Romania: Letter of Intent, and Technical Memorandum of Understanding

September 14, 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.
Mme. Christine Lagarde  
The Managing Director  
International Monetary Fund  
Washington, DC, 20431  
U.S.A.  

Dear Mme. Lagarde:  

1. The economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB) is generating concrete results in helping to boost potential growth and maintain fiscal and financial stability. The economy has stabilized and growth is now resuming, fueled by strong exports. We continue to expect growth of 1½ percent in 2011, rising to 3½-4 percent in 2012, although downside risks exist due to uncertainties in the international environment and challenges in absorbing EU investment funds. A favorable harvest will help growth in 2011 and is moderating the inflationary pressures that were evident earlier in the year due to high global food and energy prices. Nevertheless, achievement of the NBR’s end-2011 inflation target remains unlikely, particularly as additional increases in administered prices will be needed. The current account deficit is expected to remain below 5 percent of GDP in 2011–12 on the back of improved trade performance. Continued firm policy implementation is required to safeguard against risks, as the recovery remains vulnerable to adverse developments in international financial markets and to downside risks to euro area recovery.  

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

- **Quantitative performance criteria and indicative targets.** All end-June 2011 quantitative performance criteria were observed. All indicative targets were also met except the ceiling on arrears of key loss-making SOEs. The floor on general government balance was met with a significant margin of 0.4 percent of GDP. Inflation marginally breached the inner band of the inflation consultation mechanism and we have consulted with Fund staff as required under the program.  

- **Structural benchmarks.** We made significant progress on SOE reforms. We have already appointed legal advisors for Olchim, Transelectrica, Transgaz, and Romgaz. For most of the central government SOEs, action plans are completed and we are designing mechanisms to facilitate restructuring SOE arrears. We aim to fulfill the remaining components of the structural benchmark by the time of the Board meeting.
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 second review under the SBA. We intend to continue to treat the arrangement as precautionary.

4. We believe that the policies set forth in the letters of March 10, 2011, June 9, 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 are on track to meet the cash fiscal deficit target of 4.4 percent of GDP (or within 5 percent in ESA terms). Revenues (net of EU funds) were slightly above expectations in the second quarter, while both current and capital expenditures were below the program, allowing us to meet the performance criterion with a comfortable margin. For the remainder of the year, we will continue implementing policies outlined in the previous Letters of March and June 2011. We maintain tight control of current spending, and have reduced public employment more quickly than originally anticipated (by another 18,000 positions in the second quarter of 2011). Hence, we are well on track to meet our commitment to keeping the wage bill below 7.5 percent of GDP in 2011. By end-August, we will eliminate central government heating subsidies, while improving the legislation to provide heating allowances to target the vulnerable members of society and generating budget savings. Local governments would also be required to fully budget and fund their heating subsidies. As previously agreed, we will also allocate additional funds to the health house in the second semester to cover unpaid bills, including those revealed in the stocktaking exercise undertaken for the last review, thus avoiding the accumulation of new arrears. These allocations will be tied to concrete progress on the healthcare reform program (¶13). We will also continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds. By end-September, we will complete a comprehensive review of the existing investment portfolio and produce a report and an action plan to prioritize and assess the projects (structural benchmark).

6. In order to bring closer the cash and ESA measures of the fiscal balance, we will start monitoring selected SOEs¹ on a monthly basis; once this system is fully functional, we will

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¹ The expanded definition of the general government will include the following SOEs: Compania Naționala a Huilei S.A., Compania Naționala de Autostrăzi și Drumuri Naționale, Fondul Proprietatea, Metrorex S.A., Regia Autonoma Administrația Fluviala a Dunării de Jos Galați, Societatea Naționala a Carbunelui S.A.,
request that the performance criterion on the general government overall balance be amended to include the operating balance of these entities. We will also continue to improve the reporting system for the state-owned enterprises (SOEs) that are to be added to the ESA definition of the general government and with the technical assistance of Eurostat, enhance our ability to measure the fiscal deficit on an accrual basis.

7. For 2012, we are committed to bringing the ESA and cash deficits within 3 percent of GDP. We will set the 2012 cash budgetary envelope consistent with this objective and will identify additional measures to reach it. Achieving this target will require sustained expenditure restraint. Reforms already undertaken in the pension system and in consolidating and means-testing social benefits programs are expected to generate savings. Assiduous implementation of health sector reforms and restructuring of public enterprises included in the general government will also be crucial to achieve the 2012 targets. In order to complete the restoration of the temporary 25 percent public wage cut passed in 2010, we will implement further wage increases during the course of 2012. However, these increases will be conditional on further progress in reducing public employment by attrition so as to maintain the total wage bill at or below 7.2 percent of GDP. We continue to be fully committed to responsible public wage policies which ensure fiscal sustainability and help preserve competitiveness.

8. We remain committed to continued responsible fiscal policy in the medium-term, consistent with our fiscal strategy and Fiscal Responsibility Law. We will strictly limit further ad hoc changes to the tax system to ensure predictability and stability. With the technical assistance of the IMF, we will review the tax system by the end of the year to close tax loopholes and improve its efficiency. Should the economic recovery create sufficient fiscal space, we will consider a gradual reduction in social contributions. We will continue to support the independent Fiscal Council, by providing it with adequate information and funding.

9. 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). In SOEs monitored under the program, arrears have stabilized in the second quarter of 2011 at 3.6 percent of GDP. However, the conclusion of the stocktaking exercise for other central government SOEs revealed additional arrears (of around 0.4 percent of GDP), while we continue to collect data for local government SOEs. With the assistance of Fund and EC staff, we have developed an action plan to deal with arrears, with the following key elements:

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2 The final cash deficit necessary to achieve an ESA deficit will be agreed during the October review, pending findings from the ongoing Eurostat review.
• In the **health sector**, we remain committed to repaying arrears in full by end-2011 and prevent new arrears arising. However, additional budget allocations to the sector will be strictly conditioned on progress on reforms of the system, to forestall the accumulation of new arrears.

• At the **local level**, the new amendments to the local government public finance law are acting as a deterrent to new arrears accumulation. We will explore the possibility of extending its provisions to try to limit arrears accumulation in local government SOEs as well.

• 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.

• For **SOEs**, we are making progress on designing mechanisms to significantly reduce arrears in SOEs monitored under the program: (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 has developed budget neutral arrangements to cancel or forgive arrears to the state itself, (iv) in appropriate cases we are seeking approval from EU competition authorities of plans to increase capital and/or provide direct financial support to pay arrears; (v) we are developing mechanisms to facilitate restructuring and securitizing SOE arrears; and (vi) where possible, debt-equity swaps or privatization proceeds will be used to cancel arrears. Firms’ participation in these schemes will be strictly conditioned on their successful execution of agreed action plans to assure that arrears do not re-accumulate. We anticipate that these measures will permit SOE arrears to be reduced by at least RON 4 billion (0.8 percent of GDP) by end-2011, with additional reductions expected in 2012.

• The next phase in the integration of the **accounting reporting system** with the Treasury payment system, the design of the system, including the commitment control and reporting module for all levels of government will be completed by end-December 2011. This system will help control spending commitments to avoid accumulating future arrears.

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

10. 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 launched our euro medium-term notes program with a June issue for €1.5 billion
and plan to continue regular external bond issuance 1-2 times per year in both euro and dollars at a range of maturities. We remain committed to consolidating our financial buffer to around four months of financing needs during 2011–12 to protect government finances against unforeseen external shocks. To enhance our capabilities, in 2011 we are conducting a formal review of our debt management strategy with the assistance of IMF, EC, and WB experts by end-2011. We will also further improve treasury information technology (IT) systems and strengthen senior staffing.

11. 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. Among the key developments are the following:

- We prepared an organizational strategy and implementation plan for incorporating indirect audit methods into our compliance functions, with a view to starting auditing individuals in 2012. We will also expand the tax audit coverage of the largest taxpayers.
- We passed the government decision on ANAF restructuring and have closed 141 regional offices by end-July. This will allow us to reduce collection costs and staff the Tax Verification Directorate.
- We will also develop and implement a compliance risk strategy in accordance with best practices by end-September 2011. As a first step, we have already established a department in charge of risk assessment in ANAF.
- With help from the IMF and EC, we will introduce simplified taxation for smaller taxpayers in key economic sectors under the threshold. We have already requested an increase in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (structural benchmark, end-December 2011). We will also review VAT refund processes for exporters to significantly streamline the timeframe for issuance.
- We are planning expansion of e-filing and further simplification of tax forms and the number of payments required with a view to providing a one-stop shop for tax declaration and payments. We will continue our efforts to modernize work processes, introduce IT systems and consolidate organization structures of ANAF to fundamentally improve tax administration.
- Having incorporated the stimulente into the base wage for most institutions, 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). For remaining institutions, the process of incorporating the stimulente will be completed by end-December 2011, via the wage law applicable to budget staff in 2012.
12. Improving the absorption of EU funds remains a difficult challenge, and further efforts are needed. We have prepared a priority action plan in the areas of project management, financing, public procurement, administrative capacity, audit and control, and have started producing quarterly reports on the implementation of these priorities. We are committed to implementing the actions defined in this plan within the set deadlines. The government has moved the EU structural funds coordination unit from the MOPF to the Prime Minister’s office and will strengthen its authority. We have created 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-November to reduce the grounds for contesting public tenders and will revise the PPP law to ensure that it fully conforms to EU procurement directives. To avoid problems discovered in deficient reimbursement claims to the EU, we have temporarily suspended the submission of new claims until additional vetting can take place. We hope to have an improved submission process in place by end-September.

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

14. In the health sector, while we have undertaken some important restructuring measures aimed at removing inefficiencies in the hospital system, such as reduction of inpatient admissions and beds through closure of small hospitals, they have not been sufficient to stabilize the rising costs in the health sector. Arrears have been nearly eliminated, but additional unpaid bills from 2010 of some RON 500 million were uncovered in the stocktaking exercise and adequate mechanisms need to be applied to ensure future spending remains within allocations. We will ensure that no new arrears will accumulate in the sector, first by allocating RON 300 million in the mid-year supplementary budget to pay down unpaid bills, with additional resources to be made available before the end of the year. However, additional allocations will be strictly conditioned on progress on restructuring. In 2012, we will ensure that budget allocations are consistent with a realistic spending program, while incorporating savings from reforms. Over the medium-term, given that public healthcare spending in Romania is among the lowest in the EU as a share of GDP, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy while factoring in the challenge of population aging into spending needs.

15. To address the persistent budgetary shortfalls in the healthcare system and to ensure a more high quality health care system, we will undertake a fundamental reform of the system.
To contain the growth of spending, we will encourage cost-containment through budget caps and seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private insurance. We will prepare, by end-2011 (structural benchmark), comprehensive amendments to the health care legislation based on these principles, with the aim of approving it by end-March 2012. The legislation would include modifications such as the following:

- **Global spending measures.** We will specify a revised package of benefits insured by the government to exclude coverage of costly nonessential health services, to be implemented next year, with the technical assistance of the World Bank financed projects. The services exceeding the basic scope would be provided via supplementary insurance, including private insurance.

- **Pharmaceutical expenditures.** (i) We will revise settlement prices and the list of compensated and free drugs and move to generics, where possible, on the C2 list by end-October 2011.

- **Revenue enhancements.** We will significantly step up income measures with the goal of containing excess demand and reducing the structural deficit in the system. (i) The previous mechanisms for a clawback tax for pharmaceuticals did not achieve the expected outcome. We will impose a revised clawback tax on the pharmaceuticals based on the growth in their costs or above a pre-determined threshold (structural benchmark). (ii) We will introduce copayments for medical services, by end-2011.

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

16. Improving the efficiency of social protection remains a priority, including in the area of social inspection. Our efforts have yielded significant results, as the number of beneficiaries of heating allowances has declined by approximately 54 percent in the 2010–11 season versus 2009-10 due to new eligibility criteria. A new Social Assistance Law has been drafted, which will consolidate the existing categories of social benefits into 9 and tighten eligibility criteria. The Law should be adopted by Parliament by end-September and come into effect in January 2012. This will be followed by significant changes in secondary legislation. The overall measures on social benefit reforms will result in fiscal savings of around 0.8 percent of GDP in 2010–13.
Financial Sector

17. The banking system remains well capitalized, with an average solvency ratio of 14.2 percent at end-June. The rise in non-performing loans slowed over the last quarter, reaching 13.4 percent of total loans at end-June compared to 12.7 percent at end-March. Bank lending to the corporate sector picked up in the second quarter, but real growth remained negative on an annual basis which—along with further provisions—continued to weigh upon bank profitability.

18. The passage of amendments (by ordinance) to the Deposit Guarantee Fund (DGF) law is on track to be completed by end-September 2011 (reset benchmark). The amendments will allow for the use of 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. We have reviewed the DGF, banking and winding-up legislation and will make amendments by end-October to ensure their mutual consistency and to introduce bridge bank powers into the legislation. In this context the bridge bank would be a new, temporary, full-service bank authorized and supervised by NBR with the aim to facilitate, its sale, in whole or in part, to eligible private acquirers as soon as practicable. Parliament is now expected to ratify earlier amendments to the winding-up legislation by end-September. In conjunction with the DGF, we will continue to develop and strengthen our procedures and contingency planning for deploying these new restructuring powers as a priority. The range of collateral eligible for NBR lending operations has been expanded to include leu-denominated IFI issued bonds and foreign currency-denominated sovereign bonds.

19. We remain committed to the introduction of IFRS accounting standards in the banking system beginning in 2012. To allow the banks sufficient time to implement changes we will by end-September 2011 finalize the prudential and fiscal treatment of regulatory filters to preserve prudent bank solvency, provisions, and reserves. Net amounts arising from the release of provisions due to the new accounting treatment and which are treated accordingly as retained earnings from specific provisions to support regulatory capital will not be taxed. The NBR will also introduce by end-October 2011 regulatory measures 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 which could undermine debtor discipline.

Monetary and Exchange Rate Policy

20. Despite a sharp drop in annual inflation in June and July, the NBR’s 2011 inflation target is unlikely to be met due to the surge in international food and energy prices earlier in the year, as well as the envisaged adjustment of administered prices in the remainder of the
The inner inflation consultation band with the Fund was marginally exceeded at end-June (Table 1), and may continue to be triggered later in the year based on current projections. We now expect inflation to continue to decline from its peak of 8.4 percent in May, falling to around 5 percent by the end of 2011. Nevertheless, we are vigilant against risks that persistently high headline inflation could result in inflationary expectations becoming more entrenched. The increase in core inflation over the past year, (net of the VAT effect) also suggests potential risk of pass-through from large supply shocks. To forestall such pressures, we will maintain our tightening bias in monetary policy stance 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 will remain alert to the potential risks of capital flows due to volatility in international financial markets.

**Structural Reforms**

**State-Owned Enterprises**

21. We are progressing with our ambitions reform agenda for state-owned firms. In line with the restructuring plans discussed during the last review, measures have been implemented for 18 key SOEs, contributing to achieving the second quarter indicative target on the operating balance of these companies by a wide margin. However, the indicative target for arrears was missed. We have also enhanced our monitoring of central government SOEs by extending our database and will develop a similar database for local SOEs.

22. Restructuring of central government SOEs is progressing. We have finalized action plans for many of the 154 companies specified in the last LOI and most of the measures identified at the last review have been implemented. We will finalize this process for these firms in the coming weeks. For remaining central government SOEs currently in our database, we will develop plans by end-December.

23. Progress is also being achieved in the privatization process. While the recent offer of an additional 9.8 percent stake in Petrom was unsuccessful, we remain committed to the agreed calendar for privatizing minority stakes in other firms, and we will reoffer the Petrom shares in a market-friendly process in early 2012. Shares in other public firms will be offered in three groups beginning with Transelectrica in October and Transgaz in December.4 For the

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3 The elimination of the central government heating subsidy is expected to add about a half percentage point to the CPI in late 2011, and increases in electricity and transport tariffs will also boost inflation.

4 The first group comprises: i) Oltechim (sale of remaining public shares to strategic investor); ii) Romgaz (IPO of 15 percent stake); iii) Tarom (strategic investment or IPO of 20 percent); iv) Transelectrica (SPO of 15 percent stake plus a later capital increase of about 12 percent ); (v) Transgaz (SPO of 15 percent stake).

The second group contains: i) Termoelectrica (complete sale of Galati subsidiary and Braila branch and continuing the process of creating joint ventures with strategic investors in ELCEN in order to build new power (continued)
first group, we have already appointed legal advisors for all firms except Tarom, which we expect to complete by end-October. Also by end-October, we will appoint the transaction advisor for the first group and the legal advisor for the second (structural benchmark). We will consult closely with IMF and EC staff in this process. In addition to the privatizations, we continue preparations to resolve the financial situation of Termoelectrica. By end-2011, we intend either to use ANAF collection procedures to take over the company’s assets or place it into bankruptcy proceeding. In either case, we will extract and sell viable assets quickly.

24. To improve the governance of SOEs, we will develop and approve governance legislation by end-October 2011 (structural benchmark reset from end-August). 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. For the largest firms slated to remain under majority state control (as identified in the TMU), 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 (unconnected with existing firms or the government) 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-October 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 may be adjusted to allow for participation of the new minority shareholders. To make this effective, this may require changing Emergency Ordinance 3/2011 only for the new private managers. Based on the experience of this exercise, and depending on the performance of current management, we are firmly committed to increasing the number of SOEs with private management in the course of 2012.

25. In the transport sector, we continue to implement measures to cut expenditures and raise revenues in public firms, in line with the measures specified in our letter of units, majority private owned, in Bucharest and Constantza); ii) Hidroelectrica (IPO of 10 percent to increase capital); and (iii) Petrom (SPO of 9.84 percent stake will be re-launched);

The third group includes: (i) Electrica Serv (majority privatization of the entire company); ii) Nuclearelectrica (at least 10 percent via capital increase); iii) the new company created by merging the 3 remaining Electrica supply subsidiaries (registered in the Trade Register as S.C. Electrica Furnizare S.A.) and the supply activity of Electrica (majority privatization); iv) the 3 remaining Electrica distribution subsidiaries (majority privatization), in accordance with the decisions of the National Council of Defense.
June 9, 2011. For the rail sector we are nearly finished implementing standard costs for infrastructure procurement and maintenance of rolling stock. In order to bring the rail sector closer to economic viability, we will continue the process of closing 1000 line kilometers. In addition, we will tender out the remaining 1600 line kilometers agreed and, in case the tendering fails, close them. Personnel cuts have been approved and are to a large extent already implemented. In order to increase revenues, we have prepared the legal basis for tariff adjustments for metropolitan transit and passenger rail, and we will implement those in the coming months. Similarly, the single road authority for freight transport is being created and measures are underway to further enhance toll collection.

26. For the energy sector we envisage major reforms. Our strategy to form two national champion energy companies remains blocked by court rulings, and we are beginning to implement an alternative strategy, including the partial privatizations of a number of energy firms as specified above. Accordingly, we will recommend to the relevant authority to officially modify its decision on setting-up these two champions. To address pricing and regulatory framework issues within the energy sector, we will undertake the following steps: (i) To restore the energy regulator’s (ANRE) operational and financial autonomy in accordance with EU legislation (third energy package), by mid-September we will produce draft legislation that has been consulted with and consistent with comments received from the European Commission; (ii) we will increase the price to better align with CUG for non-residential customers by 8 percent (prior action), while leaving the price for residential consumers unchanged; (iii) present a roadmap for phasing out regulated prices in electricity and gas by end-December 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; (vi) assure that new bilateral contracts are made transparently and non-discriminately through OPCOM (electricity) and other competitive procedures (gas); and that their prices will be adjusted to prevailing market rates as quickly as legally permissible; and (vii) approve legislation which would require publication of all new bilateral contracts of state-owned gas and electricity generators and that the terms in existing contracts are not extended.

Labor Markets and Judicial Reform

27. We have made substantial reforms in the labor legislation. The new Labor Code, which has entered into force on April 30th, has improved labor market flexibility by promoting fixed-term and temporary employment, extending probation periods, and increasing the flexibility of working hours. A substantial number of new contracts (600,000) have been registered since April. The Social Dialogue Code modifying collective bargaining

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5 If EU infringement procedures require faster action, we will comply with their requirements.
and other labor relations has recently been promulgated and we are currently developing regulations for their implementation, to be prepared by end-August. Key elements of the social dialogue reform include raising representativity thresholds, 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 and will consult with ILO later this year.

28. 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**

29. 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 end-December 2011 and continuous performance criteria are set out in Table 1; where the changes in the end-September performance criterion on Net Foreign Assets and the adjustor to the general government balance have also been made (and in the TMU); 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 Ialomiţianu
Minister of Public Finance

/s
Mugur Isarescu
Governor of the National Bank of Romania

Attachments
### Table 1. Romania: Quantitative Program Targets

<table>
<thead>
<tr>
<th>I. Quantitative Performance Criteria</th>
<th>2010 Actual</th>
<th>March Actual</th>
<th>June Prelim.</th>
<th>Sept Actual</th>
<th>Dec Actual</th>
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<tbody>
<tr>
<td>1. Floor on the change in net foreign assets (mln euros) 1/ 2/</td>
<td>20,026</td>
<td>119</td>
<td>250</td>
<td>1896</td>
<td>250</td>
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<tr>
<td>2. Floor on general government overall balance (mln lei) 3/ 4/</td>
<td>-33,621</td>
<td>-5,254</td>
<td>-13,280</td>
<td>-11,260</td>
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<td>3. Ceiling on stock of central government and social security arrears (bn lei)</td>
<td>0.19</td>
<td>0.13</td>
<td>0.20</td>
<td>0.11</td>
<td>0.15</td>
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<tr>
<td>4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)</td>
<td>7.6</td>
<td>8.1</td>
<td>14.0</td>
<td>6.0</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>
<td>0</td>
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<td>III. Inflation Consultation</td>
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<td>6. 12-month rate of inflation in consumer prices</td>
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<td>Outer band (upper limit)</td>
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<td>...</td>
<td>8.8</td>
<td>...</td>
<td>6.2</td>
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<tr>
<td>Inner band (upper limit)</td>
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<td>...</td>
<td>7.8</td>
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<td>5.2</td>
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<td>Actual/Center point</td>
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<td>8.0</td>
<td>6.8</td>
<td>8.0</td>
<td>4.2</td>
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<tr>
<td>Inner band (lower limit)</td>
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<td>...</td>
<td>5.8</td>
<td>...</td>
<td>3.2</td>
</tr>
<tr>
<td>Outer band (lower limit)</td>
<td>...</td>
<td>...</td>
<td>4.8</td>
<td>...</td>
<td>2.2</td>
</tr>
<tr>
<td>IV. Indicative Target</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei) 4/</td>
<td>131,938</td>
<td>30,670</td>
<td>64,000</td>
<td>62,578</td>
<td>96,350</td>
</tr>
<tr>
<td>8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(as defined in TMU (bn. lei)) 4/</td>
<td>-6.8</td>
<td>-0.7</td>
<td>-2.7</td>
<td>-1.8</td>
<td>-3.6</td>
</tr>
<tr>
<td>9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei))</td>
<td>17.9</td>
<td>19.2</td>
<td>19.5</td>
<td>19.7</td>
<td>19.3</td>
</tr>
<tr>
<td>10. Ceiling on stock of local government arrears (bn lei)</td>
<td>0.91</td>
<td>0.82</td>
<td>0.90</td>
<td>0.81</td>
<td>0.85</td>
</tr>
</tbody>
</table>

Memorandum Item:
- Revenue of general government, net of EU funds (mln. lei) 159,141 40,238 82,250 82,701 128,352 173,360

---

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to end-December 2010 stock.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ Adjusted performance criterion for end-June.
### Prior Actions
1. Increase the gas price for non-residential customers, in order to further align with CUG formula, by 8 percent. At least 5 working days before the Executive Board meeting

### Quantitative performance criteria
1. Floor on net foreign assets June 30, 2011 Met
2. Floor on general government overall balance June 30, 2011 Met
3. Ceiling on central government and social security domestic arrears June 30, 2011 Met
4. Ceiling on general government guarantees June 30, 2011 Met
5. Non-accumulation of external debt arrears June 30, 2011 Met

### Quantitative Indicative Target
1. Ceiling on general government current primary spending June 30, 2011 Met
2. Floor on operating balance of key SOEs June 30, 2011 Met
3. Ceiling on stock of arrears of key SOEs June 30, 2011 Not Met
4. Ceiling on stock of local government arrears June 30, 2011 Met

### Inflation consultation band
- Inner band June 30, 2011 Not met
- Outer band June 30, 2011 Met

### Structural benchmarks
1. Undertake SOE reforms, including:
   - (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectric, Transgaz, and Romgaz;
   - (ii) Preparation of action plans for the remaining SOEs of the central government;
   - (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.
   July 15, 2011 Partially met
3. Eliminate by government ordinance the legal basis of all the stimulente funds, effective January 1, 2012. Aug. 31, 2011 Met
4. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan. Sept. 30, 2011
5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions. Nov. 30, 2011 Reset to Sept. 30, 2011
6. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000. Dec. 31, 2011

### New structural benchmark
1. Selection of advisors for SOE reform: (i) select transaction advisors for group 1 and (ii) legal advisors for group 2 Oct. 31, 2011
2. Impose a revised clawback tax on the pharmaceuticals based on the growth in their costs or above a pre-determined threshold. Nov. 30, 2011
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. Dec. 31, 2011
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, the methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2011 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**

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

5. NFA of the NBR are defined as the euro value of gross foreign assets of the NBR (including reserve requirements of the commercial banking system held at the NBR) minus gross foreign liabilities of the NBR; and will be measured on the basis of the NBR’s operational rather than accounting definitions. Non-euro denominated foreign assets and liabilities will be converted into euro at the program exchange rates.
6. Gross foreign assets of the NBR are defined to include the NBR’s holdings of SDRs, the country's reserve position at the IMF, holdings of cash, securities and deposits abroad in convertible foreign currencies. Excluded from reserve assets are: (i) gold and other precious metals; (ii) assets in nonconvertible currencies; (iii) illiquid assets; (iv) any assets that are pledged, collateralized, or otherwise encumbered, unless there is also a gross foreign liability associated with it; (v) claims on residents; and (vi) claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

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

### Floor on cumulative change in NFA from the beginning of the year (in mln. euros)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December (stock)</td>
<td>March (actual)</td>
</tr>
<tr>
<td>Cumulative change in NFA</td>
<td>20,026</td>
<td>119(^2)</td>
</tr>
<tr>
<td><strong>Memorandum Item:</strong> Gross Foreign Assets</td>
<td>32,432</td>
<td>996</td>
</tr>
</tbody>
</table>

\(^1\)PC = 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.

\(^2\)PC 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>Year</th>
<th>Month</th>
<th>Cumulative flows from end of previous year (mln. euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>December</td>
<td>1,200</td>
</tr>
<tr>
<td>2011</td>
<td>March</td>
<td>1,650</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>2,050</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>2,050</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Actual / Center point</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>December</td>
<td>7.9</td>
</tr>
<tr>
<td>2011</td>
<td>March</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>3.7</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.
11. The budget deficit will be measured from above the line using the budget execution data. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government which will include the following SOEs: 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 Carbunelui S.A., Societatea Nationala de Transport Feroviar de Calatori, Compania Nationala de Radiocomunicatii Navale Radio Constanta, Compania Nationala de Căi Ferate CFR S.A., Termoelectrica S.A.

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

+ (i) net external financing, excluding valuation gains and losses;
+ (ii) change in net domestic credit from the financial system, excluding valuation gains and losses from deposits denominated in foreign currency and including adjustments for;
+ (a) received EU funds not yet spent (advance payments);
+ (b) claims of the government on EU funds;
+ (c) property fund obligations not yet paid;
+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing.

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.

---

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

### Cumulative floor on general government balance

<table>
<thead>
<tr>
<th></th>
<th>(In millions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>-33,621</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>-5,254</td>
</tr>
<tr>
<td>End-June 2011 (actual)</td>
<td>-11,260</td>
</tr>
<tr>
<td>End-September 2011 (performance criterion)</td>
<td>-17,500</td>
</tr>
<tr>
<td>End-December 2011 (performance criterion)</td>
<td>-23,953</td>
</tr>
</tbody>
</table>

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.
14. In the event that non-grant revenues (including those received in arrears reduction plans) exceed those projected under the program, the performance criterion for the general government balance will be adjusted upward 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 funds</th>
<th>(In millions of lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-December 2010 (actual)</td>
<td>159,141</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>40,238</td>
</tr>
<tr>
<td>End-June 2011 (actual)</td>
<td>82,701</td>
</tr>
<tr>
<td>End-September 2011 (projection)</td>
<td>128,352</td>
</tr>
<tr>
<td>End-December 2011 (projection)</td>
<td>173,360</td>
</tr>
</tbody>
</table>

1 Cumulative 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 end-September 2011 (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount that capital spending (including spending related to EU funds and arrears reduction plans) exceeds 25,944 million lei up to a limit of 1,400 million lei.

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.

<table>
<thead>
<tr>
<th>Ceiling on new general government guarantees issued from end-2008 until:</th>
<th>(In billions of lei)</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 (actual)</td>
<td>6.0</td>
</tr>
<tr>
<td>End-September 2011 (performance criterion)</td>
<td>14</td>
</tr>
<tr>
<td>End-December 2011 (performance criterion)</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 (actual)</td>
<td>0.19</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>0.15</td>
</tr>
<tr>
<td>End-June 2011 (preliminary)</td>
<td>0.11</td>
</tr>
<tr>
<td>End-September 2011 (performance criterion)</td>
<td>0.15</td>
</tr>
<tr>
<td>End-December 2011 (performance criterion)</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. Actual data (to which the target will be compared) should include payments related to arrears reduction plans.

<table>
<thead>
<tr>
<th>Cumulative change in general government current primary expenditures¹</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 (actual)</td>
<td>62,578</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>96,350</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>130,700</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 the 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 (actual)</td>
<td>0.91</td>
</tr>
<tr>
<td>End-March 2011 (actual)</td>
<td>0.82</td>
</tr>
<tr>
<td>End-June 2011 (actual)</td>
<td>0.81</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 cumulative public capital share of 50 percent or more, held directly or indirectly by local governments and the central government.


<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>-6.6</td>
</tr>
<tr>
<td>End-March 2011 (preliminary)</td>
<td>-0.7</td>
</tr>
<tr>
<td>End-June 2011 (preliminary)</td>
<td>-1.8</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).
In case one of these firms is liquidated, or its majority share is privatized or merged with a company not listed above, the aggregate target listed above will be adjusted by the original operating balance target for this firm.

23. A quarterly indicative target for 2011 is set on the stock of arrears of the public enterprises listed in ¶22. 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>17.9</td>
</tr>
<tr>
<td>End-March 2011 (preliminary)</td>
<td>19.2</td>
</tr>
<tr>
<td>End-June 2011 (preliminary)</td>
<td>19.7</td>
</tr>
<tr>
<td>End-September 2011 (indicative)</td>
<td>19.3</td>
</tr>
<tr>
<td>End-December 2011 (indicative)</td>
<td>16.0</td>
</tr>
</tbody>
</table>

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

J. Private Management for Key SOEs

K. Reporting Requirements

25. 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><strong>Item</strong></td>
</tr>
<tr>
<td>To be provided by the Ministry of Finance</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>Final quarterly data on general government primary spending, net of EU disbursements</td>
</tr>
<tr>
<td>Preliminary data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22</td>
</tr>
<tr>
<td>Final data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22</td>
</tr>
</tbody>
</table>
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU Monthly, within three weeks of the end of each month

The balance of the TSA in RON Monthly, within two weeks of the end of each month

The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period) Monthly, within two weeks of the end of each month

The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows. Monthly, within two weeks of the end of each month

<table>
<thead>
<tr>
<th>Information</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>To be provided by the National Bank of Romania</td>
<td></td>
</tr>
<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>
</tr>
</tbody>
</table>
ANNEX

Measures to Improve Performance of SOEs under Monitoring

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

- Create a single road control authority by end-September 2011
- Increase revenues by extending information system for the toll system by end-2011
- Reduce costs by applying standard costs both for existing contracts, through a renegotiation process, and for new contracts

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

- Approve remaining standard costs for maintaining rolling stock by end-August 2011, to be required on all new contracts
- Amend the budget of the company by end-September 2011 as the originally included capital increase is not included in the government’s budget revision.
- Contract consultancy services for the study regarding the principle of the cautious private investor and the criteria for awarding the restructuring aid in the event of the recapitalization of the society by end-October 2011
- Integrate all subsidiaries by end-October 2011, including Societatea Comercială de Transport Maritim și de Costă “C.F.R. Ferry-Boat”-S.A., except Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A
- Merger of the maintainence companies of Marfă and Calatori (Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A and Societatea comercială de reparații locomotive C.F.R. SCRL Brașov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by end-December 2011
- Appoint private management and board members by end-December 2011 or by-January 2012 if a significant minority share will have been sold by end-2011
- 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.

- Approve remaining standard costs for maintaining rolling stock by end-August 2011, to be required on all new contracts
- Adjust tariffs beyond inflation by mid-September 2011
- Use payment to be received from the government for social train tariffs (about 0.2 bn. lei) for arrears reduction by end-September 2011.
- Integrate 3 (of 4) subsidiaries by end-November 2011
- Merger of the maintainence companies of Marfă and Calatori (Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A and Societatea comercială de reparații locomotive C.F.R. SCRL Brașov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by end-December 2011
Differentiate tariffs by train category (IC, IR and R) by end-December 2011

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

Reduce the operating costs and increase the attractiveness of the railway transport by start replacing the old rolling stock with diesel railcars and electric multiple units based on a long term program

C.N. Căi Ferate CFR S.A.

Subordinate the GEI Palaţ and Telecommunicatii subsidiaries to the Ministry of Transport and Infrastructure by end-September 2011

Integrate all subsidiaries except Electrificare, GEI Palaţ, S.C. Informatică Feroviară S.A., Telecommunicatii and Tipografia into the mother company by end-October 2011

Publish tenders for public service obligations and infrastructure maintenance for 1600 line kilometers of extended railway by end-October 2011, bringing the total number of line kilometers under private management to 4000 kilometers

Conclude the closing of 1000 kilometers of railway lines, originally foreseen for end-August, by end-2011 Use expected government’s capital increase and strictly conditioned on reform measures a credit to reduce arrears to the general government budget and the electricity suppliers by end-December 2011

Close all extended railway lines for which tenders failed by end-April 2012

Continue insolvency procedure for the Tipografia subsidiary; if liquidation can be avoided, the process to full privatization of the company will be started immediately

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

S. C. Interventii Feroviare S.A.

Integration into mother company by end-September 2011

S.C. Electrificare CFR S.A.

Reduce personnel to 2775 positions by end-August 2011

Appoint private management and board members by end-December 2011

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

Reduce personnel by at least 100 positions (compared with end-2010) by end-August 2011

Complete steps for turning SC Telecomunicatii S.A. into a company under the authority of Ministry of Transports and Infrastructure

Elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system
S.C. Metrorex S.A.

- Adjust tariffs beyond inflation by end-August 2011
- Passage of legislation to establish a new metropolitan transport authority by end-August 2011
- Reduce maintenance costs by 30 percent by end-2011
- Undertake the necessary steps for including Metrorex into the list of potential beneficiaries of the Sectoral Operational Programme – Transport for the use of EU structural funds

C.N. Tarom S.A.

- Elaborate the TAROM 2012-2016 Development Plan (signing the consulting services contract with IATA Consulting until end-August 2011)
- Appoint the investment bank / SSIF (Financial Investments Services Company) which will also provide the legal advice for privatization of at least a 20 percent stake via IPO or strategic investor by end-October 2011
- Publish prospectus by mid-December 2011
- Conclude privatization by end-2011
- Appoint private management and board members by end-January 2012
- 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
- Reduce costs by extending the saving oil consumption program

C.N. Poșta Română S.A.

- Continuous reinforcement of efforts to collect outstanding invoices
- Appoint private management and board members by end-December 2011
- Reduce postal subunits from 7100 at end-2010 to around 5800 until end-December 2011

S.C. Oltchim S.A.

- Appoint private management and board members by end-December 2011
- Appoint investment bank for full privatization by end-October 2011, publish prospectus for SPO by end November 2011 and conclude privatization by end-2011

S.C. Termoelectrica S.A.

- Appoint legal advisor and transaction advisor for sale of viable assets (including joint ventures) or start forced execution by ANAF by end-October 2011
• Continue dismantling of production capacity of at least 150MW (compared with end-2010) by end-October 2011
• Continuous reinforcement of efforts for collecting outstanding invoices,
• Complete sale of viable assets by end-2011 including Electrocentrale Galati and the current branch in Braila
• File for liquidation of remaining parts of Termoelectrica by end-2011

**S.C. Electrocentrale Bucuresti S.A.**

• Elimination of all arrears to Romgaz by end-September 2011
• Use payments from government under district heating related arrears reduction schemes (about 0.1 bn. lei) for arrears reduction by end-September 2011
• Continue process of creating joint ventures with strategic investors to built new power units in Bucharest and Constanta with private majority share

**S.C. Filiala de Intretinere si Servicii Energetice “Electrica Serv” - S.A.**

• Split company into regional companies and prepare for privatization of all companies by end-December 2011
• Appoint legal advisor for majority privatization of regional companies via IPO or to strategic investor by end-2011
• Appoint transaction advisor for privatization by end-March 2012
• Conclude privatization by end-June 2012 and file for liquidation for all subsidiaries for which privatization failed by end-September 2012
• Continue assessment of possibilities to sell or lease out assets

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

• Finalize merger of 3 Electrica supply subsidiaries to S.C. Electrica Furnizare S.A. by end-December 2011
• Appoint private management and board members for S.C. Electrica Furnizare S.A. by end-December 2011
• Appoint legal advisor for majority privatization of S.C. Electrica Furnizare S.A. via IPO or to strategic investor by end-2011
• Appoint transaction advisor by end-March 2012
• Conclude privatization by end-June 2012

**S.C. Complexul Energetic Turceni S.A.**

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

C.N. a Huilei S.A.

• Submit pre-notification of restructuring plan including envisaged split of assets and liabilities into viable and non-viable parts to DG Comp by mid-August 2011
• Submit formal notification including valuation of assets and liabilities by end-September 2011
• Reduce personnel by at least 900 positions (compared with end-2010) by end-October 2011
• Start forced execution by ANAF to take over viable parts of CNH for tax liabilities as soon as legal acts have been approved
• Approve necessary legal acts for split, one month after the approval by DG Comp
• Merge viable assets into a new energy producer, together with power plants in Paroșeni and Mintia
• Appoint legal advisor for majority privatization of new energy producer by end-December 2011
• Appoint transaction advisor for majority privatization of new energy producer by end-March 2012
• Complete majority privatization of new energy producer by end-June 2012

SNa Lignitului Oltenia S.A.

• Use government payments under district heating and heavy water related arrears reduction schemes (about 0.4 bn. lei) for arrears reduction by end-September 2011
• Continue negotiation with customers, including SOEs, to pay arrears to SNLO
• Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni by end-December 2011 (see above under S.C. Complexul Energetic Turceni S.A.)
• Appoint private management and board members for new company by end-December 2011