

## Romania: Status of Prior Actions

Prior Action	Status
<b>I. Fiscal policy</b>  (a) Adoption by cabinet of an ordinance removing the tax exemptions listed in paragraph 14 of the Memorandum on Economic Policies.  (b) Adoption of an ordinance limiting monthly wage allocations for the state budget.  (c) Implementation of the budgetary monitoring system described in Annex D to the Memorandum on Economic Policies.  (d) Adoption by cabinet of moratorium on granting investment incentives under the recent emergency ordinance with an effective limitation of tax base erosion.  (e) Implementation of wage tax brackets for August–December 1999, consistent with the program.	Done.  Done.  Done.  Done.  Understandings reached on the methodology of adjustment of the wage tax brackets, which will be implemented once official wage data for the first six months of 1999 will become available.
<b>II. Structural policies</b>  (a) Transfer of all household and corporate deposits from Bancorex to other banks.  (b) Removal of Bancorex's banking license.  (c) Approval of privatization law.  (d) Audit of Romanian Commercial Bank on IAS standards.	Underway.  Envisaged for July 31.  Done.  Done.
<b>III. Financing assurances</b>  (a) Secure private sector financing equivalent to US\$350 million of the US\$800 million maturing NBR bonds, in line with paragraph 26 of the Memorandum on Economic Policies.	So far, US\$130 million has been secured.
<b>IV. Political assurances</b>  (a) Endorsement of the Memorandum on Economic Policies by the leaders of the governing coalition.	Done.

## I. Ceilings on the Average Net Domestic Assets of the National Bank of Romania

	Ceiling	Actual
(In billions of lei)		
Stock as of:		
March 31, 1999		15,538
July 31, 1999 (performance criterion)	13,944	
October 31, 1999 (performance criterion)	14,037	
December 31, 1999 (performance criterion)	14,804	

The average net domestic assets of the NBR are defined as the difference between average reserve money (as defined in Annex B-XI) and average of net foreign assets (net foreign assets, as defined in Annex B-II), both expressed in local currency.

For the purposes of the program, average net foreign asset stocks will be converted into lei for the purposes of calculating average net domestic assets at the average monthly programmed lei/dollar rates: July 1999, 15,884 lei/dollar; October 1999, 16,625 lei/dollar; December 1999, 17,297. The average stock of NFA is defined as the average of the daily NFA as defined in Annex B-II.

The limits will be monitored from daily data on the accounts of the NBR supplied weekly to the Fund by the NBR. On March 31, 1999, average NDA of the NBR was equal to lei 15,538 billion, calculated as the difference between average reserve money of lei 19,463 billion and average NFA of lei 3,925 billion (calculated as US\$279 (from Annex B-II) million at the March average exchange rate of lei 14,053/dollar).

The ceiling on average net domestic assets of the NBR will be adjusted under the following circumstances:

- (1) The ceiling would be adjusted downwards in a proportional fashion, for the fraction of the month that gross foreign financing, as defined in Annex B-II, exceeds programmed levels, specified in Annex B-II.
- (2) The ceiling would be adjusted upwards one-for-one, in a proportional fashion for the fraction of the month and to the extent of shortfalls in gross foreign financing (specified in Annex B-II) through end-July and of up to US\$200 million on a cumulative basis for the remainder of 1999.
- (3) The ceilings would be adjusted for any change in reserve requirements as described in Annex B-XI. Before undertaking any such changes, the NBR will consult Fund staff.
- (4) The NDA of the NBR will be adjusted upwards by the entire amount of the treasury bill, which is a counterpart of the foreign liabilities of Bancorex which the NBR assumes. This upward adjustment will be partially reversed end-December 1999 when the government amortizes its bond to the extent that the NBR has made principal payments (an estimated US\$81 million) on its behalf on these loans. The treatment of the foreign liability is contained in Annex B-II (3).

## II. Targets for Floor on Net Foreign Assets of the National Bank of Romania

	Floor	Actual
(In millions of U.S. dollars)		
Stock as of:		
March 31, 1999		195
July 31, 1999 (performance criterion)	499	
October 31, 1999 (performance criterion)	609	
December 31, 1999 (performance criterion)	593	

Net foreign assets of the NBR consist of reserve assets minus foreign liabilities.

For the purposes of the program, reserve assets shall be defined as monetary gold, holdings of SDRs, any reserve position in the IMF, and holdings of foreign exchange in convertible currencies by the NBR. Excluded from gross reserves are long-term assets, NBR redeposits at the commercial banks, any assets in nonconvertible currencies, encumbered reserve assets, reserve assets pledged as collateral for foreign loans, reserve assets pledged through forward contracts, and precious metals other than gold. Monetary gold shall be valued at an accounting price of US\$280.4 per ounce and SDRs at US\$1.355109 per SDR. On March 31, 1999, the NBR's reserve assets as defined above amounted to US\$2,107 million, including gold valued at US\$908 million.

For the purposes of the program, foreign liabilities shall be defined as loan, deposit, swap (including any portion of the NBR gold that is collateralized), and forward liabilities of the NBR in convertible currencies to residents and nonresidents, as well as liabilities arising from foreign currency deposits of resident commercial banks at the NBR (excluding liabilities to Bancorex); IMF purchases; borrowing from international capital markets; and bridge loans from the BIS, foreign banks, foreign governments, or other financial institutions, irrespective of their maturity. Buy-backs of NBR bonds (face value) will be excluded from foreign liabilities of the NBR. Yen-denominated liabilities shall be valued at their respective swap rates (Samurai I at 108.25/U.S. dollar and Samurai II at 111.9/U.S. dollar. On March 31, 1999, the NBR's foreign liabilities, as defined above, amounted to US\$1,912 million, including US\$296 million in commercial bank foreign currency deposits at the NBR (excluding Bancorex liabilities).

All assets and liabilities denominated in convertible currencies, other than the U.S. dollar, shall be converted at their respective exchange rates against the U.S. dollar on March 31, 1999. All changes of definition or valuation of assets or liabilities as well as details of operations concerning sales, purchases, or swap operations of gold shall also be communicated to the Fund staff.

During the program period, the NFA of the NBR will be subject to two automatic adjusters. The first will adjust the NFA of the NBR for the amounts of the gross foreign financing<sup>1</sup> that deviates from the programmed levels (on a cumulative basis).

July 1999	US\$330 million
October 1999:	US\$568 million
December 1999:	US\$652 million

Specifically, if the proceeds from foreign financing:

(1) exceed the program limits, the NFA floor for the quarter will be increased by 100 percent of the additional financing;

(2) fall short of the program limits, the NFA floor will be reduced by US\$330 million for end-July but for the remainder of the year the amount of cumulative adjustment cannot exceed US\$200 million;

(3) when the NBR assumes the liabilities of Bancorex to foreign banks of US\$287 million, the NFA target will be adjusted downwards by an equivalent amount. The end-December target will be adjusted upwards to the extent that the corresponding asset is retired. The treatment of the corresponding asset is contained in Annex B-I. The end-December target will be adjusted upwards to the extent that the corresponding asset is retired. The treatment of the corresponding asset is contained in Annex B-1.

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<sup>1</sup> Foreign financing is defined as disbursements of balance of payments support loans to the government with a maturity of more than a year from multilateral and bilateral creditors and resources with a maturity of more than one year raised in the international capital markets by the government. This excludes use of IMF resources. If the Ministry of Finance borrows loans to refinance maturing NBR bonds, the adjuster will be appropriately applied.

### III. Ceilings on Net Credit of the Banking System to the Consolidated General Government

	Ceiling	Actual
(In billions of lei)		
Stock as of:		
March 31, 1999		24,958
July 31, 1999 (performance criterion)	23,241	
October 31, 1999 (performance criterion)	17,827	
December 31, 1999 (performance criterion)	15,843	

The consolidated general government includes the state budget, the budgets of the local authorities, the social protection funds,<sup>2</sup> the Special Fund for Developing and Modernizing Customs, the Special Fund for Developing Energetic Systems, the Special Fund for Modernizing Roads, the Special Fund for Tourism Promotion and Development, the Special Fund for Insured Protection, the Special Fund for Civil Aviation, other extrabudgetary funds managed by the Ministry of Finance outside the budgetary framework, other extrabudgetary operations of ministries financed by foreign loans, the counterpart funds created from the proceeds of foreign loans, and the State Ownership Fund. Any new funds created during the program period to undertake operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics* will be incorporated within the definition of consolidated general government.

For program purposes, net credit of the banking system to the consolidated general government is defined as all claims of the banking system on the consolidated general government less all deposits of the consolidated general government with the banking system. Government loans to banks at an interest rate less than the reference rate of the NBR to finance onlending to economic agents are excluded from government deposits; an agreed listing of the accounts to be treated as government deposits for program purposes is contained

<sup>2</sup> These include the State Social Security Fund, the Unemployment Fund, the Health Fund, the Health Social Insurance Fund, and the Risk and Accident Fund.

in the FAD aide memoire "Romania: Measuring the Fiscal Deficit," Part II, Appendix 11, February 1994.

For program purposes, the limits on net credit to the consolidated general government will be adjusted under the following circumstances:

- (1) The ceilings will be adjusted downwards by the cumulative increase in the stock of government debt held by the nonbank public, starting from March 31, 1999, and upward for any decrease.
- (2) The ceilings on net credit will be adjusted downwards by the full amount of the lei counterpart to disbursements of external financing to the consolidated general government, in excess of the levels specified in Annex B-II, and using the following average exchange rates (in lei per U.S. dollar):

April–July	15,884
August–October	16,625
November–December	17,119

The ceilings will be adjusted upwards by 100 percent of the shortfall in external financing (compared to the levels given in Annex B-II) to the consolidated general government in end-July and of up to US\$200 million on a cumulative basis for the remainder of 1999.

- (3) The ceilings on net credit will be adjusted for the shortfall or excess of non-balance of payments support external financing to the consolidated general government, compared to the following path (cumulative from January 1, 1999):

end-July 1999:	US\$532 million at 15,884 lei/dollar
end-October 1999:	US\$777 million at 16,625 lei/dollar
end-December 1999:	US\$891 million at 16,954 lei/dollar

- (a) The ceilings will be adjusted downward by 100 percent of any excess of non-balance of payments support, i.e., project external financing to the consolidated general government over and beyond US\$200 million, compared to the above path;

- (b) The ceilings will be adjusted upward by 100 percent of any shortfall of non-balance of payments support external financing to the consolidated general government up to a maximum of:

end-July 1999:	US\$200 million at 15,884 lei/dollar
end-October 1999:	US\$300 million at 16,625 lei/dollar
end-December 1999:	US\$400 million at 16,954 lei/dollar

(4) The ceilings will be adjusted downwards for any overdraft of the General Account of Treasury at the NBR in excess of the legal limit of lei 146 billion. (This limit would be changed, after consultation with Fund staff, in the event that the legal overdraft limit is changed as defined in the Legal Statutes of the NBR.)

(5) The ceilings will be adjusted upwards by any issue of government bonds associated with the restructuring of Bancorex, up to a maximum of US\$1.7 billion, at the prevailing exchange rate.

(6) The ceilings will be adjusted downwards (upwards) by the excess (shortfall) of privatization receipts of the SOF compared to the following levels cumulative from January 1, 1999:

end-July 1999:	lei 3,296 billion
end-October 1999:	lei 5,383 billion
end-December 1999:	lei 7,500 billion

The ceilings may only be adjusted upwards provided that the following minimum levels of privatization receipts to the SOF are achieved:

end-July 1999:	lei 2,963 billion
end-October 1999:	lei 3,876 billion
end-December 1999:	lei 4,977 billion

(7) The ceilings will be adjusted downwards by the shortfall of actual expenditure on bank restructuring compared to programmed levels. Spending on bank restructuring includes expenditure on interest and amortization for government securities issued in the context of restructuring Bancorex and the SOF deposits in Bancorex (US\$65 million) expected to be lost. The programmed cumulative expenditure on bank restructuring is:

end-July 1999	lei 998 billion
end-October 1999	lei 4,126 billion
end-December 1999	lei 8,937 billion



IV. Limits on the Assumption of Enterprise Debt to Banks  
by the Consolidated General Government and the Issuance of  
Government Guarantees on Bank Lending to Enterprises

Debt assumed and Guarantees Extended by Government	Ceiling	Actual
	(In billions of lei)	
March 31, 1999 <sup>3</sup>		600
Increase from March 31, 1999:		
July 31, 1999 (performance criterion)	0	
October 31, 1999 (performance criterion)	0	
December 31, 1999 (performance criterion)	0	

For program purposes, the assumption of enterprise debt to banks by the consolidated general government and the issuing of a guarantee to assume enterprise debt to banks are treated as being equivalent. This limit includes any loan on which the government pays or guarantees interest, even if the principal is not guaranteed. The consolidated general government is defined in Annex B-III. These limits exclude the contracting or guaranteeing of external debt, for which separate limits are set out in Annex B-V and Annex B-VI.

Data for monitoring purposes shall be supplied monthly to the Fund by the Ministry of Finance.

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<sup>3</sup> The actual for March 31, 1999, includes loans extended to COMTIM, ROMAN, and SIDEX, guaranteed by SOF deposits.

### V. Ceilings on Contracting or Guaranteeing of Medium- and Long-Term External Debt

(In millions of U.S. dollars)				
	More than one- and up to three-year maturity		More than one-year maturity	
	Ceiling	Actual	Ceiling	Actual
Stock as of				
March 31, 1999 (indicative)		146		701
July 31, 1999 (performance criterion)	600		1,680	
October 31, 1999 (perf. criterion)	800		2,490	
December 31, 1999 (performance criterion)	800		3,100	

The ceilings apply to the contracting or guaranteeing of external non-concessional debt with original maturities over one year by the consolidated general government, the NBR, the régies autonomes, and other enterprises and commercial banks in which the government or the State Ownership Fund has a majority interest. The ceilings also apply to any assumption of loans for debt outstanding which were not previously contracted or guaranteed by the consolidated general government. For the NBR, refinancing of maturing bonds in mid-1999 due to Merrill Lynch and Nomura Samurai will be included in the debt ceiling.

The consolidated general government is defined in Annex B-III. As regards to commercial banks, these are comprised of Bancorex, Romanian Commercial Bank (RCB), Banca Agricola, Eximbank, and the Savings Bank (CEC). Excluded from the ceilings are revolving import financing lines extended for over one year, short-term liabilities of the banking system, as well as liabilities to the IMF and bridge loans from the BIS, foreign banks, foreign governments, or any other financial institution. Debt falling within the ceilings shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee becomes effective. Excluded from the limits are sales of T-bills to non-residents, provided the sales go through the regular auction mechanism and involve no exchange rate guarantees and loans that are considered concessional.

The ceilings will be adjusted in the following circumstance:

In the event that any of the commercial banks in which the consolidated general government or State Ownership Fund has a majority interest is privatized, their contracting or guaranteeing of non-concessional medium- and long-term debt would be excluded from the ceilings. The concessionality of the new borrowing will be determined on the basis of the financing costs (interest charges and other) and repayment terms (maturity) as follows: concessional loans will be

defined as those with a grant element of at least 35 percent. The concessionality of a loan will be determined by comparing the net present value of the interest and principal repayments with the nominal value of the loan. The net present value of interest and principal repayments will be discounted based on the OECD “Commercial Interest Reference Rates” (CIRR) for the currency of the loan plus a margin. For loans with a repayment period of less than 15 years, the discount rate will be equal to the CIRR rate of the six-month period preceding the date on which the loan was contracted plus a margin of 0.75 percent. For loans with maturities of 15 years or more, the discount rate will be equal to the average of the CIRRs in the ten years preceding the date on which the loan was contracted plus a margin that varies according to the maturity of the loan. For loans of more than 15 to 19 years, the margin will be 1.0 percent, for loans of 20 to 29 years the margin will be 1.15 percent, and for loans of 30 years or more 1.25 percent.

The ceilings shall be monitored from data supplied monthly to the Fund by the Ministry of Finance and the NBR.

## VI. Ceilings on Short-Term External Debt Outstanding

	Ceilings	Actual
(In millions of U.S. dollars)		
Stock as of:		
March 31, 1999		1.7
July 31, 1999 (performance criterion)	1.7	
October 31, 1999 (performance criterion)	1.7	
December 31, 1999 (performance criterion)	1.7	

The ceilings apply to the stock of short-term debt with original maturities of up to and including one year contracted or guaranteed by the consolidated general government, the NBR, the régies autonomes, and other enterprises in which the government or the State Ownership Fund has a majority interest. The consolidated general government is defined in Annex B-III. Short-term debt includes all short-term obligations other than normal import-related credits; outstanding balances under bilateral payments arrangements are included in calculating short-term debt. The ceilings also apply to debt instruments with put options that would be triggered within one year after the contracting date. Excluded from the ceilings are short-term liabilities of the banking system, as defined in Annex B-VIII. Debt falling within the limits shall be valued in U.S. dollars at the prevailing exchange rate. Such debt—corresponding to outstanding balances in bilateral payments agreements with Bulgaria and Pakistan—amounted to US\$1.7 million as of end-March 1999.

The ceilings will be adjusted in the following circumstance:

(1) In the event that any of the commercial banks in which the consolidated general government or State Ownership Fund has a majority interest is privatized, their short-term borrowing would be excluded from the ceilings.

The ceilings shall be monitored from data supplied monthly to the Fund by the Ministry of Finance and the NBR.

VII. Ceilings on Domestic Arrears to  
CONEL, ROMGAZ, and PETROM

	Ceilings				Actual			
	Total	CONEL	ROMGAZ	PETROM	Total	CONEL	ROMGAZ	PETROM
(In billions of lei)								
Stock of arrears as of:								
February 28, 1999					10,607	4,116	2,443	4,048
March 31, 1999								
(indicative)	10,607	4,116	2,443	4,048				
July 31, 1999								
(performance criterion)	10,607	4,116	2,443	4,048				
October 31, 1999								
(performance criterion)	10,607	4,116	2,443	4,048				
December 31, 1999								
(performance criterion)	10,607	4,116	2,443	4,048				

The ceilings will apply to any increase in payments arrears from the March 31, 1999 level. Arrears refer to accounts receivables more than 30 days overdue. For program purposes, payments arrears to CONEL, ROMGAZ, and PETROM include arrears from any domestic customers, including entities of the general government (as defined in Annex B-III), enterprises with majority state ownership, mixed ownership, and private legal and physical persons. Any arrears which are rescheduled will be specified in the reporting.

Data for monitoring purposes shall be supplied monthly to the Fund by the Ministry of Finance.

VIII. Floor on the Net Reduction of Arrears of CONEL, ROMGAZ, and  
PETROM to the Consolidated General Government

	Floor	Actual
(In billions of lei)		
Estimated stock of arrears of CONEL, ROMGAZ, and PETROM to the consolidated general government at end-May 1999 <sup>4/</sup>		6,359
Net cumulative reduction of arrears of CONEL, ROMGAZ, and PETROM to the consolidated general government		
July 31, 1999 (performance criterion)	300	
October 31, 1999 (performance criterion)	1,200	
December 31, 1999 (performance criterion)	2,000	

The consolidated general government is defined in Annex B-III.

The floors will apply to any net decrease starting end-May 1999. Arrears include all overdue payment obligations to the consolidated government budget, i.e., including on taxes, excises, social security contributions, exploration royalties, and loan repayments.

Rescheduling of arrears will not be counted as a reduction of arrears under this performance criterion.

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<sup>4/</sup> This figure excludes arrears to social security funds and local governments, which are, however, covered under the performance criterion.

## IX. Ceiling on Aggregate Wage Bills of Régies Autonomes and National Companies, Commercial Companies, and the State Budget Sector

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The wage bills of the state budget, the régies autonomes and national companies, and 24 of the largest loss-making commercial companies will be restricted along the following lines:

The wage bill for the state budget will rise by 28 percent in nominal terms over the whole of 1999. The annual wage bills in RAs and national companies will be limited to four times their level in Q4 1998 (four times lei 4,128 billion for the RAs and national companies and four times lei 353 billion for commercial companies).

The cumulative ceilings for the aggregate wage bill of the state budget, RAs and national companies, and 24 of the largest loss-making enterprises will be:

January–March 1999:	lei 9,894 billion (estimate)
January–July 1999:	lei 24,082 billion (performance criterion)
January–October 1999:	lei 33,619 billion (performance criterion)
January–December 1999:	lei 39,752 billion (performance criterion)

Underlying these aggregate targets are the following ceilings by sector:

The cumulative wage bill ceilings for the state budget sector under this policy are: lei 5,110 billion for January–March; lei 12,920 billion for January–July; lei 17,673 billion for January–October; and lei 21,140 billion for January–December.

The wage ceilings for the 24 commercial companies: lei 367 billion for January–March; lei 856 billion for January–July; lei 1,223 billion for January–October; and lei 1,440 billion for January–December.

The wage ceilings for the RAs are: lei 4,417 billion for January–March; lei 10,306 billion for January–July; lei 14,723 billion for January–October; and lei 17,172 billion for January–December.

This performance criterion will be measured in a cumulative way across the different sectors, and over time.

The Ministry of Labor and Social Protection will undertake the responsibility of collecting data from the Ministry of Finance (budgetary sector), various line ministries (RAs and national companies), and the SOF (24 commercial companies), and will report to the Fund on a monthly basis.

X. Indicative Targets for Floor on  
Net Foreign Assets of the Banking System

	Floor	Actual
(In millions of U.S. dollars)		
Stock as of:		
March 31, 1999		490
July 31, 1999	671	
October 31, 1999	904	
December 31, 1999	1,079	

Net foreign assets of the banking system consist of foreign reserve assets minus foreign liabilities.

For the purposes of the program, reserve assets shall be defined as monetary gold, holdings of SDRs, any reserve position in the IMF, and holdings of foreign exchange in convertible currencies by the NBR and the commercial banks. Excluded from reserve assets are long-term assets, any assets in nonconvertible currencies, and precious metals other than gold. Monetary gold shall be valued at an accounting price of US\$280.4 per ounce and SDRs at US\$1.355109 per SDR. On March 31, 1999, reserve assets of the banking system as defined above amounted to US\$3,300 million, including gold valued at US\$908 million.

For the purposes of the program, foreign liabilities shall be defined as short- and medium- and long-term liabilities of the NBR and the commercial banks in convertible currencies to nonresidents, as well as liabilities arising from IMF purchases and bridge loans from the BIS, foreign banks, foreign governments, or any other financial institution, irrespective of their maturity. On March 31, 1999, the foreign liabilities of Romania's banking system, as defined above, amounted to US\$2,810 million.

All assets and liabilities denominated in convertible currencies other than the U.S. dollar, including the SDR, shall be converted at their respective exchange rates against the U.S. dollar on March 31, 1999. All changes of definition or valuation of assets or liabilities as well as details of operations concerning sales, purchases, or swap operations of gold shall also be communicated to the Fund staff.

The floor on the net foreign assets of the banking system will be adjusted in the following



circumstances: The NFA of the NBR during the program period will be subject to two automatic adjusters. The first will adjust the NFA of the NBR for the amounts the gross foreign financing deviates from the programmed levels (specified in (c) below on a cumulative basis). Specifically, if the proceeds from foreign financing:

(a) exceed the program limits, the NFA floor for the quarter will be increased by 100 percent of the additional financing;

(b) fall short of the program limits, the NFA floor will be reduced by US\$330 million for end-July but for the remainder of the year the amount of cumulative adjustment cannot exceed US\$200 million;

(c)	July 1999:	US\$330 million
	October 1999:	US\$568 million
	December 1999:	US\$652 million

## XI. Indicative Targets for Ceilings on Average Reserve Money

	Ceilings	Actual
(In billions of lei)		
Stock as of:		
March 31, 1999		19,463
July 31, 1999	21,874	
October 31, 1999	23,464	
December 31, 1999	25,495	

Average reserve money is defined as the sum of average currency in circulation outside the NBR and average deposits (required plus excess reserves) of the commercial banks at the NBR. Commercial bank deposits exclude required and excess reserves in foreign exchange for foreign exchange deposits.

Data on reserve money will be monitored from the daily indicators data of the NBR, which shall be supplied to the Fund weekly by the NBR. On March 31, 1999, currency in circulation outside the NBR amounted to lei 12,283 billion, while average deposits of the commercial banks at the NBR amounted to lei 7,180 billion. Estimates of the stock of average reserve money derived from NBR accounts will be provided on a weekly basis to the Fund.

The ceilings on average reserve money will be adjusted in the following circumstance:

(1) Should reserve requirements be changed from 15 percent on all required reserves held in lei, the reserve money targets would be adjusted by multiplying the change in the reserve requirements by the programmed deposits for which required reserves are held in lei, if the motivation for changing the reserve requirements is to switch between different sterilization instruments. Before making any such changes, the NBR will consult with Fund staff.

The adjuster could be reconsidered during program reviews.

## XII. Indicative Targets for Ceilings on Broad Money

	Ceilings	Actual
(In billions of lei)		
Stock as of:		
March 31, 1999		100,761
July 31, 1999	110,001	
October 31, 1999	116,451	
December 31, 1999	124,505	

Broad money is defined as the liabilities of the banking system with the non-bank public. Broad money includes foreign currency deposits of residents, but excludes government deposits and deposits of foreign monetary institutions and other non-residents.

For the purposes of the program, net foreign assets and deposits which are denominated in foreign currency will be converted into lei at the accounting end-of-period exchange rates: July 31, 1999, 15,987 lei/dollar; October 31, 16,821 lei/dollar; December 31, 1999, 17,476 lei/dollar. Foreign currency denominated credit will be converted into lei at the end-December 1998 exchange rate of 10,951 lei/dollar. The exchange rate at end-March 1999 was 14,925 lei/dollar.

Data on broad money will be monitored from the monthly data on the accounts of the banks and the banking system, which shall be supplied to the Fund monthly by the NBR. On March 31, 1999, broad money comprised currency outside banks of lei 11,523 billion; lei deposits of lei 50,250 billion; and foreign currency deposits of US\$2,612 million, valued at the March 31, 1999, exchange rate of 14,925 lei/dollar.

The ceiling for end-December 1999 includes estimates of end-year interest payments by the Savings Bank (CEC). The program assumes interest payments of lei 2.5 trillion at end-December 1999.

The ceiling on broad money will be adjusted under the following circumstance:

(1) When Romtelecom deposits of US\$227 million are moved to “other liabilities” of the NBR due to the restructuring of Bancorex, broad money targets will be adjusted downwards by an equivalent amount.

## **Banking Supervision Issues**

### **1. Systemic risk issues**

Given the authorities' awareness of the important risks in the banking sector, the NBR's Special Supervision Commission (SSC) will elaborate the instruments and the strategy to restructure and maintain confidence in the banking sector and to prevent systemic bank distress situations. To this end, and in accordance with a time schedule which has been transmitted to the Fund, the NBR will address the following issues:

- a review of the individual banks, on the basis of all the available data, in order to establish their net worth;
- the distinction that is made between viable and non-viable banks;
- the definition of the criteria on the basis of which this analysis is performed;
- the list of the problem banks that have to be treated with special allocation of resources, both on-site and off-site;
- organization by the NBR of external audits, based on IAS standards, the results of which will be reported to the Fund. As agreed with the Fund, the first audits will relate to the financial positions of the Romanian Commercial Bank and Banca Agricola. They will be addressed to the Fund by end-July 1999 as a condition for the completion of the first review under the stand-by arrangement;
- based on the external audits, the NBR will elaborate the list of problem banks with a detailed description of the problems and the supervisory action to be undertaken, as well as the estimated outcome of the action. The methodology and criteria used in this respect shall be explained.

### **2. Contingency plan**

The SSC shall of course also address the measures that should be envisaged if, by any event, a generalized bank distress situation should arise. A proactive approach in this field is indeed a standard preoccupation of every bank supervisor. The measures that are to be taken must also be consistent with the overall restructuring strategy of the sector:

- the confidence of the public should be enhanced by a transparent and efficient deposit guarantee system; special attention will be given to ensure the existence of these conditions, and in particular the possibility of prompt payments to the public;

- banks that present reasonable viability perspectives should receive, if and when needed, the necessary liquidity to meet current obligations; as much as possible this support should be collateralized in the normal way; if traditional collateral is insufficient, non-traditional collateral, for instance real estate and loans to banks, can be considered;
- banks applying for support against favorable terms, as their conditions weaken, will be placed under special administration, and will present a business plan demonstrating their capacity to restore their capital adequacy and profitability over a given period of time. Those that appear unviable will need to be closed;
- the necessary measures to ensure smooth liquidation procedures will be taken in order not to distort the relevant markets;
- in view of a possible emergency situation, press statements need to be prepared that demonstrably meet as much as possible the following objectives:
  - acknowledgement of the problems in the banking sector, and that the authorities are taking all possible actions;
  - announcement of the imposition of administration over bank X;
  - announcement that the deposit holders of bank X will benefit from the deposit guarantee;
  - announcement of a policy of rehabilitation of this bank, and of withdrawal of support from others;
  - policy consensus between the NBR and the Ministry of Finance.
- all communications on banking sector restructuring will be centralized; inconsistent information from different sources will be avoided by adequate coordination measures taken by the NBR.

### 3. Legislative measures

The NBR has undertaken to examine the general legal framework in which banks operate in order to reduce or eliminate impediments to efficient management of banks. A preliminary general assessment of the following issues was addressed to the Fund:

- the management powers of the special administrator, in particular with regard to preparing the banks for privatization or—in the absence of viability perspectives—for closure and orderly liquidation;
- impediments to rapid payments by the deposit guarantee system, which should be eliminated by appropriate changes to the legislation.

#### 4. Strengthening the supervisory capacities of the NBR

A special working group of the NBR, chaired by the Vice Governor in charge of banking supervision, will address the improvement of the prudential supervision. In May, this group reported to the Fund on the general roadmap to be followed in order to implement the recommendations provided by the Operational Audit Report (OAR) that has been elaborated in accordance with the terms of reference issued by EU-Phare. The NBR's special working group will report monthly to the Board of the NBR.

The first regular report of this working group has been sent to the Fund. The Fund's expert will receive a copy of the report and will assist the meetings. Pending his arrival, a copy of the report will be transmitted to the Fund.

#### 5. Currency position monitoring of banks

As to the existing draft proposal on monitoring currency positions, it is recognized that this proposal only addresses the banks' total currency position, without regard for the possible concentration in a limited number of currencies, the compensating positions in different time bands, the risk concentration element, the necessity of a consolidated approach and the intra-day risk of excessive currency positions. The draft shall furthermore be amended in order to impose banks to submit a detailed description of their administrative organization, procedures and risk management measures in place, in order to undertake in a professional way foreign currency activities. Banks that are not presenting the necessary guarantees in this respect shall not be authorized to engage in foreign currency operations.

#### 6. The Basle Core Principles of Banking Supervision

In a more general way, the institutional framework and the operational approach of banking supervision in Romania will be closely linked to the Basle Committee's Core Principles of Banking Supervision. The resident Fund expert's advice will be requested on this issue in the coming weeks and a detailed list of the main gaps will be transmitted to the Fund, accompanied by a time schedule that will be observed in order to comply fully with these principles.

## **Monitoring System for Budget Implementation**

Budget implementation in line with our targets is of critical importance for the success of our program. In order to provide an early warning system that would trigger recourse to our already identified budgetary contingency measures, we have developed the following comprehensive and timely monitoring system.

### **A. Overall Budget Execution**

The monthly execution of the consolidated budget on a functional classification basis will be provided in the week after the 25<sup>th</sup> day of the following month. Estimates on an economic basis will be provided on a quarterly basis with a three week lag.

### **B. Wage Data**

Performance of the state budget wage bill will be monitored in two ways:

- monthly data on credit lines for wages out of the state budget with a lag of one week;
- monthly data on actual personnel expenditure (disaggregated into the wage bill, social security contributions, unemployment fund contributions, health social security contributions, and travel and other allowances) to become available with a three week lag.

### **C. Social Security Funds**

Monthly data on the average benefit, the average number of beneficiaries, and the total fund expenditures for the state social security fund and unemployment fund will be provided after the 25<sup>th</sup> day of the following month.

### **D. Revenue**

Monthly data on state budget revenue collections will be provided with a one-week lag.

### **E. Financing Operations of the Budget**

Comprehensive monthly data on the budget deficit financing operations of the budget will be provided with a three-week lag (see table 1). Weekly domestic bank financing data (i.e., block I of table 1) will also be provided.



Table 1: Financing of the Consolidated Government

**1. Domestic bank financing:**

	Stock at December 31, 1998	most recent stock
Treasury bills outstanding		
Bonds		
Foreign currency domestic debt (in US\$)		
Balance on treasury account		

**2. Domestic non-bank financing**

	Stock at December 31, 1998	most recent stock
Treasury bills held by nonbanks		

**3. Net external financing (flow)**

	Cumulative flow from January 1, 1999
Net external financing (in US\$)	
Disbursements	
Amortization	

**4. Privatization proceeds**

	Cumulative flow from January 1, 1999
Inflows into SOF resulting from privatizations	