Romania: Letter of Intent and Technical Memorandum of Understanding

June 9, 2011

The following item is a Letter of Intent of the government of Romania, which describes the policies that Romania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Romania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Mr. John Lipsky  
The Acting Managing Director  
International Monetary Fund  
Washington, DC, 20431  
U.S.A.

Dear Mr. Lipsky:

1. The new economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB) is on track to boost potential growth and maintain fiscal and financial stability. The economy has stabilized and growth is now resuming. We continue to expect growth of 1½ percent in 2011, rising to 3¾–4 percent in 2012, fueled by continued strong exports and a gradual recovery in domestic demand. Inflation is higher than expected, due to increased food and energy prices. These factors, plus further needed increases in administered prices, will keep inflation above 5 percent for the remainder of the year, making the achievement of the NBR’s end-2011 inflation target improbable. The current account deficit has shrunk considerably to 4.1 percent of GDP in 2010, and is expected to remain below 5 percent of GDP in 2011–12. Continued firm policy implementation is required to safeguard against risks, as the recovery remains vulnerable to adverse developments in international financial markets, via rising risk premia and more volatile capital inflows, and to downside risks to euro area recovery.

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

- Quantitative performance criteria and indicative targets. All end-March 2011 quantitative performance criteria and indicative targets were observed. The floor on general government balance is met with a significant margin of 0.2 percent of GDP. In addition, inflation remained within the inner band of the inflation consultation mechanism throughout the period.

- Structural benchmarks. Preparation of strategic action plans for key state-owned enterprises (SOEs) has been completed. We have also completed the stocktaking of arrears for the general government and state-owned enterprises, but we are awaiting final audited accounts in SOEs to fully fulfill the structural benchmark and expect to meet it by the time of the Board meeting (prior action).
3. In view of our strong performance under the macroeconomic program supported by the Stand-By Arrangement (SBA), the Government of Romania and the National Bank of Romania (NBR) request completion of the first review under the SBA. We intend to continue to treat the arrangement as precautionary.

4. We believe that the policies set forth in the letter of March 10, 2011 and in this Letter are adequate to achieve the objectives of our economic program, but we stand ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the European Commission (EC) with the necessary information for program monitoring.

Fiscal Policy

5. For 2011, we remain committed to the cash fiscal deficit target of 4.4 percent of GDP (or within 5 percent in ESA terms) and are on track to meet it. Revenues (net of EU funds) were slightly above expectations in the first quarter, while both current and capital expenditures were below the program, allowing us to meet the deficit target with a comfortable margin. For the remainder of the year, we will continue implementing policies outlined in the previous LOI of March 10, 2011. On the expenditure side, we will continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds (¶10), if needed using the additional resources allocated to investment in the first half of the year.¹ We will maintain tight control on current spending, including by continuing to rationalize public employment (which has declined by another 15,000 to 1.25 million in the first quarter of 2011). By end-August, we will improve the legislation to provide heating allowances to target the vulnerable members of society, while generating significant savings for the budget. We have temporarily increased distribution of dividends from 2010 and 2011 profits of state-owned enterprises (SOEs), which will allow us to pay for unregistered bills uncovered in the stocktaking exercise. Should the economic recovery create sufficient fiscal space, we will consider a gradual reduction in social contributions. We will also continue our improvements in tax administration to improve the yield from existing taxes (¶9). We will improve the reporting system for the state-owned enterprises (SOEs) that are to be added to the ESA definition of the general government² and with the technical assistance of Eurostat, enhance our ability to measure the fiscal deficit on an accrual basis. Once this system is fully

¹ As indicated in our March letter, if absorption improves sufficiently we will work on solutions to create greater fiscal space for investment from mid-2011.
² Specifically, we will require monthly cash revenues, expenditures, and overdue payment bills statements as well as final quarterly fiscal statements as provided by other general government entities within the same deadline.
functional, we will request that the performance criterion on general government overall balance be amended to include the operating balance of these entities.

6. For 2012, we remain committed to bringing the deficit down to within 3 percent of GDP (in both cash and ESA terms). This will require continued expenditure restraint, including on the wage bill and subsidies, and may require additional measures to compensate for the inclusion of the aforementioned SOEs into the general government. Health reforms, pension reform, and effective implementation of means testing for social programs will continue to generate savings. We will strictly limit further *ad hoc* changes to the tax system to ensure predictability and stability. We are finalizing the medium-term Fiscal Strategy for 2012–14 and will use this process to improve 2012 budget planning, commit to the specified expenditure ceilings, and solidify our commitment to the Maastricht targets. We will continue to support the recently established independent Fiscal Council, by providing it with adequate information and funding.

7. Arrears and unpaid bills of the general government (excluding SOEs) have been declining since the beginning of the year. Arrears now stand below 0.2 percent of GDP (almost entirely in the local governments). We have conducted a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs.\(^3\) This exercise has revealed about 0.1 percent of GDP in unregistered bills in the health sector and no unregistered bills at the central government level. At the local level, there are unregistered bills related to VAT payments (about 0.1 percent of GDP) within the government that do not require cash settlements. We will examine the received bills for their validity,\(^4\) and no payments will be authorized for any previous bills not registered in this exercise. In SOEs, arrears have continued to rise in the first quarter of 2011, climbing by nearly 0.1 percent of GDP. We have developed an action plan to deal with arrears, with the following key elements:

- After verifying the validity of bills in the *health sector*, we will repay arrears in full by end-2011. The continuation of health reforms (¶12) is paramount to precluding the accumulation of any new arrears.

- At the *local level*, the new amendments to the local government public finance law will bar accumulation of arrears, and we will vigorously enforce the new law.

- Over the next two years the *period for paying bills submitted* to the central government and social security system will be gradually reduced. The EU directive 7 in this area will be transposed into Romanian law on a timely basis.

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\(^3\) For local government SOEs, the stocktaking of arrears and unpaid bills as of end-December will be completed by end-June 2011.

\(^4\) If required, the data will be verified with the help of external audit teams.
• For SOEs, arrears will be dealt with by six different mechanisms: (i) nonviable firms will be moved into bankruptcy, allowing the legal procedures to handle creditor claims; (ii) firms with sufficient positive cash flow will be required to pay down arrears on an agreed schedule; (iii) the government will develop arrangements to cancel or forgive arrears to the state itself, (iv) in appropriate cases (and with the clearance of EU competition authorities), the government will explore capital increases and/or financial support to provide resources to pay arrears; and (v) the government will design and launch mechanisms to facilitate restructuring and securitizing SOE arrears; and (vi) where possible, debt-equity swaps or privatization proceeds could be used to cancel arrears. These mechanisms will be developed by mid-July (structural benchmark) and we will consult with IMF and EU staff and EU competition authorities in the design of these schemes. Firms’ participation in them will be strictly conditioned on their successful execution of agreed action plans to assure that arrears do not re-accumulate.

• The first phase in the integration of the accounting reporting system with the Treasury payment system was completed in March. The next phase, the design of the system, including the commitment control and reporting module for all levels of government, will be completed by end-September 2011.

8. We have improved our financing strategy and will continue to focus on extending the maturity of our domestic debt, building the yield curve, and consolidating the financial buffers. We are finalizing documentation to launch a “euro medium-term notes” program that will maintain our presence in the external markets under more flexible issuance procedures and we expect to issue the first bond under this program by mid-year. To protect government finances against unforeseen external shocks, we are firmly committed to continuing raising financial buffers to around four months of financing needs during 2011–12 and maintaining them there. As mentioned in the previous LOI, to enhance our capabilities, in 2011 we will conduct a formal review of our debt management strategy with the assistance of IMF, EC, and WB experts. We will also improve treasury information technology (IT) systems and strengthen senior staffing.

9. Improving tax administration and fighting tax evasion are crucial elements of our strategy to increase revenue. We are making progress on implementing the recently approved ordinance relating to high net wealth individuals, and the government decision on indirect audit methods; however, additional efforts are needed. An organizational strategy and implementation plan for incorporating indirect audit methods into our compliance functions will be done by end-June 2011. We will pass the government decision on ANAF restructuring (prior action) that will allow us to staff the Tax Verification Directorate by July and we will close approximately 150 regional offices by end-September. We will also develop and implement a compliance risk strategy in accordance with best practices by September 2011. With help from the IMF and EC, we will introduce simplified taxation for smaller taxpayers in key economic sectors under the threshold, while requesting a shift in the
VAT mandatory threshold from the EU Council of Ministers to €50,000 (structural benchmark, end-December 2011). We are planning expansion of e-filing and further simplification of tax forms and the number of payments required with a view to providing a one-stop shop for tax payments. We will continue our efforts to introduce IT systems and consolidate the IT department in ANAF to improve tax administration. We will also improve the activity of the central point for screening and referral of potential cases of tax fraud and will continue to strengthen guidelines for identification of tax fraud. Having incorporated the stimulente into the base wage, we have prepared the government ordinance to eliminate the legal basis of all stimulente funds effective January 1, 2012 and will pass it by end-August (structural benchmark). To encourage tax collection efforts, performance bonuses may be granted to tax collectors within the 30 percent bonus limit (as defined in the implementing legislation) for sustained improvements in revenues.

10. The accelerated absorption of EU funds remains a focal objective of the government. We are focusing on strengthening the administrative capacity of units managing the funds; modernizing and consolidating the legislative and regulatory framework for public investment and other fields relevant for EU fund absorption. The government has moved the EU structural funds coordination unit from the MOPF to the Prime Minister’s office and will strengthen its authority and staffing. In particular, we are committed to completing all preaccession projects by the agreed dates so as to avoid having to return funds to the EU. We will create facilities for reallocating the budget resources during the year to those ministries with the best EU funds absorption performance and a track record of efficient project implementation. We will improve the efficiency of public procurement process by developing standard bidding documents in key subsectors by end-September to reduce the grounds for contesting public tenders. We will also revise the PPP law by end-July to ensure that it conforms to EU procurement directives.

11. We are focusing on prioritizing investment to assure sufficient financing for key projects. We are conducting a comprehensive review of the existing investment portfolio to prioritize and evaluate the existing stock of projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), to discontinue low priority and non-performing projects that cannot be fully financed within this horizon, and to produce a database by June and a final report and an action plan by end-September 2011 (structural benchmark).

12. We are continuing efforts to restructure the health sector to ensure the quality functioning of the system within budgetary allocations, but additional action is needed to avoid a continued mismatch between healthcare service obligations and available resources. Arrears have been nearly eliminated, but additional unpaid bills of some RON 500 million were uncovered in the stocktaking exercise, and on current trends it appears that a shortfall would exist compared to the budget allocation and we will address it in the mid-year supplementary budget. Significant savings may be expected when the current restructuring measures are completed, but additional budgetary allocations will likely be needed until the
reforms are fully implemented. Moreover, in the medium-term, the challenge of population aging will have to be factored into spending projections.

13. Health reform measures are underway in the following areas:

- **Revenue enhancements.** To improve income, the threshold for social contribution payments of pensioners was lowered in 2011. Work has finalized on the mechanism to apply the clawback tax for pharmaceuticals and the tax went into effect at end-April. Legislation to introduce modest copayments for medical services has been approved by the Senate and is under consideration in Chamber of Deputies. Approval is expected in the coming months, with the copayments expected to go into effect in 2012.

- **Global spending measures.** Progress continues on implementing new IT systems. The auditing of patient registries is underway and will be completed by end-2011. As of 2012, new health cards for all participants will help control fraud and abuse in the system and better monitor spending commitments. We are reforming, with assistance from the WB, the package of benefits insured by the government to exclude coverage of costly nonessential health services. This new benefits package would be implemented next year.

- **Hospital expenditures.** Restructuring of the hospital system is underway. As of April, 67 hospitals have been eliminated from the system, with incentives for them to be converted into nursing homes. A three year plan is being implemented to reduce the number of financed hospital beds to the EU per capita average by 2013, while also adapting acute beds accordingly. As of July, the number of beds will fall from 135,200 to 129,500. Legislation has been approved to eliminate mandatory contracting with hospitals and to introduce competitive contracting. Over time, this should allow for a further rationalization of the number of hospitals. For 2011, in meeting the objective of 10 percent fewer inpatient admissions we will achieve a corresponding cut in the budgets of hospitals. Reclassification of hospitals is underway, based on which financing mechanisms will be adjusted in the future, to compensate more fairly hospitals providing more complex treatment, while reducing financing for others.

- **Pharmaceutical expenditures.** Significant savings are already anticipated through reference prices and the greater use of generic drugs on schedules A, B, C1, and C3. For the C2 schedule, we will develop procedures and mechanisms that will lead to a reduction in the spending on these drugs, including settlement prices, and wherever possible, a revision of the list of compensated and free drugs and moving to generics. For 2012, pharmaceutical costs of the most expensive drugs will be further controlled by applying strict drug use protocols and a new electronic prescription module for the National Health Information System, following strict procedures.
**Physician expenditures.** We have reduced the share of per-capita reimbursement of primary care physicians from 70 to 50 percent. We have also begun producing indicative caps for quarterly services contracted with hospitals and physicians—as well as prescriptions issued—and will develop financial incentives for physicians who remain within the ceilings.

14. Improving the efficiency of social protection will remain a priority, especially in the area of social inspection. A new Social Assistance Code has been drafted, which will consolidate the existing 54 categories of social benefits into 9. Our efforts in social inspection have yielded significant results, as the number of beneficiaries of heating allowances has declined by half in 2011. The overall measures on social benefit reforms will result in fiscal savings of around 0.8 percent of GDP in 2010-13.

**Financial Sector**

15. Banking sector aggregates continue to be affected by the economic downturn experienced in the past two years. Non-performing loans continued to rise through end-March, reaching 12.7 percent of total loans (compared to 11.9 percent in December 2010). Lending to the private sector declined, as did deposits. However, the banking sector returned to profitability during the first quarter and remains well capitalized, with an average solvency ratio of 14.7 percent. All banks retained a ratio above 11 percent. In a meeting of the European Bank Coordination Initiative held on March 16, the parent banks of the nine largest foreign-owned banks operating in Romania affirmed their long-term capital and exposure commitments to the country, but without quantitative targets. At the end of March 2011, the aggregate exposure of these banks stood at 97 percent of the level when the Initiative commenced. We will preserve good governance at banks, including state owned banks, and safeguard their operational independence by ensuring that all directors and managers are deemed by the NBR to be suitably experienced and ‘fit and proper’ for their responsibilities.

16. We continue to review the DGF, banking and winding-up legislation and will make any changes necessary to ensure their mutual consistency. Parliamentary ratification of earlier amendments to the winding-up legislation remains to be completed. The passage of amendments to the Deposit Guarantee Fund (DGF) law to allow for the use of the resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorized by the National Bank of Romania regarding the transfer of deposits, including purchase and assumptions, if such use would be less costly than the direct payment of deposit guarantees, has been delayed by ongoing discussions on bank resolution issues with staff of the European Commission and the Fund. Accordingly we now anticipate completing this structural benchmark by end-November 2011 (modified benchmark). We have finished the testing stage for expanding the range of collateral eligible for NBR lending operations to include leu-denominated IFI issued bonds and euro-denominated sovereign bonds; implementation is expected by end-May.
17. We remain committed to the introduction of IFRS accounting standards in the banking system beginning in 2012. To achieve this, by end-June the NBR will release for consultation draft proposals for prudential filters that would preserve prudent bank solvency, provisions, and reserves. The authorities will ensure, by the end of 2011, that the prudential treatment of debt-for-equity swaps does not result in a weakening of banks’ financial positions and impose requirements for banks to have in place methodologies for valuing the equity at the lowest value applicable according to the accounting treatment. The NBR will also consult the industry on regulatory proposals to ensure that foreign currency credit to households is appropriately priced in order to reflect the risk represented by lending in foreign currency to unhedged borrowers. We will continue to consult with the IMF and EC staff before introducing or amending other aspects of the regulatory framework and make efforts to avoid adopting legislative initiatives, such as the current draft of the personal insolvency law or proposals for the debt collecting law, which could undermine debtor discipline.

**Monetary and Exchange Rate Policy**

18. The NBR’s 2011 inflation target is now unlikely to be met due to the unexpected surge in international food and energy prices, as well as the envisaged adjustment of administered prices in the remainder of the year. The inflation consultation band with the Fund is also likely to be triggered later in the year. We now expect inflation to peak at 8½ percent in mid-year, before gradually declining to slightly above 5 percent by the end of 2011. While increases in core inflation (net of the VAT increase) remain limited so far, continued high headline inflation presents risks of rising inflationary expectations and consequent second round effects. To forestall such pressures, we will shift our monetary policy stance to a tightening bias and take action as needed to ensure 2012 inflation target is met. In particular, we will continue to improve our liquidity management so as to bring money market rates closer to the policy rate. At the same time, the NBR would remain alert to the potential risks of the return of significant capital inflows as the economy recovers. The leu appreciation (about 4 percent against the euro) in recent months has helped moderate inflationary pressures without as yet causing significant competitiveness effects.

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5 The prudential treatment of debt-for-equity swaps should guarantee that: (i) the involvement of credit institutions in such operations unfolds on the basis of a prudent decision making process; (ii) the value of equity is fully deducted from the own funds of credit institutions to avoid an artificial improvement in prudential indicators; and (iii) the revenues obtained by releasing loan-loss provisions due to these operations are not taxed, provided that the initial expenditures were not deductible.

6 Elimination of heating subsidies by the central government would constitute an upside risk of about ½ percentage points to this inflation forecast and increases in transport tariffs will also boost inflation.
Structural reforms

State-Owned Enterprises

19. We remain committed to deep-rooted reform of state-owned enterprises, especially in critical growth generating sectors such as energy and transport. The indicative targets on the operating balance and arrears of 18 key enterprises were met in the first quarter, and action plans have been prepared for each of them. Work is advancing on action plans for the remaining state firms, but additional efforts will be needed to meet the mid-July structural benchmark. We have compiled arrears data from the 154 central government SOEs as agreed. We have amended ordinance 79/2008 to require that regii autonome and enterprises subordinated to local governments submit quarterly key financial and operational indicators to the MOPF, and we will provide similar financial information for other central government state-owned enterprises as defined in the TMU.

20. To improve the governance of SOEs, we will develop and approve governance legislation by end-August 2011 (structural benchmark). This legislation will require all SOEs to have regular independent external audits, to report and publish financial data quarterly, to reinforce minority shareholder rights, and to move financial control of SOEs from line ministries to the MOPF. It will include an application code for all SOEs to ensure that OECD principles on corporate governance are applied. We will prohibit contract extensions for existing managers lasting beyond January 1, 2012. For the largest firms (to be determined by end-July) slated to remain under majority state control, the legislation will specify that all key management positions (including the CEO and CFO) will be filled only after an open international search process conducted by internationally recognized human resources firms. These managers will also be given sufficient autonomy to operate the firms free from undue interference. Board members of these firms will be selected by the shareholders and vetted by independent experts to assure that they are fully qualified to exercise their functions. Existing managers and board members could submit their applications and their professional qualifications would be considered. This management search will begin by end-August and private management teams will be selected by end-December to take office as soon as legally possible thereafter. In cases where significant minority stakes are to be sold, this timetable could be adjusted to allow for participation of the new minority shareholders. To make this effective, this may require changing Emergency Ordinance 3/2011, limiting remuneration.

21. We have begun stepped-up efforts to improve transport infrastructure and the operations of transport SOEs. Significant additional infrastructure projects using EU structural funds have been approved and project execution is beginning. Following the action plans for key firms, we have refined our plans in this area. Measures will include the following:
**Roads (CNADNR)**

- CNADNR will boost its revenues in 2011 while eliminating or renegotiating non-performing contracts. We will also increase revenues by creating the single road control authority for freight transport which will step up enforcement of weight and licensing requirements.
- Remaining standard costs for building and maintaining roads will be approved by end-September, and will be required on all new contracts.
- Personnel will be reduced by 622 positions by mid-July (compared with end 2010).
- We will pay CNADNR arrears (currently RON 737 million) due to investment projects by end-August.

**Railways**

- We have begun to extend the policy of standard costs in the railway system, particularly for railway infrastructure procurement and for repairing rolling stock. We are developing multi-annual plans for public procurement and investments in CFR Calatori and CFR Marfa, in line with transport needs and in connection with market evolution. In CFR Infrastructura, CFR Calatori and CFR Marfa we will continue to use fully depreciated assets. Restructured personnel will be provided with reintegration and training services. Arrears in the railway SOEs will be dealt with through different mechanisms, as specified in paragraph 7.
- **Cargo**—Restructuring is underway and is expected to reduce staffing by some 3,000 workers this year. A 20 percent stake in CFR Marfa will be offered by IPO or to a strategic investor by end-2011 with a view toward a full privatization when market conditions permit. We will appoint a legal advisor for the partial privatization by mid-July, and appoint an investment bank for the IPO by end-September. We will hire a private management team in CFR Marfa by end-January (as specified in ¶20). Subsidiaries will be integrated into the mother company by end-September, as agreed in the TMU.
- **Passenger**—Three (of four) subsidiaries will be integrated into CFR Calatori by end-September. Operating losses will reduced by 25 percent by end 2011 through territorial restructuring, reducing staffing by 1000 employees, closure of non-viable routes, reducing the number of trains where revenues are low, using standard costs for procurement procedures and reducing public service obligations by some 5 percent. Better cost recovery will be implemented by allowing for tariff adjustments by end-August.
- **Infrastructure**—Service reductions will also significantly improve the financial outlook for CFR Infrastructura. While avoiding unnecessary negative impact on freight transport, we will conclude the closure of 1000 kilometers of railway lines by end-August and will develop plans for competitive tendering of public service obligations and infrastructure.
maintenance on lines for another 20 percent of the system or close them. All subsidiaries except those specified in the TMU will be integrated into the mother company by end-September. Insolvency procedures will continue in the Tipografia subsidiary, while the Telecomunicatii and GEI Palat subsidiaries will be folded into the Ministry of Transport.

**Metropolitan transit**

- We will pass legislation by end-August to establish a new metropolitan transit authority that will oversee Metrorex together with the above ground public transport system in Bucharest (RATB). Another law will allow for tariff adjustments (beyond inflation-indexing) in line with the strategic plan of covering current expenditures through revenues and capital expenditures through subsidies. Metrorex will diminish maintenance costs by at least 30 percent by end 2011.

**Air transport**

- We will appoint a legal advisor by end-September to assist with the privatization of maximum 20 percent of TAROM via the stock exchange or to a strategic investor by mid-July. We will appoint an investment bank to manage the IPO by end-September and conclude partial privatization by end-December. We will hire a private management team in TAROM by end-January (as specified in ¶20).

The appointment of legal advisors for privatization of CFR Marfa and TAROM will be a structural benchmark for mid-July.

22. Securing efficient energy provision is crucial for sustainable growth. The energy sector suffers from underinvestment due to the effects of the economic downturn, the dominance of undercapitalized state-owned firms with room for efficiency improvements, and the fact that adjustments have not been fully applied in regulated prices and tariffs (due to concerns about effects on consumers). To address pricing and regulatory deficiencies, we will: (i) take the necessary steps, based on a timetable as specified in the attached TMU, to restore the energy regulator’s (ANRE) operational and financial autonomy in accordance with EU legislation (third energy package); (ii) As a prior action, a government ordinance will be approved to separate CUG prices between households and non-residential customers and allow ANRE full autonomy to adjust the CUG price for non-residential customers. Adjustments to the full CUG price will be made in 2 steps: one in June/July and one in Q4; (iii) present a roadmap for phasing out regulated prices in electricity and gas by end-September 2011; (iv) define the vulnerable consumers by end-2011 according to EU legislation and develop mechanisms to protect them (in conjunction with the Ministries of Finance and Labor); (v) complete removal, according to EU directives, of regulated prices for non-households in electricity and gas before end 2013 and complete the process by end-2015; and (vi) assure that new bilateral contracts signed by state-owned gas and electricity generators be made transparently and non-discriminately through OPCOM (electricity) and
other competitive procedures (gas), and that prices in existing contracts will be adjusted to prevailing market rates as quickly as legally permissible. If EU infringement procedures require faster action, we will comply with their requirements.

23. Much needed capital and managerial know-how will be brought to the energy sector through minority private investors (via IPOs or sales of stakes to strategic partners) in the following firms, with government approval: (i) Petrom (sale of a 10 percent stake is already underway); (ii) Transelectrica (15 percent stake and a capital increase); (iii) Transgaz (15 percent stake); (iv) Romgaz (15 percent stake); In each case, we will appoint a legal advisor for privatization by mid-July (structural benchmark), appoint an investment bank for privatization by end-September, and conclude the tenders by end-2011. In order to generate sizable additional investment in the energy strategy, we will also begin the process of offering minority stakes in Hidroelectrica and Nuclearelectrica (including both sale of an existing stake and a capital increase) with a view toward completing the process by end-March and end-June, 2012, respectively. Our strategy to form two national champion energy companies has been blocked by court rulings and, as agreed in the last LOI, we are developing an alternative strategy. To bring investment into the sector, we will move ahead with privatization of the energy complexes and Electrica Serv, in full compliance with EU competition regulations. In CNH, we will form separate legal entities splitting viable and non-viable coal mines by end-December after consultation with EU DG Competition. The viable assets will later be privatized and nonviable assets will be liquidated in line with EU rules. In Termoelectrica, we will also form separate legal entities for viable and nonviable assets by end-January after consultation with DG Competition. The viable assets will be prepared for privatization by March 2012. Finally, we will work on a comprehensive solution for the problems in the district heating companies by end-July.

24. Among other key SOEs, we have completed assessments for Oltchim and Posta Romana. In Oltchim, we intend to privatize the remaining public stake by end-2011. To achieve this, we will develop a solution for the firm’s heavy debts in the coming months. We will also appoint legal advisor for privatization of the remaining public participation to a strategic investor by end June, an investment bank for privatization by end-September, with completion of the tender by end-2011. For Posta Romana, we will complete implementation of our already approved restructuring plan which envisages elimination of losses by 2012 at the latest.

Labor Markets

25. We have made substantial reforms in the labor legislation. The new Labor Code, which has entered into force on April 30th, aims to improve labor market flexibility by promoting fixed-term and temporary employment, extending probation periods, and increasing the flexibility of working hours. The Social Dialogue Code, which modifies collective bargaining and other labor relations, has recently been cleared by the Constitutional Court and will soon be promulgated. Key elements of the social dialogue
reform include raising the representativity thresholds for both trade unions and employers’ associations, abolishing the collective bargaining at national level, and elimination of the automatic *erga-omnes* extension at sectoral level. We are committed to ensuring that the new legislation observes EU directives and core ILO and EU conventions.

26. Measures to reform the judiciary are underway, with a view to make it more effective, unifying the jurisprudence, and fighting against corruption, which will provide for a transparent business environment and boost the economic performance. One of the top ranking objectives of the Government related to the reform of the judiciary is the successful implementation of the new fundamental legal codes for Romania: the civil code, the criminal code, the civil procedure code and the criminal procedure code. The measures to be taken to implement these codes will be decided upon after the finalization of the impact studies currently in progress. We will also undertake reforms in the agricultural sector—including by speeding up the surveying and registration of agricultural land—to improve food security and increase export prospects.

**Program modifications and monitoring**

27. The program will continue to be monitored through regular reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. The quantitative targets for end-September 2011 and continuous performance criteria are set out in Table 1, and in the TMU, where an adjustor to the end-June performance criterion on general government balance has been added; and prior actions and structural benchmarks are set out in Table 2. The understandings between the Romanian authorities and IMF staff regarding the quantitative performance criteria and the structural measures described in this letter are further specified in the attached Technical Memorandum of Understanding.

/s
Gheorghe Ialomițianu
Minister of Public Finance

/s
Mugur Isarescu
Governor of the National Bank of Romania

Attachments
Table 1. Romania: Quantitative Program Targets

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<td>Dec Actual</td>
<td>March Prog.</td>
<td>June Prelim.</td>
<td>Sept Prog.</td>
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<td>I. Quantitative Performance Criteria</td>
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<td>1. Change in net foreign assets (mln euros) 1/ 2/ 3/</td>
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<td>2. Floor on general government overall balance (mln lei) 4/ 5/</td>
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<td>3. Stock of central government and social security arrears (bn lei)</td>
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<td>4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)</td>
<td>7.6</td>
<td>14.0</td>
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<td>II. Continuous Performance Criterion</td>
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<td>5. Nonaccumulation of external debt arrears</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>III. Inflation Consultation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. 12-month rate of inflation in consumer prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outer band (upper limit)</td>
<td>...</td>
<td>9.0</td>
<td>...</td>
<td>8.8</td>
</tr>
<tr>
<td>Inner band (upper limit)</td>
<td>...</td>
<td>8.0</td>
<td>...</td>
<td>7.8</td>
</tr>
<tr>
<td>Actual/Center point</td>
<td>8.0</td>
<td>7.0</td>
<td>8.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Inner band (lower limit)</td>
<td>...</td>
<td>6.0</td>
<td>...</td>
<td>5.8</td>
</tr>
<tr>
<td>Outer band (lower limit)</td>
<td>...</td>
<td>5.0</td>
<td>...</td>
<td>4.8</td>
</tr>
<tr>
<td>IV. Indicative Target</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. General government current primary spending (excl. EU funds and social assistance, mln lei) 4/</td>
<td>131,938</td>
<td>32,000</td>
<td>30,670</td>
<td>64,000</td>
</tr>
<tr>
<td>8. Operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/</td>
<td>-6.4</td>
<td>-1.7</td>
<td>-0.7</td>
<td>-2.7</td>
</tr>
<tr>
<td>9. Stock of arrears of key SOEs (as defined in TMU (bn. lei))</td>
<td>18.1</td>
<td>19.5</td>
<td>19.2</td>
<td>19.5</td>
</tr>
<tr>
<td>10. Stock of local government arrears (bn lei)</td>
<td>0.91</td>
<td>0.95</td>
<td>0.82</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Memorandum Item:

- Revenue of general government, net of EU funds (mln. lei) 4/ 1| 5/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to end-December 2010 stock.
3/ For March 2011 target, an adjuster for WB disbursement of 300 million euros is applied to the target of 250 million euros.
4/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
5/ The target for March 2011 is adjusted from -6300 to -7289 reflecting higher capital spending (6798) than defined in TMU (5740) and extra revenue.
Prior actions

1. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (¶19).
2. Pass the government decision on ANAF restructuring (¶9).
3. Approval of a government ordinance separating the CUG prices between households and non-residential customers and allowing ANRE full autonomy to adjust the CUG price to non-residential customers (¶22).

Quantitative performance criteria

1. Floor on general government overall balance March 31, 2011 Met
2. Ceiling on general government guarantees March 31, 2011 Met
3. Ceiling on central government and social security domestic arrears March 31, 2011 Met
4. Non-accumulation of external debt arrears March 31, 2011 Met
5. Floor on net foreign assets March 31, 2011 Met

Quantitative Indicative Target

1. Ceiling on general government current primary spending March 31, 2011 Met
2. Ceiling on local government domestic arrears March 31, 2011 Met
3. Floor on the operating balance and ceiling on arrears of key loss-making SOEs March 31, 2011 Met

Inflation consultation band

Inner band

Outer band

Structural benchmarks

1. Preparation of strategic action plans for key SOEs (as specified in TMU) (¶19).
2. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs April 30, 2011 Met
3. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (¶9).
4. Eliminate by government ordinance the legal basis of stimulente funds, effective January 1, 2012 (¶9).
5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions (¶16).
6. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan (¶11).

New structural benchmarks

1. Undertake SOE reforms, including (i) appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz (¶21,¶23); (ii) Preparation of action plans for the remaining SOEs of the central government (¶19); (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears (¶7).
2. Approve legislation to improve governance of SOEs (¶20).
1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the letter of intent (LOI), the key assumptions, 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 are listed in Tables 1 and 2 of the LOI, 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 2011 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), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF’s Manual on Government Finance Statistics 2001. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the LOI (¶5) and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat.

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

A. **Floor on the Change in Net Foreign Assets**

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

5. NFA of the NBR are defined as the euro value of gross foreign assets of the NBR (including reserve requirements of the commercial banking system held at the NBR) minus gross foreign liabilities of the NBR; and will be measured on the basis of the NBR’s
operational rather than accounting definitions. Non-euro denominated foreign assets and liabilities will be converted into euro at the program exchange rates.

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

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

<table>
<thead>
<tr>
<th>Floor on cumulative change in NFA from the beginning of the year (in mln. euros)</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December</td>
<td>March</td>
</tr>
<tr>
<td></td>
<td>(stock)</td>
<td>actual</td>
</tr>
<tr>
<td>Cumulative change in NFA</td>
<td>20,026</td>
<td>119²</td>
</tr>
<tr>
<td>Memorandum Item: Gross Foreign Assets</td>
<td>32,432</td>
<td>996</td>
</tr>
</tbody>
</table>

¹PC = performance criterion; data for end-month. Flows in 2011 are cumulative from the beginning of the calendar year (e.g., March 2011 figure is cumulative from January 1, 2011). The 2011 stocks are obtained by adding 2011 flows to end-2010 stock.
²PC met with an adjustment for the World Bank disbursement of €300 million.

8. NFA targets will be adjusted upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection. Program disbursements are defined as external disbursements from official creditors (World Bank and the EC) that are usable for the financing of the overall central government budget. The NFA targets will also be adjusted upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December, 2010 (€6,797 million), measured at program exchange rates.
B. Consultation Mechanism on the 12-month Rate of Inflation

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December</td>
</tr>
<tr>
<td>Outer band (upper limit)</td>
<td>8.8</td>
</tr>
<tr>
<td>Inner band (upper limit)</td>
<td>7.8</td>
</tr>
<tr>
<td>Actual / Center point</td>
<td>8.0</td>
</tr>
<tr>
<td>Inner band (lower limit)</td>
<td>5.8</td>
</tr>
<tr>
<td>Outer band (lower limit)</td>
<td>4.8</td>
</tr>
</tbody>
</table>

C. Performance Criterion on General Government Balance

10. The budget deficit will be monitored quarterly through the cash balance of the general government. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.
The budget deficit will be measured from above the line using the budget execution data. Once the reporting system for 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 SOEs⁷: Compania Nationala a Huilei S.A., Compania Nationala de Autostrazi si Drumari Nationale, Fondul Proprietatea, Metrorex S.A., Regia Autonoma Administratia Fluviala a Dunarii de Jos Galati, Societatea Nationala a Carbunei S.A., Societatea Nationala de Transport Feroviari de Calatori, Compania Nationala de Radiocomunicatii Navale Radio Constanta, Compania Nationala de Căi Ferate CFR S.A., Termoelectrica S.A., Acvavalor S.A., Aeroportul Arad S.A., Aeroportul Iasi RA, Aeroportul International Baia Mare R.A., Aeroportul Satu Mare R.A., Aeroportul Stefan Cel Mare Suceava R.A., Aeroportul Transilvania–Tirgu Mures R.A., Aeroportul Tulcea, Citadin S.A. Hundedoara, Edil Therma Hunedoara, Goscomloc S.A., Gospodarie Oraseneasca S.A., Societatea Nationala “Aeroportul International Mihail Kogalniceanu”, T.S.P Ecoterm S.A., Termica S.A.

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;

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

11. The list of SOEs to be included in the definition of general government will be determined by Eurostat in the upcoming months, including possible revisions to those SOEs already incorporated.
+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing.

13. 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, the MOPF will consult with IMF staff.

14. In the event that non-grant revenues exceed those projected under the program, the deficit target will be adjusted downward by one half of the surplus to allow for additional capital spending while reducing the deficit further. The following table shows the accumulated projected non-grant revenue for 2011, to which the actual non-grant revenue will be compared.

<table>
<thead>
<tr>
<th>Cumulative projected revenue of general government, net of EU funds¹ (In millions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
</tr>
<tr>
<td>End-June 2011 (projection)</td>
</tr>
<tr>
<td>End-September 2011 (projection)</td>
</tr>
<tr>
<td>End-December 2011 (projection)</td>
</tr>
</tbody>
</table>

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

15. The performance criterion for the general government balance for the first half of 2011 will be adjusted downward from -12,600 by the amount that capital spending (including EU funds-related spending) exceeds 15,000 million lei, up to a limit of -14,000 million.

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

16. The issuance of general government guarantees to the non-financial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.
Ceiling on new general government guarantees issued from end-2008 until: (In billions of lei)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>7.6</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>8.1</td>
</tr>
<tr>
<td>End-June 2011 (performance criterion)</td>
<td>14</td>
</tr>
<tr>
<td>End-September 2011 (performance criterion)</td>
<td>14</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>14</td>
</tr>
</tbody>
</table>

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

17. The performance criterion established on the stock in domestic payments arrears of the central government and social security sector (as defined in ¶3 above) contemplates their elimination during the program period. The stock will be measured net of intergovernmental arrears, but both gross and net arrears will be reported by the government. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past due date by 90 days (in line with ESA95 definitions for expenditures).

<table>
<thead>
<tr>
<th>Stock of central government and social security arrears</th>
<th>(In billions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (stock, actual)</td>
<td>0.19</td>
</tr>
<tr>
<td>End-March 2011 (stock, preliminary)</td>
<td>0.15</td>
</tr>
<tr>
<td>End-June 2011 (performance criterion)</td>
<td>0.20</td>
</tr>
<tr>
<td>End-September 2011 (performance criterion)</td>
<td>0.15</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>0.10</td>
</tr>
</tbody>
</table>

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

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

G. Indicative Target on General Government Current Primary Spending

19. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables.
The current spending target will be adjusted for the extra spending due to swap arrangement between local governments and public enterprises by an amount spent in the respective quarter.\(^8\)

<table>
<thead>
<tr>
<th>Cumulative change in general government current primary expenditures(^1)</th>
<th>(In millions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>131,938</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>30,670</td>
</tr>
<tr>
<td>End-June 2011 (indicative)</td>
<td>64,000</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>95,100</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>128,200</td>
</tr>
</tbody>
</table>

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

**H. Indicative Target on Local Government Arrears**

20. 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 due date by 90 days (in line with ESA95 definitions for expenditures).

<table>
<thead>
<tr>
<th>Stock in local government arrears</th>
<th>(In billions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (stock, actual)</td>
<td>0.91</td>
</tr>
<tr>
<td>End-March 2011 (stock, preliminary)</td>
<td>0.82</td>
</tr>
<tr>
<td>End-June 2011 (indicative)</td>
<td>0.90</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>0.85</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>0.80</td>
</tr>
</tbody>
</table>

**I. Monitoring of Public Enterprises**

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

22. A quarterly indicative target for 2011 is set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the

\(^8\) The swap arrangement would involve mutually cancelling overdue tax obligations of public enterprises with arrears owed to those enterprises by the general government (local administration).

<table>
<thead>
<tr>
<th>Floor on cumulative operating balance¹</th>
<th>(In billions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>-6.4</td>
</tr>
<tr>
<td>End-March 2011 (preliminary)</td>
<td>-0.7</td>
</tr>
<tr>
<td>End-June 2011 (indicative)</td>
<td>-2.7</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>-3.6</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

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

23. A quarterly indicative target for 2011 is set on the stock of arrears of the public enterprises listed in ¶22 above. The data shall be reported at the firm level. The targets will be as follows:

<table>
<thead>
<tr>
<th>Ceiling on stock of arrears</th>
<th>(In billions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>18.1</td>
</tr>
<tr>
<td>End-March 2011 (preliminary)</td>
<td>19.2</td>
</tr>
<tr>
<td>End-June 2011 (indicative)</td>
<td>19.5</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>19.0</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>18.0</td>
</tr>
</tbody>
</table>

24. The quarterly indicative targets for the aggregate operating balance (¶22) and stock of arrears (¶23) for the public enterprises listed in ¶22 above will be revised at the time of the second review in accordance with the actions plans to reduce arrears and audited end-2010 data (both of which will be available at that time).

J. Steps to be undertaken to ensure the energy regulator’s (ANRE) operational and financial autonomy

25. To address pricing and regulatory deficiencies, the following steps will be undertaken, within the timetable described below, to restore the energy regulator’s (ANRE)
operational and financial autonomy in accordance with EU legislation (third energy package) (LOI, ¶22)

a. Submission of a draft to DG Energy for approval by June 1, 2011;

b. Government approval of a revised version in accordance with DG Energy comments and submission to Parliament, within 2 weeks of receiving the response from DG Energy;

c. Parliamentary approval is expected within the next four months.

K. Reporting Requirements

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

<table>
<thead>
<tr>
<th>Romania: Data Provision to the IMF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95</td>
</tr>
<tr>
<td>Quarterly final data on general government accounts, including public enterprises as defined by ESA95</td>
</tr>
<tr>
<td>The budget deficit of the general government using ESA95 definition</td>
</tr>
<tr>
<td>Preliminary data on below-the-line financing for the general government</td>
</tr>
<tr>
<td>Final quarterly data on below-the-line financing for the general government</td>
</tr>
<tr>
<td>Total accounts payable and arrears of the general government, including local governments</td>
</tr>
<tr>
<td>Stock of the central government external arrears</td>
</tr>
<tr>
<td>Public debt and new guarantees issued by the general government</td>
</tr>
<tr>
<td>Preliminary monthly data on general government primary spending, net of EU disbursements</td>
</tr>
<tr>
<td>Information</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Final quarterly data on general government primary spending, net of EU disbursements</td>
</tr>
<tr>
<td>The operating balance, profits, stock of arrears, and personnel expenditures of key public enterprises (as defined in ¶22 and 23) by total expenditures</td>
</tr>
<tr>
<td>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</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

**To be provided by the National Bank of Romania**

<table>
<thead>
<tr>
<th>Information</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFA data, by components, in both program and actual exchange rates</td>
<td>Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data</td>
</tr>
<tr>
<td>Monetary survey data in the format agreed with IMF staff</td>
<td>Monthly, within 30 days of the end of the month</td>
</tr>
<tr>
<td>The schedule of contractual external payments of the banking sector falling due in the next four quarters, interest and amortization (for medium and long-term loans)</td>
<td>Monthly, 45 days after the end of each month</td>
</tr>
<tr>
<td>The schedule of contractual external payments of the corporate sector falling due in the next four quarters, interest and amortization (for medium and long-term loans)</td>
<td>Monthly, 45 days after the end of each month</td>
</tr>
<tr>
<td>The stock of short-term external debt of banks and corporate</td>
<td>Monthly, 45 days after the end of each month</td>
</tr>
<tr>
<td>Balance of payments in the IMF format currently used to report</td>
<td>Monthly, 45 days after the end of each month</td>
</tr>
<tr>
<td>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).</td>
<td>Monthly, 20 days after the end of each month</td>
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ANNEX:
Measures to Improve Performance of SOEs under Monitoring

C.N. de Autostrăzi de Drumuri Naționale din România S.A.

- Reduce personnel by at least 600 positions (compared with end-2010) by mid-July
- Pay arrears due to investment projects (currently RON 737 million) by end-August
- Approve remaining standard costs for building and maintaining roads by end-September, to be required on all new contracts
- Create the single road control authority by end-September; this entity will ensure the compliance with legal requirements on maximum acceptable load weight and with the regulations regarding the issuance and use of licenses for freight transport.
- Increase revenues by extending the electronic toll control system in 2011
- Reduce costs through renegotiation or termination of non-performing contracts

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

- Finalize multi-annual plans for public procurement and investments by end-June
- Appoint legal advisor for privatization of 20 percent stake via IPO or to a strategic investor by mid-July.
- Reduce personnel by another 3000 positions compared with end-2010 by end-July
- Reorganize and reduce regional centers from 8 to 4 by end-July
- Approve remaining standard costs for maintaining rolling stock by end-June, to be required on all new contracts
- Appoint investment bank for privatization by end-September
- Integrate all subsidiaries by end-September, with the exception of Societatea Comercială de Transport Maritim și de Coastă “C.F.R. Ferry-Boat”-S.A and Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A
- Publish prospectus for privatization by end-October
- Conclude privatization of 20 percent stake by end-2011
- Appoint private management by end-January 2012
- Continuous reinforcement of efforts to collect outstanding invoices, including by giving notice to contracts and taking legal measures against companies with substantial arrears

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

- Reduce personnel by at least 1000 positions (compared with end-2010) by end-July
- Public service obligation will be reduced from 59 million train/km to 54 million train/km by end-July
- Finalize multi-annual plans for public procurement and investments by end-June
- Approve remaining standard costs for maintaining rolling stock by end-June, to be required on all new contracts
- Amendment of laws 36/2001 and 205/2002 to allow for tariff adjustments beyond inflation-indexing that are differentiated by train category (IC, IR, and R) by end-August
- Integration of 3 (of 4) subsidiaries by end-September

**C.N. Căi Ferate CFR S.A.**

- Reduce personnel by at least 1500 positions (compared with end-2010) by end-July
- Approve remaining standard costs for building and maintaining rail infrastructure by end-June, to be required on all new contracts
- Conclude the closing of 1000 kilometers of railway lines by end-August
- Continue the insolvency procedure for Tipografia subsidiary, integration of the GEI palat and Telecomunicatii subsidiary into the Ministry of Transport and Infrastructure and integration of all remaining subsidiaries except Electrificare and S.C. Informatică Feroviară S.A. into the mother company by end-September
- Publication of tenders for public service obligations and infrastructure maintenance for sections proposed to be moved into the category of non-interoperable, representing another 20 percent of the system and their closure by end-October if tenders fail.

**S. C. Intervenții Feroviare S.A.**

- Reduce personnel by at least 30 positions (compared with end-2010) by end-August

**S.C. Electrificare CFR S.A.**

- Reduce personnel by at least 110 positions (compared with end-2010) by end-August

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

- Reduce personnel by at least 100 positions (compared with end-2010) by end-August

**S.C. Metrorex S.A.**

- Amendment of laws 36/2001 and 205/2002 to allow for tariff adjustments beyond inflation-indexing by end-August
- Passage of legislation to establish a new metropolitan transit authority by end-August
- Reduction of maintenance costs by 30 percent by end-2011

**C.N. Tarom S.A.**

- Elimination of all arrears by end-June
Appointment of legal advisor for privatization of a maximum 20 percent stake via IPO or to strategic investor by mid-July, and an investment bank for privatization by end-September, with a view of concluding privatization by end-2011

Appointment of private management by end-January 2012

Continous efforts to reduce costs (such as renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, etc.) and increase revenues (such as alternative sales strategies and optimizing pricing policies)

C.N. Poșta Română S.A.

- Reduction of postal subunits by approximately 900 until end-July
- Additional reduction of at least 70 administrative positions by end-July
- Continuous reinforcement of efforts to collect outstanding invoices
- Repayment of all arrears (depending on court decision, where applicable)
- Continue implementation of actions included in the Government Decision 572/2010 and initiate possible changes to reorganization plan in order to increase management efficiency and to improve the financial results, having as final purpose turning the company into a profit-making one by end 2012

S.C. Oltchim S.A.

- Appointment of legal advisor for privatization of remaining public stake by end-June and appointment of investment bank for privatization by end-September with the aim of concluding privatization by end-2011

S.C. Termoelectrica S.A.

- Reduce personnel by at least 300 positions (compared with end-2010) by end-June
- Continuation of dismantling of production capacity (compared with end-2010) of 50 MW by end-June and additional 100MW by end-2011.
- Carry out investment attraction actions by establishing Independent Power Producer (IPP) joint ventures for some platforms of the thermoelectrical plants in the patrimony.
- Separation of viable and nonviable assets in legal entities by end-December
- Preparation for privatization of viable parts by end-March 2012
- Continuous reinforcement of efforts for collecting outstanding invoices, including by giving notice to contracts and taking legal measures against companies with substantial arrears

S.C. Electrocentrale București S.A.

- Negotiation on payment of outstanding invoices, outcome to be reported end-July
- Start of restructuring measures to prepare for privatization
S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A.

- Negotiate possibilities to pay arrears with clients and with mother company by end-June
- Assessment of possibilities to separate nonviable parts (to be liquidated) by mid-July
- Appointment of legal advisor for majority privatization via IPO or to strategic investor and appointment of investment bank for privatization
- Continue restructuring according to Government’s Decision No. 760/2010

S.C. Electrica Furnizare Transilvania Nord S.A.

- Preparation for privatization

S.C. Complexul Energetic Turceni S.A.

- Reduce personnel by 200 posts (compared with end-2010) by end-September
- Review the possibilities of renegotiating of credit with JBIC, provided that economic efficiency is increased
- Undertake steps towards majority privatization by IPO (appointment of legal advisor, investment bank, and publication of prospectus for privatization)

C.N. a Huilei S.A.

- Separation of viable and nonviable assets in legal entities by end-December
- Preparation for privatization of viable parts by end-March 2012
- Liquidation of nonviable assets in line with EU rules

SNa Lignitului Oltenia S.A.

- Negotiation with customers, including SOEs, to pay arrears to SNLO, allowing SNLO to reduce own arrears, and the results are to be presented mid-July