in external MOPF bond placement				1,000	1,150	2500	2500	2500

¹ Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

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

6. 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. actual	Mar. actual	Jun. actual	Sep. target	Dec. target
Outer band (upper limit)								5.9	5.6
Inner band (upper limit)								4.9	4.6
Actual / Center point	8.0	8.0	7.9	3.5	3.1	2.4	2.0	3.9	3.6
Inner band (lower limit)								2.9	2.6
Outer band (lower limit)								1.9	1.6

C. Performance Criterion on General Government Balance

7. 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 Balance¹	
(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 (actual)	-23,837
End-March 2012 (actual) ²	-3,421
End-June 2012 (actual) ³	-7,631
End-September 2012 (performance criterion)	-9,700
End-December 2012 (performance criterion)	-14,660

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

² Target for 2012:Q1 is adjusted by RON 1450 million to RON 4550 for capital spending.

³ Target for 2012:Q2 is adjusted by RON 769.8 for the the bridge loan granted by the Ministry of Finance to CN Cai Ferate CFR SA.

8. 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).

9. 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 Autostrăzi si Drumuri Nationale din România SA, Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui Ploiesti SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, SC Termoelectrica SA, Societatea Nationala Aeroportul International Mihail Kogalniceanu, SC Electrificare SA, CN Administratia Canalelor Navigabile Constanța SA , SC CN Romarm, Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, 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.

10. 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;
 - of which: (a) temporary financing for EU projects;
 - (b) reimbursement payments from EU for the EU projects

11. 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.

12. The performance criterion for the general government balance for end-June 2012 and end-September 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 PNFI) exceeds lei 15,230 million and lei 25,150 million, respectively, up to a limit of lei 1,800 million and lei 700 million, respectively. The performance criterion for the general government balance for end-June 2012 and end-September (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount of a bridge bank loan for arrears clearance of CFR Infrastructura, up to a limit of lei 900 million.

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

13. The issuance of general government guarantees to the nonfinancial 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 (actual)	6.5
End-March 2012 (actual)	7.0
End-June 2012 (actual)	7.7
End-September 2012 (performance criterion)	14.0
End-December 2012 (performance criterion)	14.0

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

14. 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 (actual)	0.09
End-March 2012 (actual)	0.14
End-June 2012 (actual)	0.15
End-September 2012 (performance criterion)	0.04
End-December 2012 (performance criterion)	0.02

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

15. 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

16. 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 Expenditures¹	(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 (actual)	128,317
End-March 2012 (actual)	30,921
End-June 2012 (actual)	63,968
End-September 2012 (indicative)	99,000
End-December 2012 (indicative)	133,700

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

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

Ceiling for the Execution of the PNDI Program¹	(In million of lei)
End-March 2012 (actual)	66.1
End-June 2012 (actual)	67.45
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

18. 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 (actual)	0.75
End-March 2012 (actual)	0.81
End-June 2012 (actual)	1.17
End-September 2012 (indicative)	0.75
End-December 2012 (indicative)	0.30

J. Absorption of EU Funds

19. The EU funds contribution mentioned in the MoU conditionality is to be measured taking into account the eligible expenditure from both the structural and cohesion funds (SCF) and the European Agricultural Fund for Rural Development (EAFRD).

K. Monitoring of Public Enterprises

20. 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.

21. A quarterly indicative target for 2011 was 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 Autostrăzi si Drumuri Nationale din România S.A., C.N. a Huilei S.A., C.N. Poșta Română 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 Marfă "CFR Marfă" 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., S.Na 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. Actual performance was 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 (actual)	-2.4
End-December 2011 (actual)	-2.2

¹ Cumulative figure during calendar year (e.g., March 2011 figure is cumulative from January 1, 2011).

² End September and end-December preliminary data exclude operating balance of S.C. Electrica Furnizare Transilvania Nord S.A.

22. 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 Autostrăzi 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 Marfă "CFR Marfă" 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., S.C. Complexul Energetic Oltenia S.A., S.C.

Hidroelectrica, S.C. Electrica S.A., C.N. Poșta Română S.A. The data shall be reported with operating results by firm. The targets will be as follows:

Floor on Cumulative Operating Balance¹	(In billions of lei)
End-March 2012 (preliminary)	-0.4
End-June 2012 (preliminary)	-1.4
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).

23. 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.

24. A quarterly indicative target for 2011 was set on the stock of arrears of the public enterprises listed in ¶23. The data shall be reported at the firm level. Actual performance was as follows:

Ceiling on Stock of Arrears¹	(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 (actual)	18.5
End-December 2011 (actual)	14.8

¹ End September and end-December preliminary data exclude arrears of S.C. Electrica Furnizare Transilvania Nord S.A.

25. 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 (preliminary)	16.2
End-June 2012 (preliminary)	13.6
End-September 2012 (indicative)	12.5
End-December 2012 (indicative)	9.0

26. 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.

L. Private Management for Key SOEs

27. Private management will be selected, in line with MEFP ¶27 and ¶28, at least for the following state-owned enterprises: i) S.N. Nuclearelectrica ii) C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), iii) S.C. Complexul Energetic Oltenia S.A., iv) S.C. Electrica Furnizare S.A., v) S.C. Hidroelectrică, (vi) S.N. Romgaz, (vii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., and (viii) S.N. Transgaz.

28. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) C.N. Autostrazi si Drumui Nationale din Romania S.A. ii) C.N. Telecomunicatii CFR S.A., (iii) S.C. Electrificare CFR S.A. (iv) C.N. Tarom S.A. (v) S.C. Transport cu Metroul Bucuresti S.A. "Metrorex" and (vi) S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A..

M. Reporting Requirements for the Prior Actions

29. For the prior action related to Transgaz, the launching of the tender will involve depositing of the public tender documents with the securities commission (CNVM) and the stock exchange. For the prior action related to Oltchim, the launching of the tender will involve publication of the prospectus (Request for Bidders).

N. 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 25 th day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25 th day past the test date
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35 th day past the test date; Quarterly accrual data, on the 55 th 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 <i>banking sector</i> 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 <i>corporate sector</i> 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, 45 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

Ministry of Transportation and Infrastructure

- Appoint professional board members and management for CFR Infrastructura, CFR Marfă , CFR Călători, Tarom, and the roads company from short lists of qualified candidates selected by an independent human resource firm by end-September 2012.

C.N. Căi Ferate CFR S.A “CFR Infrastructura” (including S.C Interventii Feroviare).

- Complete merger of Interventii Feroviare, S.C. Întretinere Mecanizată and S.C. Sere si Pepiniere into CN. Cai Ferate CFR by mid-September 2012;
- Continue seeking and implementing cost reduction and revenue enhancement measures and prepare a report quantifying implemented measures by mid-October 2012;
- Complete pilot project for calculating employees’ salaries by line section by mid-October 2012; and extend to rest of network by end-December 2012;
- Sign contracts to rent 50 percent of identified rentable locations by end-October 2012;
- Obtain, in conjunction with Ministry of Public Finance, a government-guaranteed loan to repay government bridge loan that was provided to clear arrears by-end November 2012;
- Increase the tariff for storage of scrap wagons on CFR Infrastructura yards/lines by 5 percent per year by end-November 2012, with the tariff effective date of January 1, 2013;
- Establish business plan with market analysis and substantiate revenue forecast that goes beyond mere forecast of train kilometers by end-December 2012; and
- Identify sources of financing for contribution to construction works for the Ramnieu Valcea-Valcele railway line.

S.C. Electrificare CFR S.A.

- Acquire all electricity via OPCOM when taking over supply and distribution activity for traction energy for the whole railway system;
- Complete studies to increase energy efficiency in railway stations by end-October 2012.

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

- Elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system by end-December 2012;
- Publish at the Trade Registry the merger document between SC Telecomunicații CFR and CFR Insfrastructura by end-December 2012.

S.N. de Transport Feroviar de Marfă “CFR Marfă” S.A.

- Approve privatization strategy document prepared by transaction consultant by end-September 2012;
- Conclude the contract with the software provider for a new payroll module by end-November 2012;
- Pre-qualify bidders for majority share of Marfa by mid-November 2012, with a view to signing the privatization agreement by mid-December 2012;

S.N. Transport Feroviar de Călători “CFR Călători” S.A.

- Continue to identify savings of RON 300 million to balance the income and expenditure budget for 2012 by end-September 2012;
- Seek partial extinction of debts to CFR Infrastructura by fair value transfer of some assets by mid-October 2012;
- Reorganize SCRL Brasov SA and identify solutions for effective branch activity by end-November 2012;
- Scrap and valorify 200 depreciated cars by end-December 2012.

S.C. Metrorex S.A.

- Launch a tender at Bucharest stock exchange for the sale of scrapped rolling stock by end-September 2012;

C.N. de Autostrăzi si Drumuri Nationale din România “roads company” S.A.

- Sign a contract to develop the software to improve the methods for selling road vignettes (via SMS and online) by end-September 2012;
- Concession of the services and parking spaces on the sections of motorway completed according to Bucuresti-Cernavoda model by end-March 2013.

C.N. Tarom S.A.

- Publish prospectus for privatization of at least a 20 percent stake via IPO by end-September 2012, with view to conclude privatization by mid-November 2012;
- Reduce costs (e.g. by renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, renegotiation of lease-in contract for flying staff, extending the saving oil consumption program).

Ministry of Communication**C.N. Poșta Română S.A.**

- Sign contract with legal and transaction advisor for capital increase by at least 20 percent by end-September 2012;
- Finalize privatization strategy and elaborate all documentation required to select strategic investor by mid-October 2012;
- Finalize capital increase by end-December 2012;

- Appoint professional management and board members from short list of qualified candidates selected by an independent human resource firm after capital increase.

Ministry of Economy, Trade, and Business Environment

Transgaz

- Launch the tender for a secondary public offering of 15 percent of government shares by mid-September 2012;
- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by end- December 2012.

S.N. Romgaz

- Sign contract with consultant to value natural gas reserves holdings by end-September 2012;
- Complete valuation of natural gas holdings by end-December 2012;
- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by end-December 2012;
- Publish prospectus for IPO by end-February 2013, with view to launch an IPO by end-March 2013.

S.N. Nuclearelectrica

- Sign a contract with a legal and transaction advisor for privatization by end-October 2012, otherwise republish a more flexible tender for an advisor;
- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by end-December 2012;
- Publish prospectus for IPO by end-February 2013, with a view to conclude privatization by end-March 2013.

S.C. Oltchim S.A.

- Publish prospectus for privatization by mid-August 2012, with view to designate a winning bidder by mid-September 2012; if the privatization fails the company will be put into voluntary liquidation;
- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

C.N. a Huilei S.A

- File for the merger of viable mines into new company as per law 143/2012 by end-September 2012, with a view to merge new company into S.C. Hunedoara S.A.;
- File for liquidation of C.N. a Huilei S.A by end-September 2012.

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

- Hold general shareholders meeting to approve liquidation of non-viable assets by end-August 2012;
- Merge Electrocentrale Deva and Electrocentrale Paroseni to create S.C. Hunedoara S.A. by end-September 2012;
- Separate Bralia and Galati operations, and shareholdings in energy companies and place into Electrocentrale Group by mid-October 2012;
- File for Termoelectrica liquidation in mid-October 2012.

S.C. Hunedoara S.A. (to be created by merger of Electrocentrale Deva and Electrocentrale Paroseni with four viable mines from C.N. a Huilei S.A)

- Create S.C Hunedoara by merging Electrocentrale Deva and Electrocentrale Paroseni by end-September 2012;
- Merge company created through merger of viable mines of C.N. a Huilei S.A into S. C. Hunedoara S.A. by end-January 2013;
- Sign contract with legal and transaction advisor for majority privatization by end-April 2013

S.C. Electrocentrale Bucuresti S.A.

- Agree with municipality of Bucharest on a strategy for clearing Radet Bucuresti's arrears to Elcen Bucuresti by mid-October 2012;
- Sign contract with legal and transaction advisor for majority privatization by end-November 2012, dependent on agreement with municipality of Bucharest (see above);
- Publish prospectus for majority privatization of the company by early 2013, with view to conclude privatization shortly thereafter, dependent on agreement with municipality of Bucharest (see above).

S.C. Complexul Energetic Oltenia S.A.

- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by end-September 2012;
- Sign contract with legal and transaction advisor for majority privatization (IPO of 15 percent of capital and sale of another 50 percent of government shares to a strategic investor) by end-November 2012;
- Launch a tender for the IPO by early-2013, with the view to launch a tender for a strategic investor shortly thereafter.

S.C. Hidroelectrica S.A.

- Sign contract with consultant to advise on privatization process by end-August 2012;
- Publish results of cancellation and/or renegotiation (price, quantity, and duration) of bilateral contracts by mid-September 2012;

- Sell electricity that becomes available from cancellation and/or renegotiation of bilateral contracts on OPCOM;
- Appoint professional board members from short list of qualified candidates selected by an independent human resource firm by mid-September 2012;
- Publish prospectus for privation within three months after Hidroelectrica exists insolvency procedure, with view to launch an IPO one month later.

S.C. Electrica S.A. including subsidiaries

- Clear all arrears and penalties owed by CFR Infrastructura by mid-September 2012;
- Appoint professional board members and management for Electrica Furnizare from short lists of qualified candidates selected by an independent human resource firm by end-September 2012;
- Sign contract with a legal and transaction advisor for privatizations of the five regional service companies and Electra Serv by end-December 2012;
- Launch a tender for the sale of the five regional service companies and Electra Serv strategic investors by early-2013;
- Sign contract with a legal and transaction advisor for the majority sale of the three distribution companies and Electrica Furnizare by end-October 2012 with a view to concluding the privatization by end-2012/early-2013;
- File for liquidation for all service companies for which privatization failed.