January 2012
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Romania: Third Review Under the Stand-By Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Romania.

In the context of the third review under the stand-by arrangement, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on November 7, 2001, with the officials of Romania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 5, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement.

- A Press Release summarizing the views of the Executive Board as expressed during its December 19, 2001 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Romania.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Romania*
Memorandum of Economic and Financial Policies by the authorities of Romania*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ROMANIA

Third Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria

Prepared by the European Department
(In Consultation with Other Departments)

Approved by Poul Thomsen and Aasim Husain

December 5, 2011

Stand-By Arrangement (SBA): A 24-month, SDR 3,090.6 million (€3.4 billion, US$5.0 billion, 300 percent of quota) Stand-By Arrangement was approved by the Executive Board on March 25, 2011 (Country Report No.11/80) and became effective March 31, 2011. The fourth tranche of SDR 430 million (€475 million) will be made available upon completion of this review. The authorities are treating the arrangement as precautionary. Additional funds under the program are provided by the European Union (also on a precautionary basis) and the World Bank.

Status of the current program: All end-September quantitative performance criteria and indicative targets were met and inflation returned to the inner band of the inflation consultation mechanism. There are three prior actions for the board meeting: (i) appointment of legal and transaction advisors for certain state-owned enterprises (SOEs), (ii) enactment of the copayment law and imposition of a revised clawback tax, and (iii) a further 5 percent adjustment in nonresidential gas prices. Minor modifications are proposed to eliminate adjustors in the fiscal target and add one to the NFA target.

Key issues: The SBA review focused on three issues: (i) the 2012 budget and measures to ensure compliance with the 2011and 2012 fiscal targets while clearing arrears, improving quality of spending, and strengthening tax collections; (ii) progress on the structural reform agenda, with a focus on SOE reforms and regulatory reforms; and (iii) ensuring continued financial sector stability.

Discussions: Discussions were held in Bucharest, October 25–November 9, 2011. The mission met with President Basescu, Prime Minister Boc, Finance Minister Ialomiţianu, Central Bank Governor Isarescu, other senior officials, representatives of political parties, labor and business organizations, and financial institutions. The staff team comprised J. Franks (head), M. Stierle, A. Tuladhar, and L. Zhang (all EUR); F. Salman (SPR); L. Eyraud (FAD); and M. Dobler (MCM). T. Lybek (Resident Representative) assisted the mission. Discussions were held jointly with the EC, ECB, and World Bank staff.

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I. INTRODUCTION AND SUMMARY

1. **Romania's recovery continues, but headwinds from the regional economic downturn and financial turbulence have severely weakened future prospects**. Preliminary GDP data for Q3 show a strengthening of the recovery, driven by an exceptional agricultural harvest and continued strong industrial output growth. Domestic demand has begun to recover, with growth turning positive in construction and retail sales bottoming out. The labor market is also beginning to recover, as job growth has turned positive and real wages have started to rise. However, the euro area crisis is likely to sharply slow growth in the coming quarters. The net export contribution to growth has already slipped. International financial market uncertainty has produced a sharp rise in CDS spreads, which will feed through into domestic interest rates, slowing investment and consumption. Inflation has eased considerably, and is now expected to be within the authorities' end-2011 target range (3 percent ± 1 ppt.). The current account deficit is expected to remain below 5 percent of GDP.

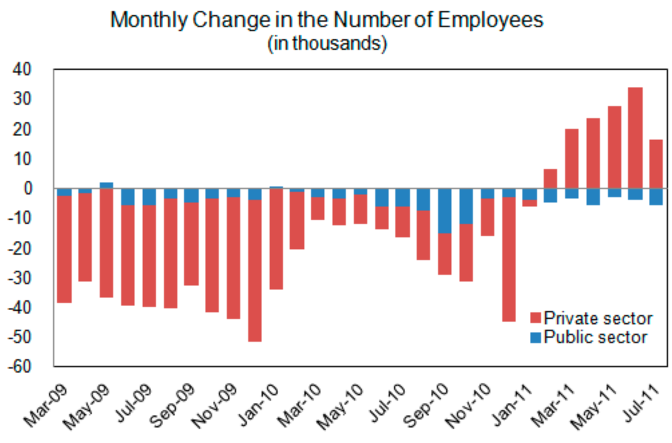
2. **Romania has continued its strong performance under the new program**. The authorities met all performance criteria and indicative targets for the third review. Performance under the structural benchmarks was more mixed. Benchmarks on bank restructuring legislation and governance legislation for SOEs were met. Those on SOE privatization and a review of the investment portfolio were partially met, but are expected to be completed by the time of the Board meeting.

3. **The authorities are on track to achieve their 2011–12 deficit targets, but stepped-up efforts are needed on key structural reforms.** The 2011 deficit target of 4.4 percent of GDP (in cash terms) will be met, and underspending should give the authorities resources to help pay down arrears in key sectors (health care and SOEs). The 2012 budget has been prepared with the objective of a cash deficit of 1.9 percent of GDP (2.1 percent of GDP including some off-budget expenditures), lower than strictly necessary to attain their 3 percent of GDP objective in ESA terms with the EU. While the tight expenditure control needed to reach this goal will be challenging, no new major policy changes will be required. A freeze in pensions and wages, together with additional EU support for the investment budget should deliver the needed adjustment. Progress on the ambitious structural reform agenda has been mixed. Governance legislation for SOEs has advanced, but deregulation efforts in the energy sector have lagged. SOE reforms have moved well in some firms, while remaining inadequate in others. The government shows continued commitment to the measures agreed, but political opposition is intensifying as the 2012 elections approach.

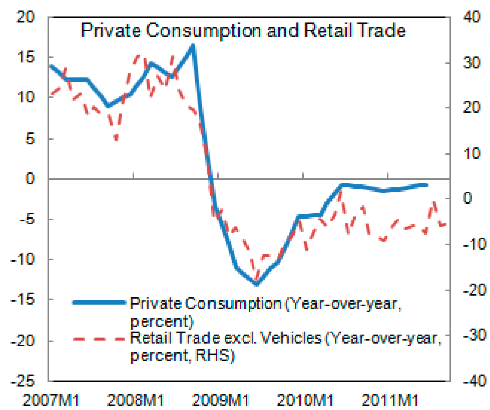
II. Macroeconomic Developments and Outlook

A. Recent Developments

4. **Growth has resumed but the recovery remains fragile.** After a tepid rise in Q2, the economy experienced a growth spurt in Q3 owing to a bumper harvest, a recovery in construction, and renewed industrial growth. The recovery in domestic demand, however, remains weak while export growth has stabilized after a slowdown during Q2. Labor market conditions continue to improve. Despite falling public employment, private employment and real wages have turned positive, perhaps reflecting in part the results of recent labor market reforms. In line with the turbulent external environment, consumer confidence has fallen recently, after continuous improvement since the beginning of the year.

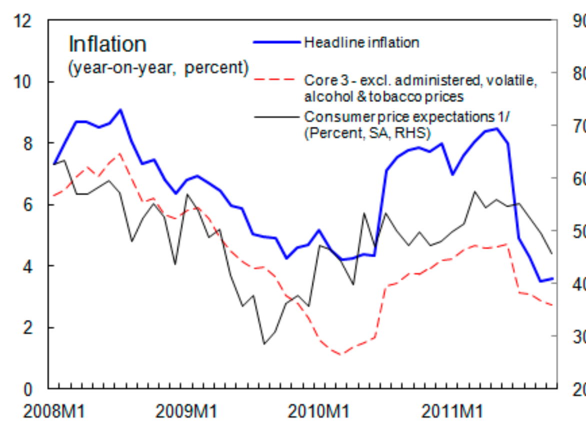


Source: Haver; and IMF staff estimates.



Sources: Haver; and IMF staff estimates.

5. **Inflation has dropped sharply, reflecting food prices deflation and the removal of VAT base effect.** Headline inflation fell to 3.6 percent in October from its peak of 8.4 percent in May. The strong decline in food prices on the back of the strong harvest more than offset the rise in transportation and other administered prices. Underlying inflationary pressures remain muted, with the core inflation[1] falling to 2.7 percent in October (from 3.1 percent in July).

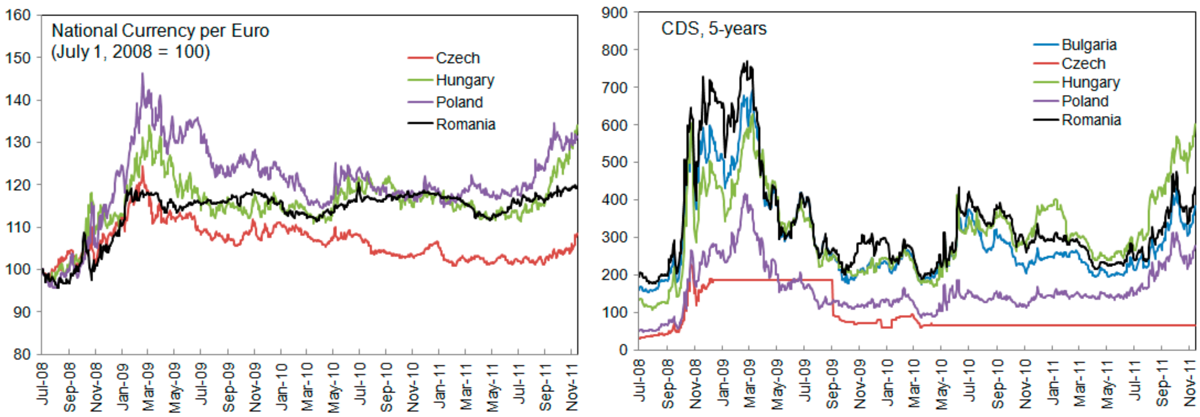


Source: European Commission; Haver; and staff estimates.
1/ Price trends over next 12 months.

6. **Elevated financial market stress due to euro area turbulence has begun to affect Romania.** Since July, the sovereign CDS spread has risen by some 200 basis points, and now exceeds the peak levels seen during the market disturbances last year. High risk aversion on the external markets has led the leu to depreciate by 4 percent since early July. Yields on domestic treasuries have been rising and issuances have

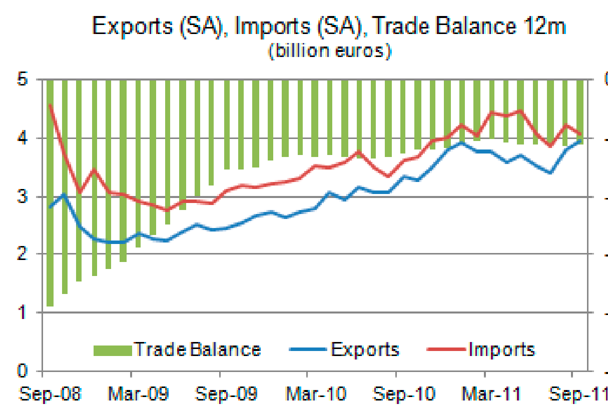
[1] As measured by the Core 3 indicator, which excludes energy, administered prices, unprocessed foods, alcohol, and tobacco.

sometimes been undersubscribed. The authorities have also postponed a planned dollar-denominated bond issue originally planned for November due to market uncertainties. However, international reserves remain comfortable at €36.3 billion, fully covering short-term debt at residual maturity.



Sources: Haver; Bloomberg; and IMF staff estimates.

7. **Continued strong trade performance is mitigating the effects on the balance of payments of deteriorating financing conditions.** Exports continue to hold up, due to increased market share and the good agricultural harvest, while subdued domestic demand continues to limit import growth. On the financing side, FDI inflows declined by 52 percent in the first nine months of the year compared to the same period last year while corporate sector inflows are now significantly skewed to short-term. On portfolio inflows, non-residents have reduced their exposure to domestic treasury bills from its peak in July.



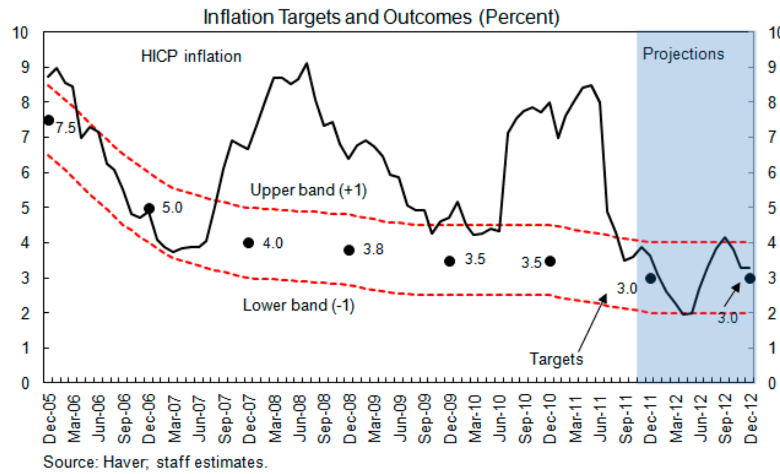
Source: Romanian authorites

B. Macroeconomic Outlook and Risks

8. **The recovery is expected to be fragile due to increasing headwinds from regional economic downturn and financial turbulence, while inflationary pressures are expected to subside.**

- **Growth** is now expected to reach 2 percent in 2011 (up from the 1.5 percent previous forecast), owing to the temporary boost in agriculture production and the gradual recovery in domestic demand. In contrast, in 2012 growth is likely to be less robust than previously foreseen, reflecting the deteriorating external environment and spillover effect into domestic demand via the banking system. Staff now projects 2012 growth to be 1.8 percent, driven by a gradual rise in domestic private demand and increased EU funds absorption. Medium term growth in 2013–16 is expected to remain strong at 3.5–4 percent.

- Headline CPI **inflation** is expected to recede to 3.6 percent by end-year, as deflationary pressures in food and energy offset the impact of an administered price hike in November. In 2012, barring significant supply shocks, inflation is likely to fall below 3 percent in the first half of the year due to base effects, and gradually increase toward the upper range of the central bank's target band of 3 ± 1 percent later in the year.



- The **current account** deficit is projected to stabilize at around 4¼ percent of GDP in 2011–12. The recent strong growth in exports, particularly in the automotive and agricultural sectors, is expected to improve the trade balance in 2011. Net exports in 2012 are expected to remain broadly stable as import demand slows in line with lower export growth. On the **financial account**, multilateral financing is expected to be the main source of financing along with government's medium term external bond placements. The private sector is projected to rollover short term debt with more medium term borrowing over the program period. FDI inflows are forecast to rebound with the help of privatization revenues. Under staff's baseline scenario, no new financing gap is envisaged, consistent with the program's precautionary nature.

Romania: Macroeconomic Outlook

	2009	2010	2011	2012	2013
Real GDP growth	-7.1	-1.3	2.0	1.8	3.5
CPI inflation, average	5.6	6.1	5.9	3.0	3.0
CPI inflation, eop	4.8	8.0	3.6	3.3	3.0
Current account balance (% of GDP)	-4.2	-4.1	-4.0	-4.4	-4.9
Gross international reserves (bn euros)	30.9	36.0	37.8	40.3	39.6

9. **Risks to growth are tilted to the downside, while inflation risks are broadly balanced.**

- ***Growth***. A further slowdown in Western European growth could depress exports and dampen consumer sentiment. Spillovers from increased turbulence in the euro area periphery could raise risk premia further and depress capital flows to Romania, adversely affecting investment and fiscal financing prospects. Bank deleveraging as a result of euro area sovereign debt crisis may lead to further credit contraction and drag down the recovery. A disorderly adjustment in the euro area periphery would generate even greater downward pressure on growth via its impact on the banking system. Domestic political tensions and looming elections could also lead to policy reversals, dampening confidence. On the upside, rapid implementation of structural reforms and faster absorption of EU-funded projects could catalyze faster economic growth.

- ***Inflation*** risks appear balanced. On the upside, further exchange rate pressures due to the spill-over from euro area periphery and needed changes in administered prices may create inflationary pressure. Recent wage increase and possible rebound of food prices next year may also push inflation higher. On the down side, the still large negative output gap and slower than expected economic recovery may drive down core inflation further.

III. POLICY DISCUSSIONS

A. Fiscal Policy

10. **The authorities remain on track to meet the 2011 cash deficit target.** The end-September deficit and primary spending targets were both met by a comfortable margin (0.7 and 0.4 percent of GDP, respectively). While third quarter revenues fell short of expectations, with lower-than-projected excises and delays in SOE dividend payments, tight current expenditure control maintained the deficit well below target. Public employment continued to decline faster than expected, causing underspending on the wage bill. As a result of the third quarter revenue underperformance, the 2011 revenue forecast (excluding arrears reduction schemes and EU grants) has been revised down by 0.2 percent of GDP. The November budget rectification will assure that expenditures remain consistent with the deficit target, while allocating additional funds to the health sector to avoid the accumulation of new arrears, provided that health reforms are on track (MEFP ¶12). The budget supplement will also scale up SOE arrears cancellation schemes introduced at the time of the second review (from 0.3 to 0.5 percent of GDP). These plans are budget-neutral, as transfers to SOEs are offset by the recovery of tax arrears. Finally, the authorities will use any fiscal over-performance relative to the annual target to help SOEs cover their arrears to suppliers.

Fiscal Performance, Third Quarter 2011

(billions, RON)

	Proj. 1/	Act. 2/	Difference
Total revenue	47.6	46.6	-1.0
Tax revenue	39.8	40.1	0.3
of which: Excises	6.0	5.2	-0.8
Nontax revenue	5.8	4.2	-1.6
Grants	2.0	2.1	0.1
Other	0.0	0.2	0.1
Total expenditure	53.8	49.0	-4.8
Current	48.3	44.9	-3.4
Personnel	10.7	9.5	-1.2
Goods and services	7.1	7.7	0.6
Interest	2.5	1.8	-0.7
Subsidies	1.8	1.3	-0.5
Transfers	25.6	24.0	-1.6
Social assistance	17.0	16.9	-0.1
Other transfers	5.5	3.4	-2.2
EU funds, post-accession	2.4	2.7	0.4
Other expenditure	0.5	1.0	0.4
Projects financed from external credits	0.5	0.6	0.1
Capital	5.3	4.2	-1.1
Deficit/Surplus	-6.2	-2.4	3.8
Memo item:			
Total capital spending	10.0	9.7	-0.3

Source: Romanian authorities; and staff projections.
1/ Arrears clearance schemes of 0.1b in VATand 0.7b in non tax revenues.
2/ Arrears clearance schemes of 0.2b in VATand 0.6b in social security contributions.

11. **The authorities' 2012 budget targets a cash deficit below 2 percent of GDP.** To bring the EU accrual deficit well under 3 percent, the 2012 budget is based on a cash deficit of 1.9 percent of GDP.[2] This target leaves scope to accommodate unforeseen shocks and, if economic conditions permit, moderately raise spending in the course of the year. The authorities felt that a prudent approach was warranted to withstand pre-election spending pressures and contain deficit financing costs in the context of an increasingly uncertain

[2] The gap between ESA and cash deficits is traditionally on the order of 0.5 percent of GDP. The inclusion of additional SOEs in 2012 may add to the gap, but arrears repayment narrows it. The exact SOEs to be included have not yet been finalized by Eurostat, but the cash-accruals difference is expected to be on the order of ¾ percent of GDP.

external environment. Achieving this ambitious 2012 target will require sustained expenditure restraint, including the following measures:

- A freeze in public sector **wages and pensions** and continued reductions in public employment. This decision may be reconsidered during the year if more favorable financing and macroeconomic conditions create fiscal space.

- Savings in **capital expenditures** by terminating non-performing projects identified during the prioritization exercise and by reducing the national co-financing of EU-funded projects. Romania should indeed benefit from a new EU regulation allowing program countries to temporarily reduce their co-financing rate from 15 to 5 percent.

- Other savings will come from means-testing of social programs, cuts in subsidies, and implementation of health sector reforms and restructuring of public enterprises.

- Some modest revenue measures will also be introduced (Table).

2012 Budget Reform Package
(Relative to Unchanged Policy Scenario; In Percent of the 2012 GDP)

Increase in revenues	0.3	
Excises 1/	0.1	Excise rate hikes for cigarettes, and diesel
Nontax revenue 1/	0.1	Increase in royalties for construction material
Capital revenues 1/	0.1	Sales of buildings
Reduction in expenditures	2.1	
of which:		
Personnel 2/	0.5	Wage freeze, and employment cuts
Subsidies 3/	0.1	Cut in district heating subsidy, termination of coal subsidy, and substitution of EU funding for agricultural subsidies
Cofinancing (pre and post-accession) 4/	0.6	Reduction in cofinancing of EU post-accession projects, and termination of pre-accession programs
Contingency funds 3/	0.2	Reduction in buffer
Pensions 5/	0.5	Pension freeze
Social assistance 3/	0.1	New social assistance code, better targeting of social programs, inspections, and reduction in some benefits
Improvement in the fiscal balance	2.4	

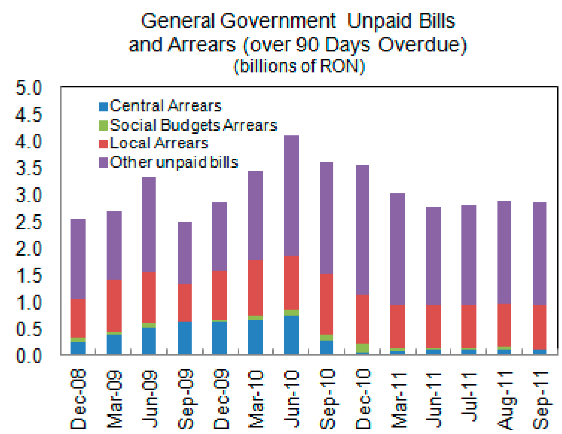
Source: Romanian authorities and IMF Staff.
1/ Baseline: revenue-to-GDP ratio unchanged from 2011 (excluding arrears cancellation schemes).
2/ Baseline: includes full recovery of 2010 wage cut.
3/ Baseline: 2011 projected expenditure (excluding arrears cancellation schemes).
4/ Baseline: post-accession cofinancing based on 15 percent rule applied to 2012 EU funds.
5/ Baseline: implementation of the pension law for 2012.

12. **The 2012 deficit target measured under the IMF program will be 2.1 percent of GDP, including 0.2 percent of GDP in off-budget expenditures.** The authorities have launched the National Program for Infrastructure and Development (PNDI) to invest in rural and small town infrastructure projects, such as water, sewage, roads, etc. They identified about RON 20 billion (4 percent of GDP) of infrastructure projects that will be undertaken over 2012–20. Payment to private contractors will only be made upon completion of the works, so that the cash deficits will not fully reflect spending commitments. In order to capture this off-budget spending, the 2012 fiscal deficit target will be adjusted upward by

0.2 percent of GDP. In any event, this spending will be counted as executed in the ESA deficit as measured by Eurostat, which will still be below the agreed 3 percent threshold in 2012.[3] Given Romania's relatively low debt-to-GDP ratio, staff suggested that a somewhat less ambitious cash deficit could be considered (still within the EU 3 percent accrual target) so as to make fiscal policy more supportive of economic growth. Staff and the authorities agreed, however, that tightening financing conditions might limit their ability to sustain a larger budget deficit.

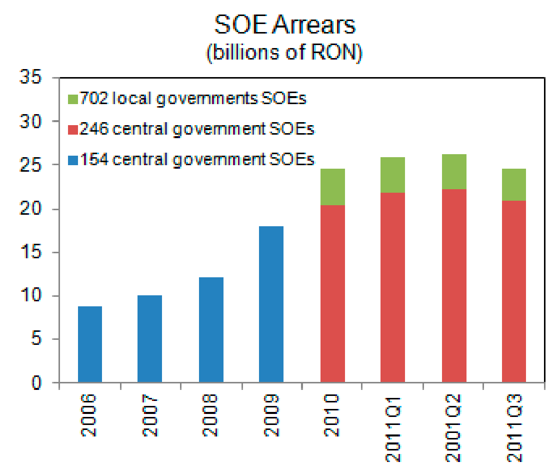
13. **Arrears are decreasing, but challenges remain in local governments and SOEs** (MEFP ¶7).

- ***Central government and social security arrears*** met the Q3 performance criterion. In the health sector, arrears in registered bills have now been completely eliminated, but one third of the bills uncovered during the stocktaking exercise have yet to be registered. The adoption of the claw-back tax (prior action) should provide incentives to drug suppliers to reduce overconsumption of compensated medications, while providing budget resources to help pay bills within legal deadlines.



Source: Romanian authorities; IMF staff estimates.

- In ***local governments***, arrears have leveled off since the second quarter. The new amendments to the local government public finance law have been effective in preventing the accumulation of new arrears, but reducing the stock of existing arrears will require stricter enforcement of the law. Staff recommended that priority local capital projects should be adequately financed through multi-year contracts signed between line ministries and local governments, while low priority projects should be cancelled.



[3] The authorities anticipate contracting 1½ percent of GDP in projects in 2011 and 2012, and 1 percent of GDP in 2013. The projects would be executed and paid for in the period 2012–20, with the bulk of project execution in 2013–15, but payments concentrated in 2015–20.

- ***Arrears of SOEs*** declined in the third quarter, but additional measures are needed to continue this improvement (MEFP ¶22–25).[4] While the government has implemented transfer schemes amounting to RON 2 billion, arrears declined by only RON 1.3 billion suggesting a rising underlying trend. Additional measures of additional RON 3 billion are under preparation to be implemented before the end of the year.[5] The authorities will also continue the SOE restructuring and privatization process to preclude the accumulation of new arrears.

14. **The authorities are conducting reforms to address persistent budgetary shortfalls in the healthcare system** (MEFP ¶12).

- ***Current reforms aim at containing public health expenditure and enhancing revenues.*** The reference price of some expensive drugs (C2 list) was revised in September. With the assistance of external consultants, the authorities will reduce the scope of the package of benefits insured by the government by the end of 2011. The claw-back tax mechanism (prior action) will ensure that drug producers bear the cost of drug overconsumption and that spending commitments remain within the allocated budget. Finally, the copayment law for medical services (prior action) is expected to be enacted in the fourth quarter.

- ***In 2012–13, the authorities plan to phase in a fundamental restructuring of the health care system***. The authorities are preparing a framework law by end-2011 (structural benchmark) to outline the key features of the new system. The reform is expected to scale up the involvement of the private sector in health care provision and financing with a view to enhancing efficiency and raising additional resources.

- ***In the medium-term, the Romanian healthcare system should better align resources with needs***. Public healthcare spending in Romania is among the lowest in the EU as a share of GDP, and population ageing will aggravate the funding shortfall. As a first step, the authorities ensured that the 2012 budget allocations to the health sector would be consistent with realistic spending programs.

15. **The authorities continue to improve their financing strategy.** The authorities launched the euro medium-term note program with a first issue in June and plan to continue regular external bond issuances both in euros and dollars. To protect government finances

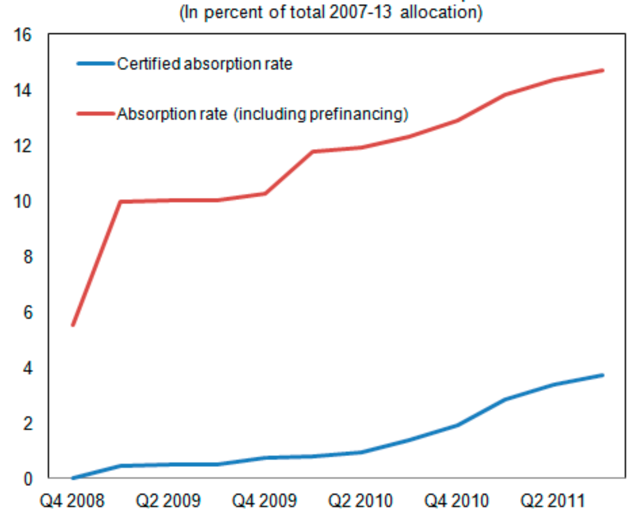
[4] SOE arrears of monitored companies amounted to RON 18.5 billion (3.4 percent of GDP) at the end of the third quarter. Non monitored central government SOEs arrears amounted to RON 2.5 bn. Finally, a newly developed database for local government SOEs revealed additional arrears of RON 3.6 bn.

[5] Strategies to reduce SOE arrears include bankruptcy procedures, installment agreements, netting-out schemes among public institutions, provision of public resources via credits or debt-equity swaps (with the clearance by EU competition authorities), restructuring, and securitization.

against external shocks, the authorities are building up foreign currency buffers, with a view to achieving four months of gross financing needs. The authorities have also made progress in building the domestic yield curve, but less favorable external market conditions have led them to temporarily reconsider extending further issuance maturities. Technical assistance missions provided by the IMF, European Commission (EC), and World Bank (WB) are also helping to strengthen the authorities' debt management capacity and strategy.

16. **Further efforts are needed to improve the absorption of EU structural funds and the quality of the public investment portfolio.** Although the absorption of EU funds has improved continuously since 2010, absorption certified by the Commission remains weak, and difficulties have recently surfaced in some of the reimbursement claims, causing the government to temporarily pause applications. In order to boost absorption, the authorities have approved a list of 100 EU-funded priority projects, whose implementation will be strictly monitored. In addition, they will negotiate with the EC a reallocation of EU funds between operational programs in order to finance additional needs that occurred and were not envisaged for financing within the current 2007–13 programming period. They have also increased accountability of public procurement agencies in the tendering process and are developing standard bidding documents to reduce contested tenders. The authorities have also completed a comprehensive review of the existing investment portfolio and have prepared a database of all government projects. This database will be used to prioritize and evaluate projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon.

EU Structural and Cohesion Fund Absorption Rate
(In percent of total 2007-13 allocation)



Source: Europan Commission and Romanian authorities.

17. **Tax administration reforms continue to aim at reducing collection costs and improving compliance.** The authorities are making progress in the areas of risk assessment, taxpayer segmentation, office network reorganization, and indirect audit methods, but sustained improvements in revenue collection have not yet been achieved, as evidenced by the underperformance of the third quarter. One issue identified by past TA reports is the large number of small taxpayers registering for VAT, which diverts resources away from high-income taxpayer audit and service. To address this issue, the authorities have abandoned their plan to introduce a simplified tax regime -perceived as politically too costly- and will adopt administrative measures to tighten VAT registration eligibility criteria (structural

benchmark), with a view to reducing the number of VAT registrants by 20 percent by end-September 2012.

B. Structural Reforms

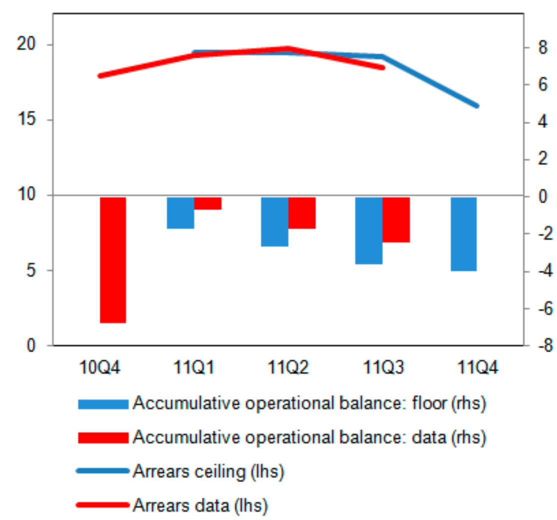
State-Owned Enterprises

18. **Reform measures beginning to bear fruit but significant additional effort is needed.** The authorities have strengthened the database for monitoring local government SOEs by improving its coverage and data quality. The targets for both the operating balance and arrears for companies under monitoring were met. Additional restructuring measures are being implemented, and plans for arrears reduction and full- and partial- privatizations are advancing, albeit with some delay compared to original plans.

19. **Improvements of SOE governance are being implemented.** A corporate governance reform for SOEs has been approved which requires regular independent external audits, quarterly publication of financial data, reinforcement of OECD principles on corporate governance and the rights of minority shareholders. This law also ensures appropriate qualification of management and board members, and requires private management experience in the largest SOEs. In addition, the financial control of SOEs has been moved from line ministries to the MOPF.

20. **Restructuring of SOEs is progressing, while arrears are being reduced.** Restructuring plans are being implemented for about 150 central government SOEs (structural benchmark for July), and plans will be developed by year-end for additional companies newly integrated in the MOPF database. Arrears are expected to be reduced by nearly 1 percent of GDP, and efforts continue for additional arrears reductions, consistent with EU competition regulation on state aid (MEFP ¶7).

Performance of Monitored SOEs



Source: Romanian authorities

21. **The privatization process is progressing, albeit with some setbacks.** The authorities have committed to appoint advisers in several SOEs (prior action).[6] However, they have stepped back from its earlier

[6] The agenda includes, by early 2012, selling of the remainder stakes in the chemical company Oltchim, a majority stake in Cuprumin, and minority stakes in the airline Tarom, Posta Romana, and energy companies Romgaz, Transelectrica, and Transgaz. In addition, minority stakes will be sold in Hidroelectrica and the second attempt to sell the 10 percent stake in Petrom will take place in early 2012. Later in 2012, privatization is

(continued)

commitment for majority privatization of the remaining public electricity distribution companies. While the deteriorating economic environment may impede timely privatizations, prospects in the energy sector seem still favorable given current price developments.

22. **In the energy sector, restructuring measures and regulatory reforms aim at attracting private investment and removing pricing distortions.** After unsuccessful efforts to form two national "champions," the government is implementing an alternative strategy with smaller energy companies, a greater role for private capital, and winding up nonviable operations in coal and thermal energy companies. To avoid further arrears accumulation in district heating companies, local governments are now required to budget and pay for heating subsidies if they set a lower consumer price than recommended by the regulator. To address pricing and regulatory framework deficiencies, the government will approve and submit legislation to Parliament by mid-December 2011 ensuring a complete transposition of the EU 3rd Energy Package, including the independence of the energy regulator (ANRE), an appropriate unbundling regime, and the definition of vulnerable consumers. To better align the CUG formula price with actual costs, as of January 1, 2012, gas prices for non-households will be increased by another 5 percent (prior action). A roadmap for phasing out regulated prices in gas and electricity will be agreed with EC and IMF staff by end-January 2012, which would lay out the path to complete removal of regulated prices for non-households in electricity and gas before end-2013 and for households by end-2015. The authorities will take necessary steps to terminate existing below market bilateral contracts of state-owned gas and electricity generators and new contracts will be conducted with full transparency.

23. **In the transport sector, the government is developing a medium-term strategy to enhance infrastructure and increase efficiency in service provision.** Major infrastructure projects using EU structural funds are advancing and revenues are increasing through tariff adjustments and enhanced toll collection. Successful renegotiations of existing contracts and application of standard costs will substantially reduce costs in road, urban transport, and rail sectors. Closure for underutilized lines is expected to help achieve the viability of the rail system. Arrears of the passenger and infrastructure rail companies have been reduced via specific schemes and additional steps are under preparation. In addition to the planned privatizations in the national cargo rail company (Marfa) and the national air carrier (Tarom), private professional management will be appointed for all main rail companies and Tarom.

Other Reforms

24. **The authorities continue efforts to improve the labor market and the provision of social benefits.** Since the new Labor Code entered into force on April 30, more than

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envisaged for a third group of companies that include sale of minority stakes in Nuclearelectrica and majority privatizations of the cargo rail company, all energy supply companies and major energy producers.

1 million new contracts have been signed, of which ⅓ were fixed-term (compared with less than 5 percent historically). The authorities will continue to monitor closely the implementation of the new Labor Code and its effects on labor market outcomes. The implementation of the Social Dialogue Code stalled due to delays in the consultation process with social partners. Staff supports the authorities in their commitment to reach an agreement and to ensure that the new legislation observes EU directives and core ILO conventions. The Social Assistance Law, which aims to streamline social benefits and improve the efficiency of social protection, has been approved by the Parliament and is expected to enter into force in 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.

C. Financial Sector Policies

25. **Tensions in euro area sovereign debt markets continue to weigh upon economic and financial market conditions in Romania.** The banking sector as a whole recorded a loss over the year to date due to rising provisions. Non-performing loans (NPLs) rose to 14.2 percent in September and are expected to continue to rise into 2012, with the servicing of restructured and previously performing loans impacted by the slower than expected economic recovery. Provisioning remains prudent, covering some 97 percent of NPLs. This portfolio deterioration produced a decline in capital adequacy so far this year; however, the system remains well-capitalized, with an average ratio of 13.4 percent (down from 15.0 percent at end-2010) and a core tier one capital ratio of 12.9 percent at end-September. The authorities have continued their policy of requesting additional capital from bank owners well before they approach the statutory minimum of 8 percent. While an increase in corporate lending more than offset a slight decline in household lending, credit growth remains weak in real terms. The aggregate exposure to Romanian of the nine largest foreign banks participating in the European Bank Coordination Initiative stood at 99 percent of the March 2009 level.[7] However, a loss of parent funding and resulting deleveraging remains a major risk due to the regional economic downturn and financial turbulence.

26. **In light of the evolving situation in Europe, the authorities and staff agreed on immediate steps to strengthen the institutional framework and operational preparedness of their financial safety net.** The NBR is re-running its liquidity and solvency stress tests to identify where further support would be required from shareholders, under various stress scenarios. The NBR stands ready to provide liquidity as necessary to mitigate segmentation in the interbank market and is placing its contingency plans onto an advanced stage of operational preparedness, ready to deploy as necessary to preserve depositor confidence. Additional amendments to bank resolution legislation will introduce bridge bank

[7] While they have not agreed on a specific target exposure level, going forward these banks have affirmed their long-term commitment to the country and continue to report exposures.

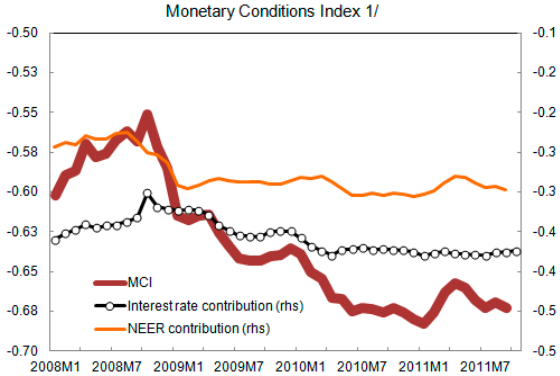
powers by end-November, which could be used in the event of a systemic threat. The Deposit Guarantee Fund (DGF) will become a full member of the National Committee for Financial Stability, and the NBR and the DGF will sign a memorandum of understanding to enhance information sharing, early identification of problem institutions, and to finalize resolution plans. A joint working group will also be established between the NBR and the DGF, with adequate expertise and resources to finalize operational arrangements. Legislative amendments will be made to allow quick access from the MOPF to any additional funding needed to fulfill the DGF's obligations (including for bridge banks and purchase and assumption transactions).

27. **The NBR will continue to intensively supervise the banking system and take proactive measures as necessary to ensure that banks have sufficient capital and liquidity**. Given the worsening funding conditions and economic outlook, further capital will be required, particularly at some small and medium sized banks with high cost ratios, rising loan impairments, and lower than average provisions. The NBR will continue to actively request further capital injections from shareholders as and when required to maintain regulatory minima. The authorities will shortly finalize the regulatory framework including prudential filters and the neutral tax treatment of provisioning, to substantively preserve the current prudent approach once International Financial Reporting Standards are introduced for the banks at the beginning of 2012. The NBR has tightened the regulatory treatment of banks' foreign currency lending to households, including via differential loan to value limits for lending in domestic and foreign currency on a hedged and unhedged basis. The authorities will closely monitor the impact of these measures and will recalibrate the limits as necessary to ensure that foreign currency lending remains prudently priced both to reflect the risks to households and to limit the further euroization of lending.

D. Monetary and Exchange Rate Policies

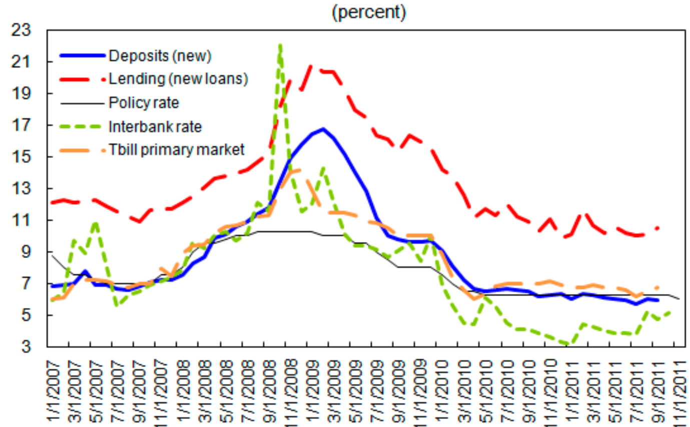
28. **The central bank cut its policy rate by 25 basis points amid abating inflationary pressures.** In its November board meeting, NBR cut policy rate from 6.25 percent to 6 percent, while maintaining the reserve requirement on local and FX currencies. This is the

Monetary Conditions Index 1/



1/ Weighted average of the annual change in the 3-month interbank offer rate and the nominal effective exchange rate (at a ratio of 1.5 to 1)
Sources: Bloomberg; IFS; and IMF staff estimates.

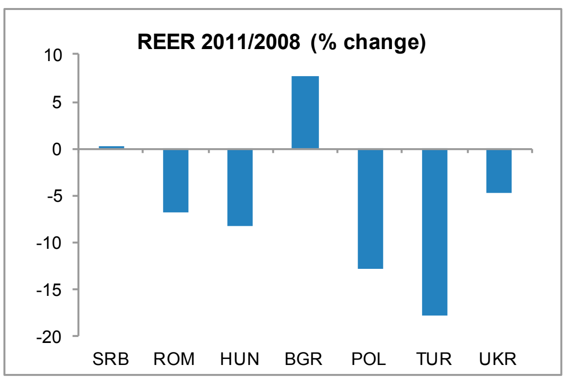
Interest Rates on RON Instruments
(percent)

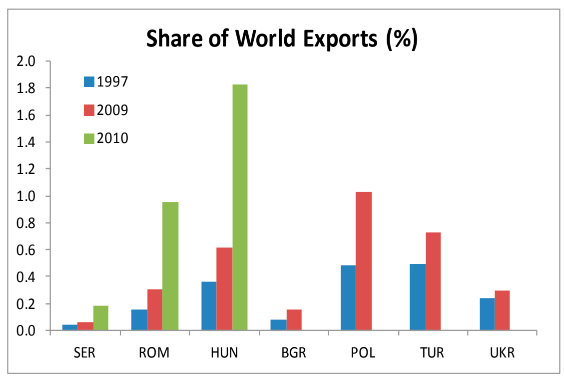


Sources: National Bank of Romania; and Haver.

first policy rate cut since May 2010, as inflationary pressures have eased significantly after the global food and energy prices shocks receded and the first-round effects of the VAT hike played out. The NBR now expects inflation to remain within the target band in 2012 despite the rate cut. Recent tightening of banking liquidity has driven the money market rate closer to the policy rate, potentially strengthening the transmission of monetary policy rates into financial markets in the coming months. The central bank has been active in providing liquidity support to the banking sector by offering weekly repo operations. The exchange rate has also weakened somewhat in recent months, despite some central bank intervention, leading to a easing of the monetary stance. Staff had a somewhat higher inflation forecast for 2012 than the authorities and expressed reservations about the NBR's rate cut, but noted that its small size would minimize inflationary effects. However, exchange rate pressures and renewed capital outflows will also constrain monetary policy in the future.

29. **Romania's competitiveness remains adequate.** Since 2008, the country's Real Effective Exchange rate (REER) has depreciated by some 7 percent. The world market share of exports has also risen significantly. Assessment based on extended CGER analysis (Country Report No. 11/158, p.15) does not show a misalignment in the currency. Moreover, the depreciation of the leu in recent months has helped further improve competitiveness experienced since mid-2007, as measured by the Real Effective Exchange Rate.





IV. Program Modalities and Other Issues

30. **The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and sets out their commitments through end-March 2012**. Some modifications to the program's conditionality are proposed (Tables 1-2)***:***

- *Three prior actions are proposed:* (i) for appointment of legal advisor for Hidroelectrica, transaction advisor for Oltchim, and Transelectrica, and publication of tender for transaction advisor for Romgaz, Transgaz, and Tarom; (ii) to enact the copayment law and a revised clawback tax law on pharmaceuticals based on the growth in costs above pre-determined threshold; and (iii) for an increase of 5 percent in the CUG gas price for nonresidential consumers, which is essential to help normalize the gas market and ameliorate losses in SOEs.

- *A modification in the end-December NFA target is proposed.* The end-year target is unchanged; however an adjustor on the size of the MOPF external bond placement is introduced for end-2011 and end-March 2012, reflecting the risks due to the deterioration of external environment.

- *A modification in the end-December adjustor to the general government balance is proposed.* The end-2011 adjustors on non-grant government revenues and capital expenditures are removed; however, adjustors for end-March 2012 are introduced.

- *A modification to a structural benchmark is proposed:* (Table 2) the increase in the VAT threshold as part of the simplified taxation system is replaced with an exclusion scheme to deregister small taxpayers from the VAT system. By end-December, this scheme will be designed which will ensure reduction of 20 percent in the number of taxpayers (mainly small ones) by end-September 2012 relative to end-September 2011. This will allow the authorities to stay within the existing VAT regime and avoid tax revenue losses.

- *New structural benchmark is being added:* (Table 2) As part of the restructuring and privatization strategy, appointment of transaction advisors for Group 2 and legal advisors for group 3 are proposed. The appointment of advisors is essential for the SOE reform and privatization process, as the privatizations will bring significant additional investment into the transport and energy sectors to boost growth, while significantly improving transparency and operational efficiency.

31. **Program modalities.** Romania is not expected to face actual balance of payments financing needs in 2011 and 2012 under the baseline scenario, and the Stand-By Arrangement as well as financing commitments from the European Union will continue to be treated as precautionary.

32. **Program risks.** Romania's capacity to repay the Fund is expected to remain strong. Fund credit outstanding would peak in 2011 at 38.5 percent of gross reserves. Peak payments would be in 2013–14 at a still manageable 12.7 and 12.1 percent of gross reserves and around 8.4 and 7.2 percent of exports of goods and services. While this exposure remains large, servicing risks are mitigated by the relatively low level of public debt. Public indebtedness (including guarantees) is expected to remain under 36 percent of GDP, with public external debt peaking at around 18 percent of GDP in 2012. Total external debt is projected to peak at under 78 percent of GDP in 2012 and decline in the medium run. In addition, an update of the 2009 safeguards assessment found a robust safeguards framework at the NBR, while recommending measures to sustain NFA reporting standards and effective audit oversight, and enhance accounting disclosures.

33. **Fund staff has continued to cooperate closely with the staff of the EC and the WB.** Fund, EC and the WB staff have consulted each other regularly regarding economic and policy developments in Romania, and EC and WB staff participated in Fund meetings with the authorities. The EU approved its new precautionary arrangement of €1.4 billion which parallels the new Fund SBA in May. The WB is also expected to approve a €1 billion Deferred Drawdown Option (DDO) for Romania in the second quarter of 2012.

V. Staff Appraisal

34. **Risks to Romania's economic recovery have risen substantially due to the worsening euro area financial crisis.** Although growth accelerated in Q3 2011, prospects for 2012 have worsened significantly and further negative shocks cannot be ruled out. These shocks will affect economic prospects via increased stress in the financial sector, reduced export growth, and more difficult sovereign debt financing. The authorities have commendably taken a conservative approach to fiscal planning for 2012, but they will need to aggressively reduce other vulnerabilities to contain risks. The government must continue to build fiscal financing buffers—even at higher interest rates—to guard against possible future market disruptions. The central bank should place a premium on maintaining its current high reserves, while continuing its prudent policies regarding banking sector provisions and capital buffers. Further action to strengthen bank resolution mechanisms and prepare detailed contingency plans will also be important. The Fund precautionary program will continue to provide an important backstop to the authorities' efforts.

35. **Fiscal performance in 2011 has been good, and achievement of the year-end target is highly likely.** The authorities' commitment to tight expenditure control has been very effective, particularly as regards continued reductions in public employment. However, chronic problems in health care spending are a continuing source of fiscal stress. The government's commitment to improve short-term revenues via copayment and clawback tax measures will help, but only more fundamental reforms will solve the problem. The authorities' intention to produce a comprehensive reform package by year-end is welcome, but in order to succeed this legislation will have to address not only spending inefficiencies but also the chronic underfunding of the system. Unfortunately, revenue performance slipped significantly in the third quarter, reversing improvements earlier in the year. While steps to reform tax administration continue (supported by Fund technical assistance), these efforts have clearly not been sufficient to improve Romania's dismal tax yields and more action is urgently required.

36. **The authorities have produced a conservative 2012 budget, bringing attainment of their fiscal objectives within reach.** The decision to target a deficit of 1.9 percent of GDP in cash terms makes the attainment of the government's 3 percent EU deficit target in accrual terms highly probable, with the accrual deficit likely undershooting the minimum needed. While this likely overperformance may well boost Romania's reputation for fiscal probity in these uncertain economic conditions, it comes at a price. Freezes in pensions and salaries for 2012 will make the budget more contractionary, with attendant negative effects in domestic demand and growth. A somewhat higher deficit (still below 3 percent in accrual terms) would still send a positive signal to markets while being less procyclical. For this reason, staff recommends the authorities consider modest increases for public employees and retirees (perhaps reflecting the cost of living) during the course of 2012 if budget conditions permit. Given the restrictive budget, increased absorption of EU funds becomes even more important. With the formation of a new ministry to supervise this absorption, prospects for

increased EU-financed investment have improved. But serious obstacles remain, and in an environment of extreme euro area uncertainty, EU-funded investment will provide one of the few clear engines of growth for 2012. Finally, staff is concerned about off budget spending under the PNDI. While including it under the 2012 deficit target should limit its scope, it is a movement away from investment prioritization and transparent fiscal accounting that the authorities should reverse.

37. **Implementation of planned structural reforms is essential if sustainable economic growth is to be maintained.** Progress has been uneven in reforming public enterprises and in preparation for privatizations, and deregulation in the energy sector has lagged. The authorities need to press forward more firmly on enterprise restructuring, as fiscal space to accommodate large losses is nonexistent, and the external conditions may limit the success of early privatization offers (particularly of minority stakes, where concerns about governance may limit interest). Inefficient or loss-making operations are a waste of resources that Romania can no longer afford. Staff encourages the authorities to be more ambitious in their SOE reform policy, as even the completion of all reforms under the program will still leave a large state-owned sector only partially adapted to the needs of a modern EU state.

38. **The authorities' strongly proactive stance in banking supervision has helped forestall banking sector difficulties, but risks are rising.** With more than 80 percent of the banking system controlled by foreign banks (including a number from euro area crisis countries), Romania is particularly vulnerable to the increasing banking sector uncertainties elsewhere in Europe. While capital and liquidity buffers exist in the system, the authorities should step-up efforts to ensure future stability. Enhanced monitoring of banking sector flows should be coupled with detailed contingency plans for any domestic banking problems, as well as for possible contagion from the euro area. The move to develop bridge banking powers is a welcome enhancement of banking resolutions capabilities, but the authorities need to work now to make this new mechanism operational. Efforts to further enhance cooperation with home countries (and other host countries) would also be advantageous, given the continent-wide nature of the challenge. Finally, the authorities also need to remain alert to any difficulties in small local banks.

39. **The NBR is now well-placed to meet its inflation targets in both 2011 and 2012.** With inflation risks still present, the recent 25 bp cut in the policy rate may have been premature. That said, the subsequent parallel easing by the ECB left the differential unchanged, minimizing negative effects. However, given current uncertainties staff would counsel against further monetary policy easing in the coming months in light of possible capital outflows or renewed downward pressures on the exchange rate. On the monetary operations side, the central bank needs to be prepared to be more active in providing liquidity to address any liquidity shortage in the banking system, particularly as market concerns segment the interbank market.

40. **The authorities should develop contingency plans to address the possibility of a significant negative external shock.** With fiscal and external imbalances much lower than at the outset of the crisis in 2008 and with support already in place from the IMF and EU, Romania is much better placed to respond to downside risks than previously. A renewed European recession might usefully be addressed by allowing limited use of fiscal automatic stabilizers as long as financing is available. If the crisis were to involve a sudden stop in external financing, Romania might be forced to draw on the precautionary arrangements with the Fund and the EU to provide fiscal financing, while flexibility in the exchange rate together with some drawdown of international reserves would help cover the shortfall in private sector financing flows. Major banking sector difficulties in Europe would require a firm response by the NBR to address the implications for the domestic banking system, with possible financial support from the authorities.

41. **On the basis of Romania's performance under the SBA, staff supports the authorities' requests for completion of the third review under the arrangement.** Staff also recommends approval of the modification of program conditionality, as proposed in the attached MEFP.

Box. The Stand-By Arrangement

Access: SDR 3,090.6 million, 300 percent of quota.

Length: 24 months.

Phasing: SDR 60 million was made available upon Board approval of the arrangement on March 25, 2011, which became effective on March 31, 2011. Two disbursements of SDR 430 million each became available on June 27 and September 29 with the completion of the first and second reviews. SDR 430 million will be made available subject to the completion of this review. Five subsequent disbursements, totally SDR 1340.6 million, are contingent upon completion of the fourth to the eighth review.

Conditionality

- ***Quantitative Performance Criteria***

➢ A floor on the change in net foreign assets
➢ A ceiling on central government and social security domestic arrears
➢ A floor on the overall general government cash balance
➢ A ceiling on general government guarantees
➢ Non-accumulation of external debt arrears

- ***Quantitative Indicative Targets***

➢ A ceiling on general government current primary spending
➢ A ceiling on local government domestic arrears
➢ A floor on the operating balance and a ceiling on arrears of the key loss-making SOEs
➢ A ceiling on the execution of the PNDI program

- ***A consultation band around the 12-month rate of inflation of consumer prices***

- ***Prior Action***

➢ Appoint legal advisor for Hidroelectrica, transaction advisor for Oltchim, Transelectrica and publish tender for transaction advisor for Romgaz, Tarom and Transgaz.
➢ Enact the copayment law and the revised clawback tax law.
➢ Increase gas price for non-resident consumers, in order to further align with CUG formula, by 5 percent.

Box. The Stand-By Arrangement (continued)

- ***Structural Benchmarks***

➢ Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears. *July 15, 2011.*

➢ 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 pla*n. September 30, 2011.*

➢ Selection of advisors for SOE reform (i) Select transaction advisors for group1 and (ii) legal advisors for group 2. *October 31, 2011*

➢ Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions. *September 30, 2011*

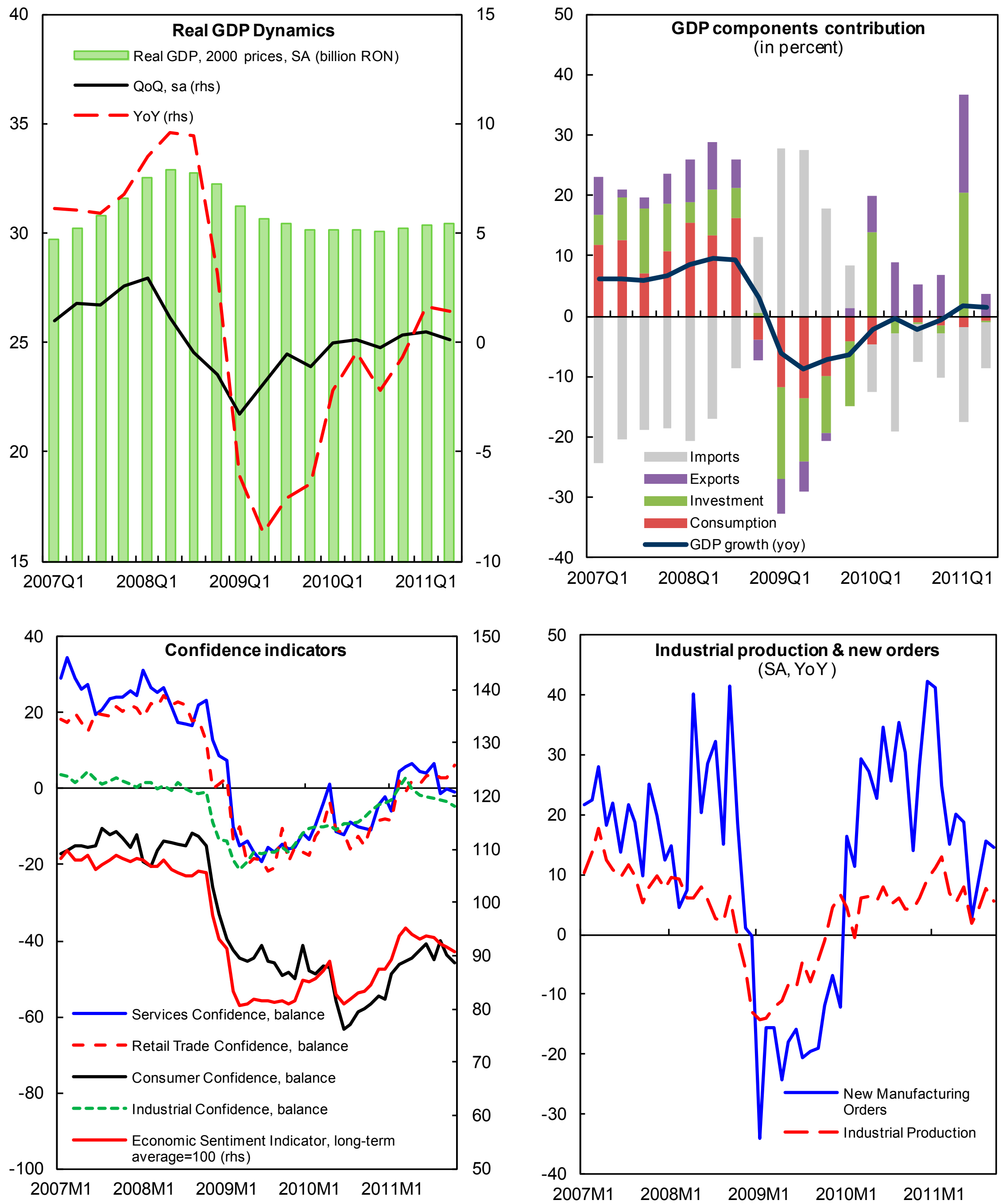
➢ Approve legislation to improve governance of SOEs. *October 31, 2011*

➢ Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. *December 31, 2011.*

➢ Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP. *February 15, 2012 (proposed)*

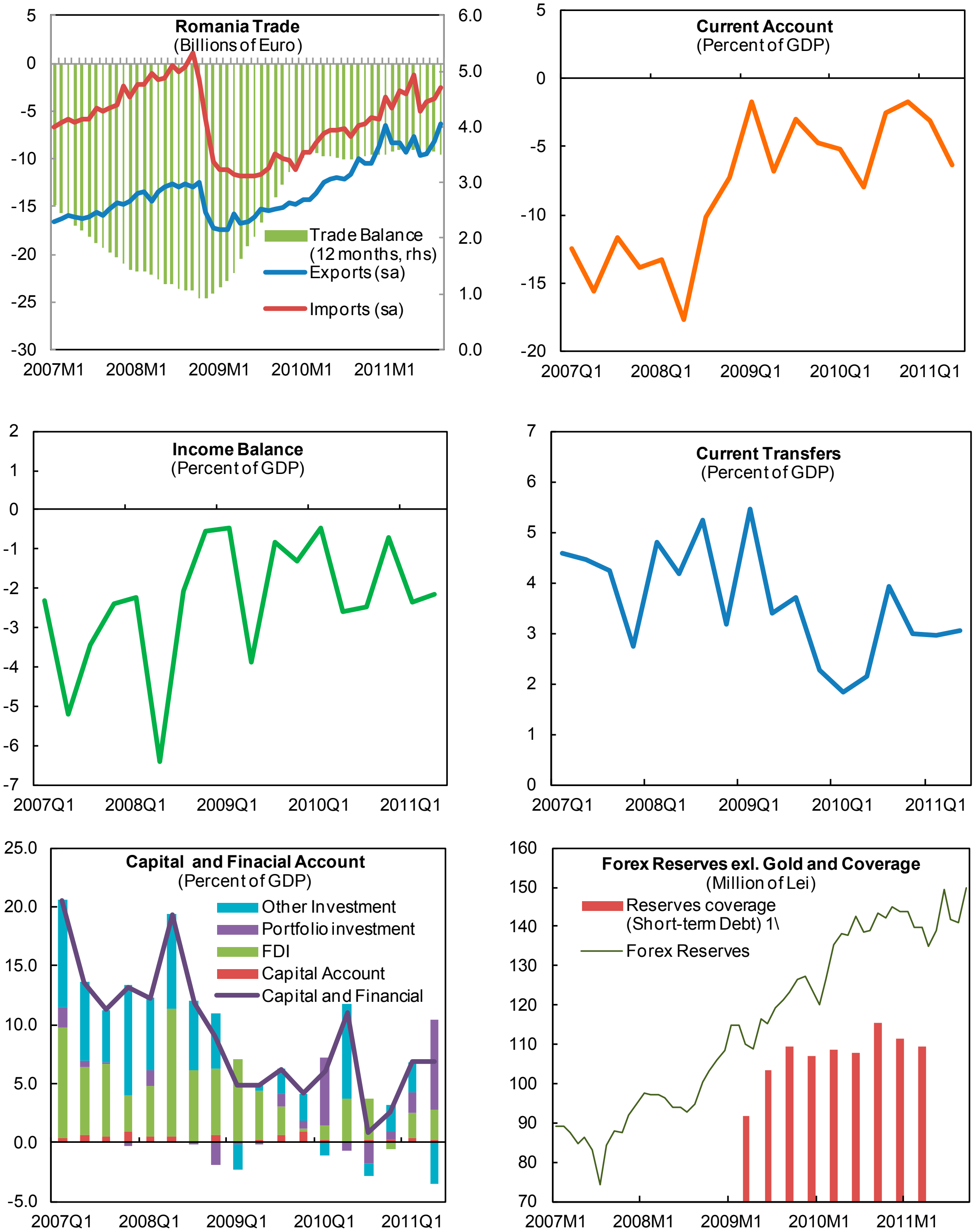
➢ Design an exclusion scheme to remove from the VAT regime 20 percent of small taxpayers that are below the threshold level by end-September 2012 (compared to end-September 2011). *December 31, 2011 (modified)*

Figure 1. Romania: Real Sector, 2007-11



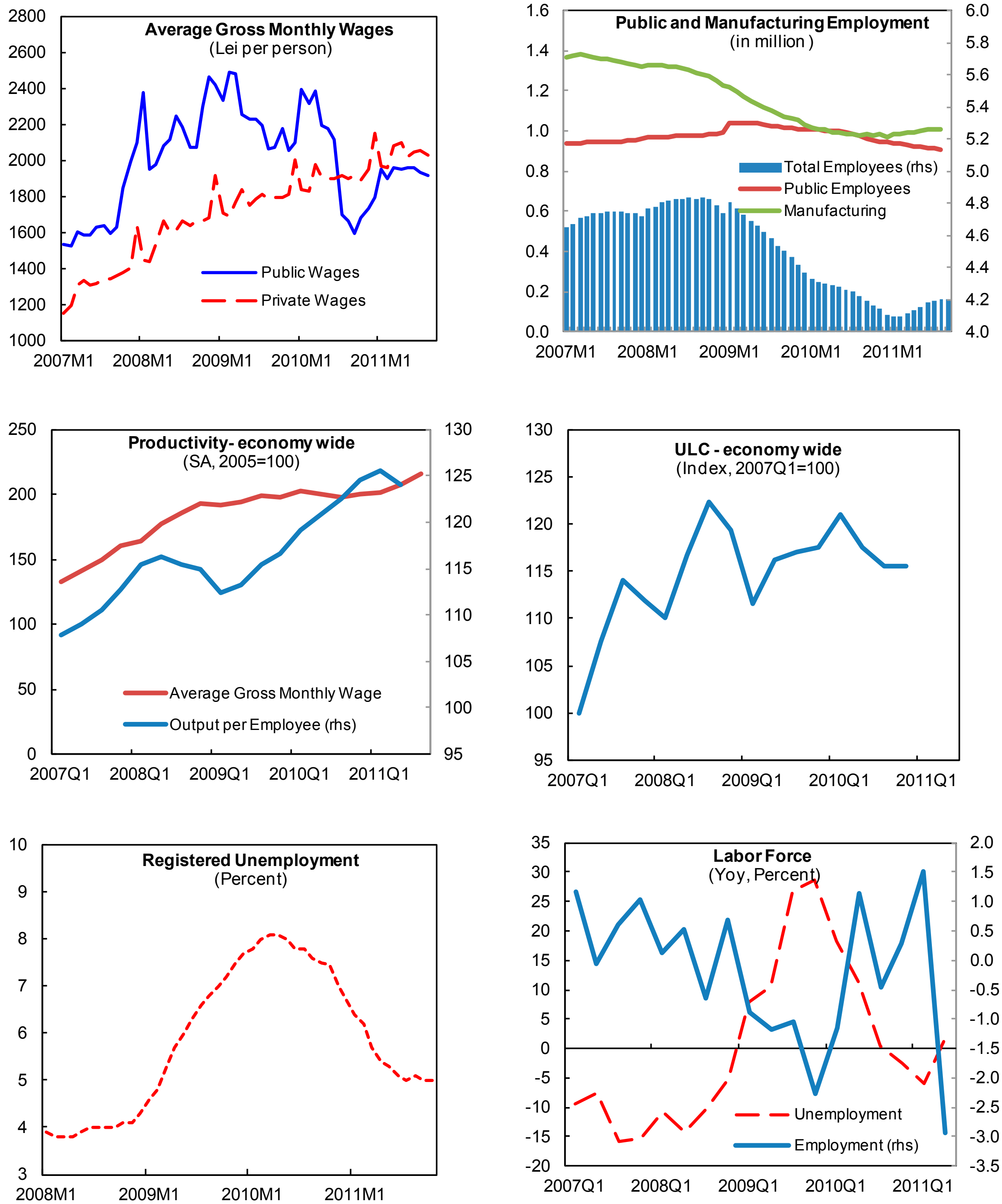
Source: Haver.

Figure 2. Romania: External Sector, 2007-11.



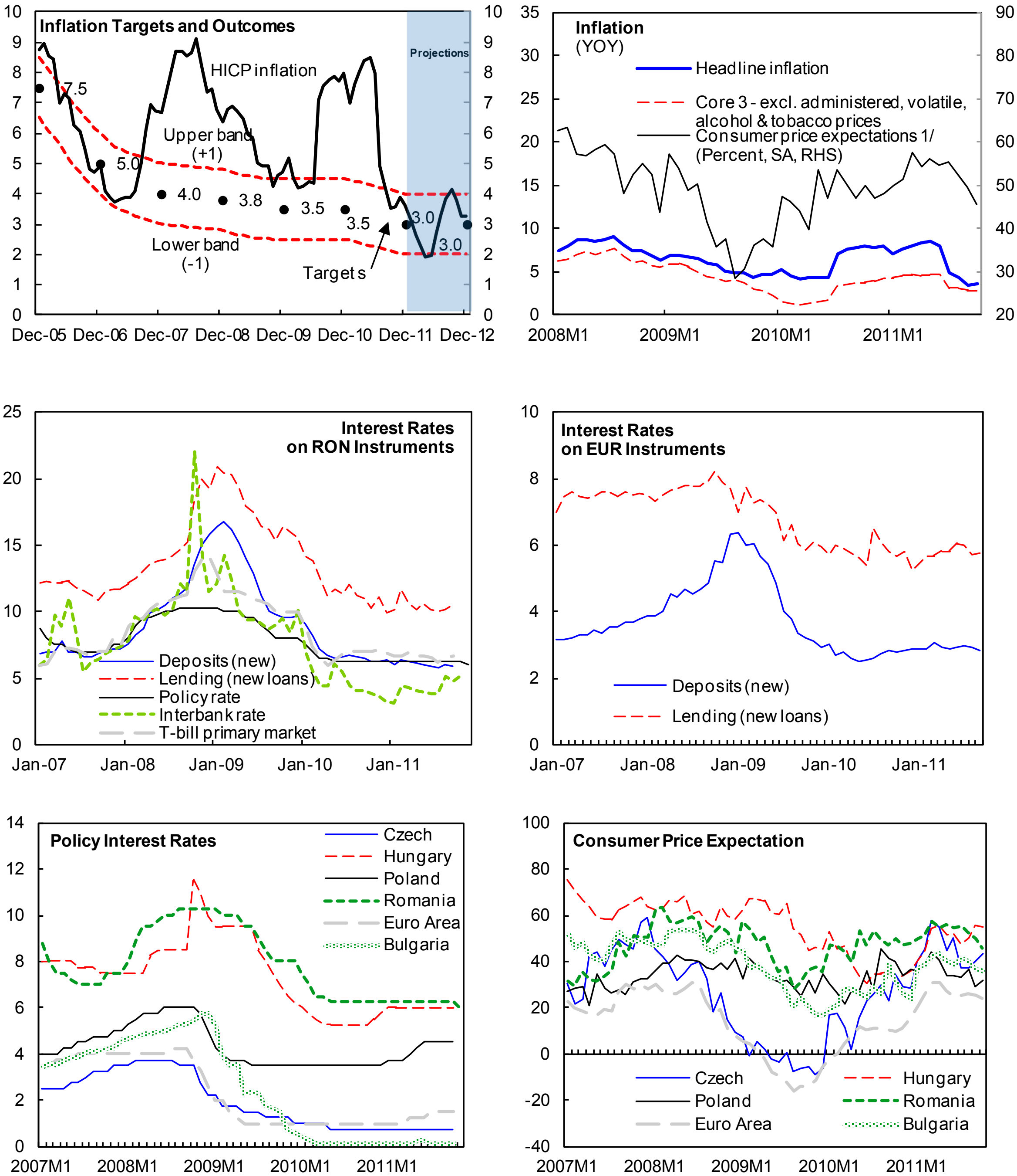
Source: Haver.
1\ 2011Q1 is a projection for year 2011.

Figure 3. Romania: Labor Sector, 2007-11



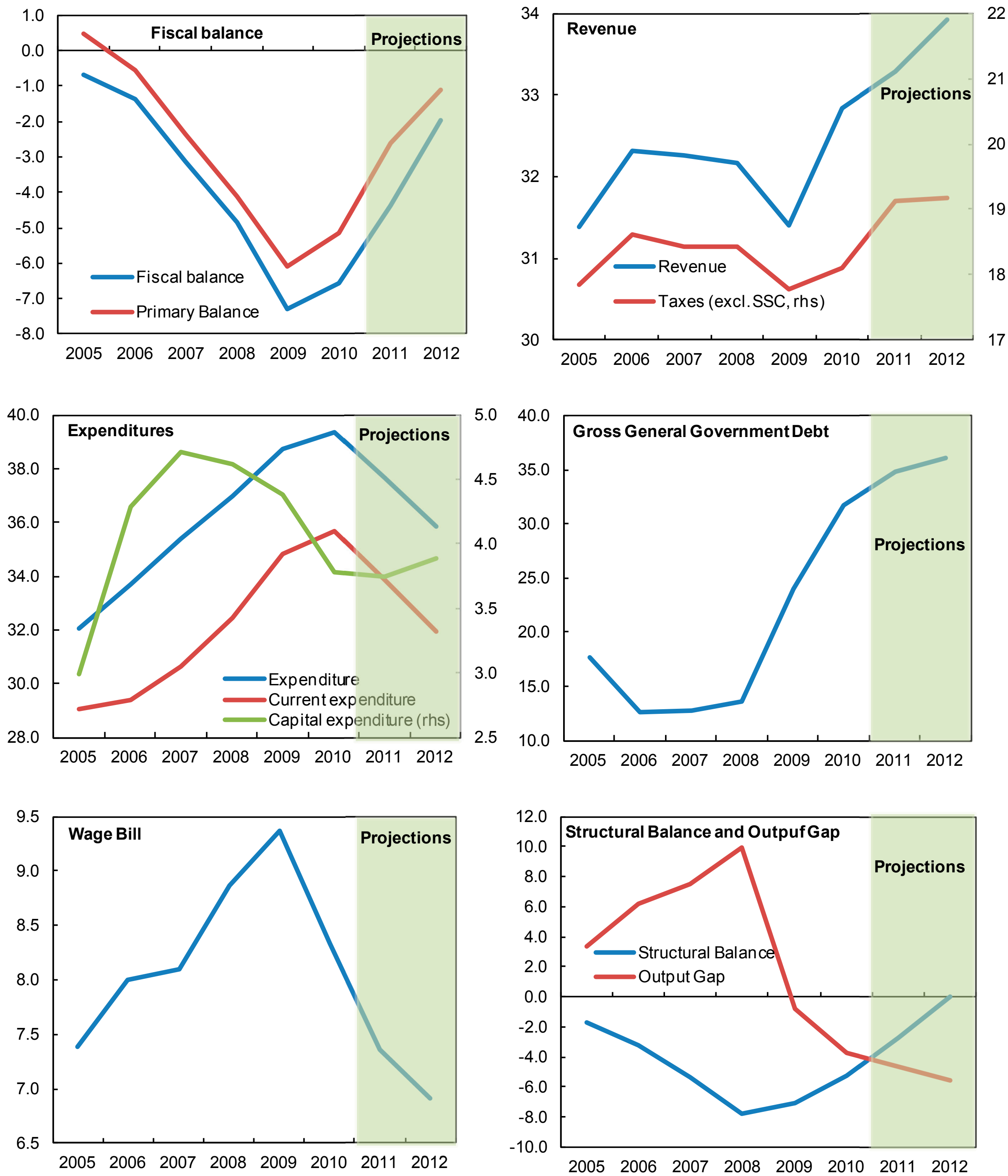
Source: Haver.

Figure 4. Romania: Monetary Sector, 2005-11
(Percent)



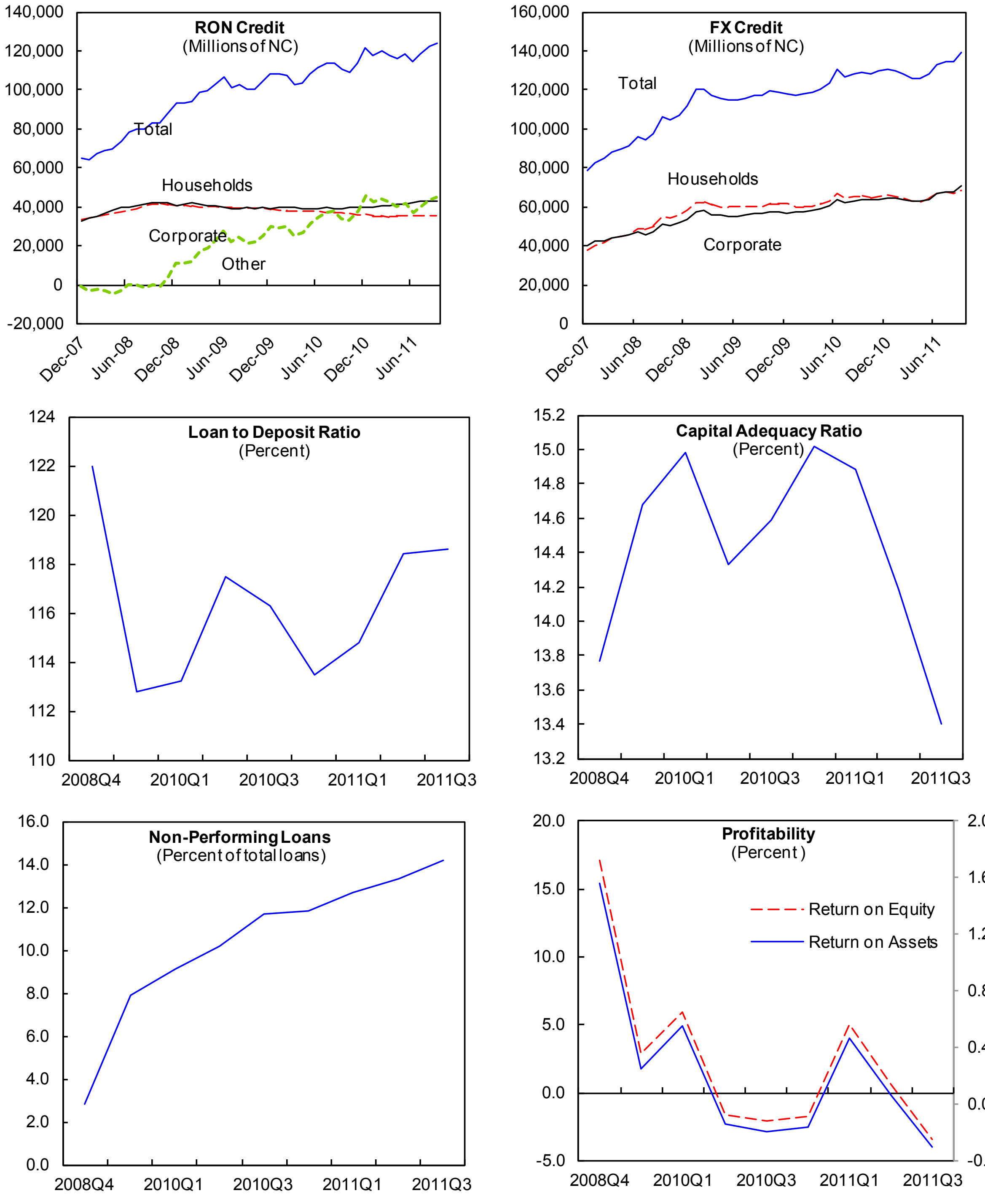
Source: Haver; Romania National Bank; Consensus Forecast; IMF staff estimates.
1/ Price Trends over next 12 Months.

Figure 5. Romania: Fiscal Operations, 2005-12
(Percent of GDP)



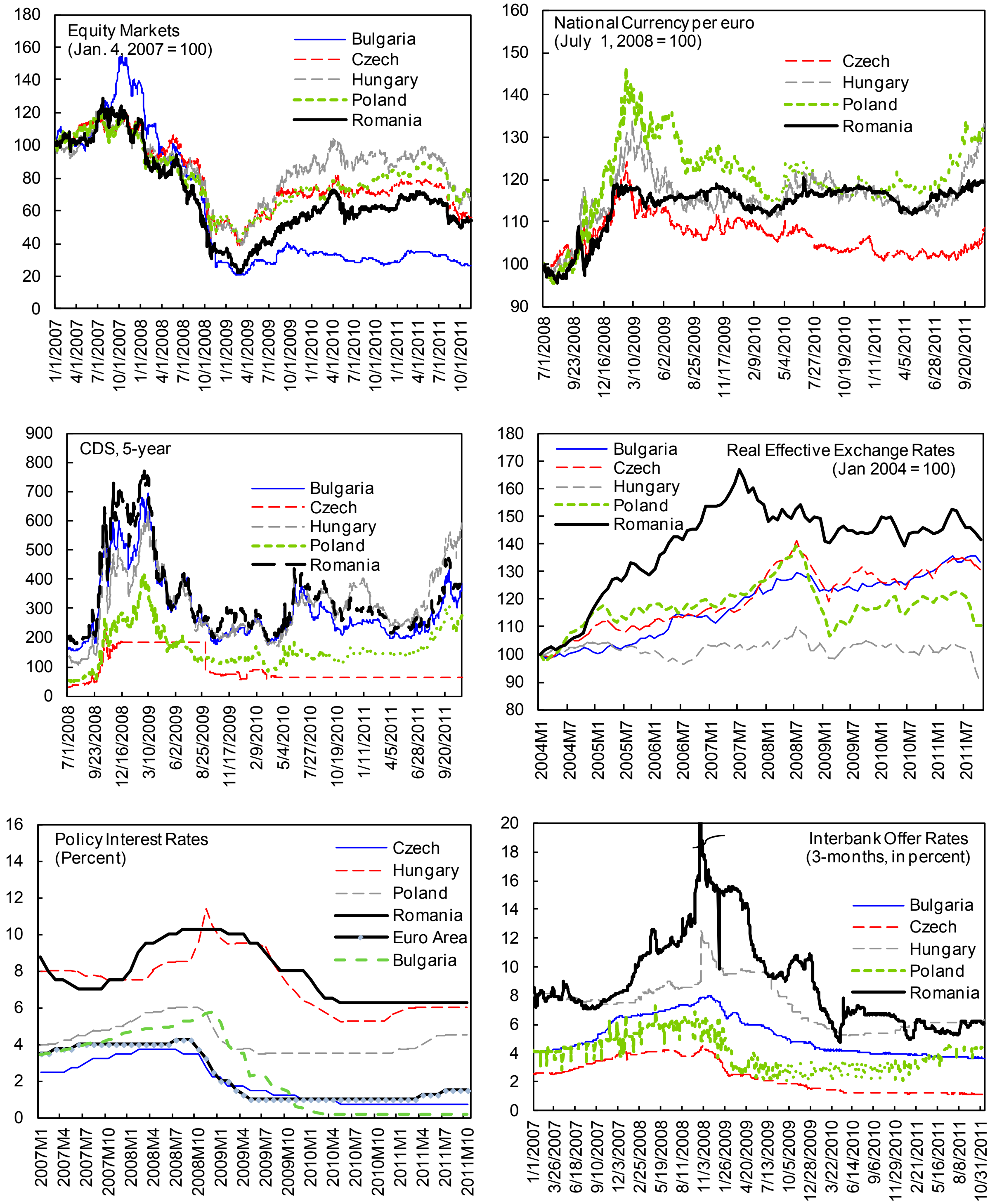
Source: Romania National Authorities.

Figure 6. Romania: Financial Sector, 2007-11



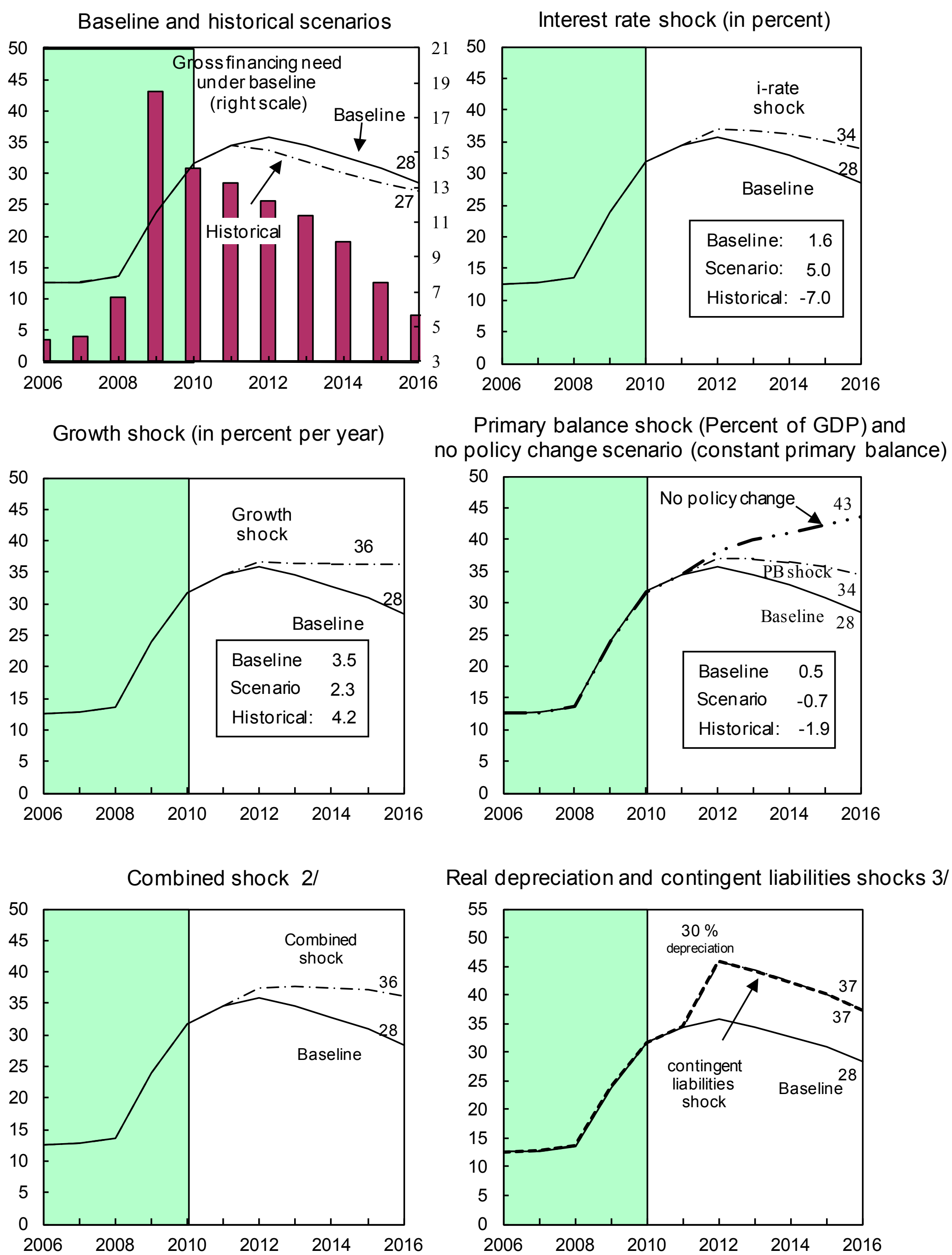
Source: Dxtime; Romania National Bank.

Figure 7. Romania: Financial Developments



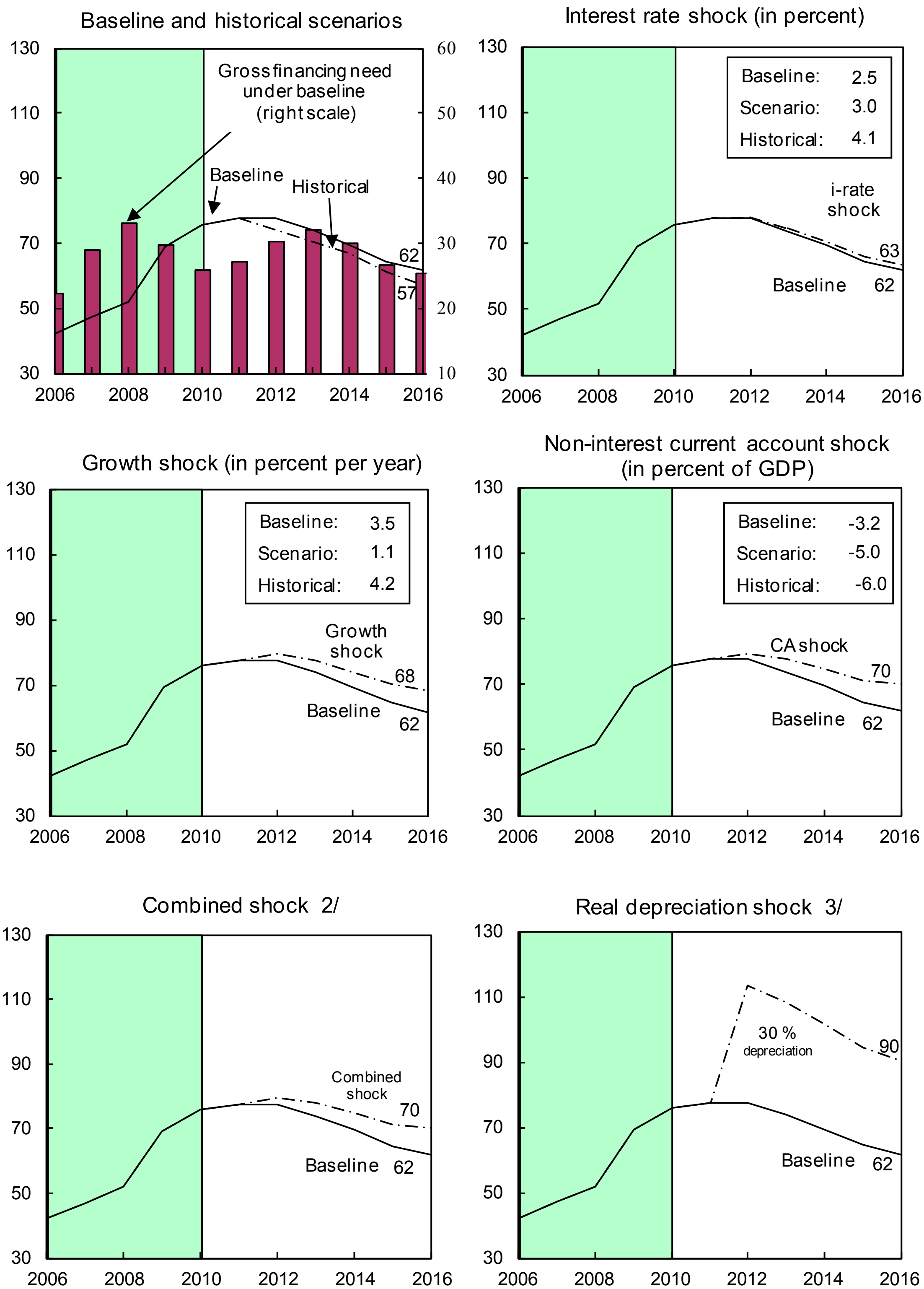
Source: Bloomberg; Haver.

Figure 8. Romania: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 9. Romania: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2012.

Table 1. Romania: Quantitative Program Targets

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

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

Table 2. Romania: Performance for Third Review

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

Table 3. Romania: Selected Economic and Social Indicators, 2007–12

	2007	2008	2009	2010	2011 2nd Rev.	2011 Proj.	2012 Proj.
Output and prices			(Annual percentage change)				
Real GDP	6.3	7.3	-7.1	-1.3	1.5	2.0	1.8
Contributions to GDP growth							
Domestic demand	15.9	8.3	-14.6	-1.0	0.3	1.9	1.6
Net exports	-9.6	-1.0	7.5	-0.2	1.2	0.0	0.1
Consumer price index (CPI, average)	4.8	7.8	5.6	6.1	6.4	5.9	3.0
Consumer price index (CPI, end of period)	6.7	6.4	4.8	8.0	5.0	3.6	3.3
Producer price index (end of period)	7.6	15.3	1.9	6.3	…	…	…
Unemployment rate (registered, average)	4.3	4.0	6.3	7.6	5.0	5.3	5.2
Unemployment rate (LFS, average)	6.4	5.8	6.9	7.3	…	…	…
Nominal wages	22.7	23.7	8.5	2.4	5.7	5.3	5.8
Saving and Investment			(In percent of GDP)				
Gross domestic investment	31.0	31.3	25.3	26.5	27.3	27.3	28.0
Gross national savings	17.6	19.7	21.1	22.4	22.9	23.3	23.6
General government finances							
Revenue	32.3	32.2	31.4	32.8	33.5	33.0	33.6
Expenditure	35.4	37.0	38.7	39.4	37.9	37.3	35.5
Fiscal balance	-3.1	-4.8	-7.3	-6.5	-4.4	-4.3	-1.9
Privatization proceeds 1/	0.2	0.1	0.1	0.1	0.1	0.1	0.1
External financing	0.0	0.4	2.6	2.9	2.2	3.1	2.1
Domestic financing	2.3	2.9	5.8	4.1	2.2	1.9	0.9
Fiscal balance (including PNDI)	-3.1	-4.8	-7.3	-6.5	-4.4	-4.3	-2.1
Structural fiscal balance 2/	-5.8	-8.5	-7.0	-5.1	-2.6	-2.8	-0.1
Gross public debt (direct debt only)	10.4	11.8	21.8	28.7	31.5	31.6	33.1
Gross public debt (including guarantees)	12.7	13.6	23.9	31.7	34.4	34.5	35.8
Money and credit			(Annual percentage change)				
Broad money (M3)	33.7	17.5	9.0	6.9	8.3	8.3	8.9
Credit to private sector	60.4	33.7	0.9	4.7	4.1	4.8	3.2
Interest rates, eop			(In percent)				
Euribor, six-months	4.8	3.5	4.5	1.2	…	…	…
NBR policy rate	7.5	10.3	8.0	6.3	…	…	…
NBR lending rate (Lombard)	12.0	14.3	12.0	10.3	…	…	…
Interbank offer rate (1 week)	7.1	12.7	10.7	3.6	…	…	…
Balance of payments			(In percent of GDP)				
Current account balance	-13.4	-11.6	-4.2	-4.1	-4.5	-4.0	-4.4
Merchandise trade balance	-14.3	-13.7	-5.8	-4.9	-4.0	-3.5	-3.4
Capital and financial account balance	17.6	12.7	-2.5	1.2	4.6	2.3	5.9
Foreign direct investment balance	5.7	6.7	3.0	1.8	2.2	1.5	2.6
International investment position	-43.5	-49.4	-62.7	-63.9	-75.7	-75.5	-74.5
Gross official reserves	21.8	20.2	26.2	29.5	30.4	28.9	29.9
Gross external debt	47.1	51.8	69.0	75.7	75.4	77.5	77.5
Exchange rates							
Lei per euro (end of period)	3.5	4.0	4.2	4.3	…	…	…
Lei per euro (average)	3.3	3.7	4.2	4.2	…	…	…
Real effective exchange rate					…	…	…
CPI based (percentage change)	8.5	-5.0	-7.6	2.0	…	…	…
GDP deflator based (percentage change)	17.4	1.6	-8.9	0.4	…	…	…
Memorandum Items:							
Nominal GDP (in bn RON)	416.0	514.7	498.0	513.6	543.0	552.7	580.7

Social and Other Indicators
GDP per capita (current US$, 2009): $7,500; **GDP per capita, PPP** (current international $, 2009): $14,198
Poverty rate: 5.7% (2008)

Sources: Romanian authorities; Fund staff estimates and projections; and World Development Indicators database.
1/ Excludes receipts from planned privatizations under the program.
2/ Actual fiscal balance adjusted for the automatic effects of the business cycle.

Table 4. Romania Macroeconomic Framework, Current Policies, 2008–16

	2008	2009	2010	2011 2nd Rev.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
GDP and prices (annual percent change)										
Real GDP	7.3	-7.1	-1.3	1.5	2.0	1.8	3.5	4.0	4.0	4.0
Real domestic demand	7.3	-12.9	-1.0	0.3	1.9	1.6	3.6	4.1	4.2	4.2
Consumption	8.7	-7.8	-2.1	-1.0	0.6	0.7	2.8	4.3	4.4	4.4
Investment	3.7	-26.2	2.7	4.1	6.0	4.2	5.8	3.5	3.7	3.7
Exports	8.3	-5.3	13.1	16.0	12.8	5.6	7.2	8.0	8.2	8.2
Imports	7.9	-20.9	11.6	11.0	11.2	4.9	7.2	7.7	8.3	8.3
Consumer price index (CPI, average)	7.8	5.6	6.1	6.4	5.9	3.0	3.0	3.0	3.0	3.0
Consumer price index (CPI, end of period)	6.4	4.8	8.0	5.0	3.6	3.3	3.0	3.0	3.0	3.0
Saving and investment (in percent of GDP)										
Gross national saving	19.7	21.1	22.4	22.9	23.3	23.6	24.3	24.6	25.1	25.3
Government	1.5	-2.0	0.8	2.8	2.9	5.3	5.7	5.9	6.3	6.8
Private	18.2	23.2	21.5	20.1	20.4	18.3	18.6	18.7	18.8	18.5
Gross domestic investment	31.3	25.3	26.5	27.3	27.3	28.0	29.2	29.6	30.0	30.3
Government	6.3	5.3	7.4	7.2	7.3	7.2	7.1	7.2	7.2	7.1
Private	25.0	20.0	19.1	20.2	20.0	20.7	22.1	22.4	22.9	23.2
General government (in percent of GDP)										
Revenue	32.2	31.4	32.8	33.5	33.0	33.6	34.1	34.3	34.4	34.6
Tax revenue	27.9	27.4	27.0	28.2	27.9	27.8	27.8	27.9	28.0	28.1
Non-Tax revenue	3.1	2.9	3.9	3.6	3.3	3.3	3.2	3.2	3.3	3.3
Grants	0.9	1.0	1.8	1.6	1.7	2.3	2.8	2.9	2.9	2.9
Expenditure	37.0	38.7	39.4	37.9	37.3	35.5	35.5	35.6	35.3	34.9
Fiscal balance	-4.8	-7.3	-6.5	-4.4	-4.3	-1.9	-1.4	-1.3	-0.9	-0.3
Structural fiscal balance 1/	-8.5	-7.0	-5.1	-2.6	-2.8	-0.1	0.2	0.0	0.1	0.6
Gross public debt (direct debt only)	11.8	21.8	28.7	31.5	31.6	33.1	32.0	30.4	28.7	26.5
Gross public debt (including guarantees)	13.6	23.9	31.7	34.4	34.5	35.8	34.5	32.8	30.9	28.5
Monetary aggregates (annual percent change)										
Broad money	17.5	9.0	6.9	8.3	8.3	8.9	9.6	10.4	11.3	12.9
Domestic credit	33.7	0.9	4.7	4.1	4.8	3.2	5.7	8.7	10.2	11.6
Balance of payments (in percent of GDP)										
Current account	-11.6	-4.2	-4.1	-4.5	-4.0	-4.4	-4.9	-5.0	-5.0	-5.0
Trade balance	-13.7	-5.8	-4.9	-4.0	-3.5	-3.4	-3.4	-3.3	-3.4	-3.3
Services balance	0.5	-0.2	-0.5	-0.4	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Income balance	-2.7	-1.6	-1.5	-2.5	-2.4	-2.4	-2.5	-2.6	-2.7	-2.7
Transfers balance	4.3	3.5	2.8	2.4	2.6	2.1	1.7	1.6	1.8	1.6
Capital and financial account balance	12.8	-1.9	1.2	4.6	2.3	5.9	7.6	7.2	4.2	4.6
Foreign direct investment, balance	6.7	3.0	1.8	2.2	1.5	2.6	2.1	2.1	2.1	2.1
Memorandum items:										
Gross international reserves (in billions of euros)	28.3	30.9	36.0	39.8	37.8	40.3	39.6	38.5	35.7	34.9
Gross international reserves (in months of next year's imports)	7.8	7.4	7.6	7.7	7.5	7.4	6.7	5.9	5.0	5.0
International investment position (in percent of GDP)	-49.4	-62.7	-63.9	-75.7	-75.5	-74.5	-76.7	-76.9	-81.8	-76.5
Real effective exchange rate, CPI based	-5.0	-7.6	2.0	4.2	2.6	-3.4	2.5	3.4	2.6	2.2
External debt (in percent of GDP)	51.8	69.0	75.7	75.4	77.5	77.5	73.9	69.4	64.5	61.8
Short-term external debt (in percent of GDP)	14.7	13.1	16.0	15.3	16.1	16.1	15.7	15.1	14.5	14.0
Terms of trade (merchandise, percent change)	3.1	0.2	2.5	-3.0	1.5	-0.3	-0.7	-1.0	-0.2	-0.2
Nominal GDP (in millions of lei)	514,700	498,008	513,641	543,040	552,703	580,661	622,606	673,407	728,673	789,663
Nominal GDP (in millions of Euros)	139,666	117,558	122,062	131,001	130,918	134,524	145,766	160,277	176,092	193,461
Output Gap	10.0	-0.8	-3.7	-4.7	-4.2	-5.0	-4.5	-3.7	-3.0	-2.5

Sources: Romanian authorities; and Fund staff estimates and projections.

1/ Actual fiscal balance adjusted for the automatic effects of the business cycle

Table 5. Romania: Balance of Payments, 2008–16

(In billions of euros, unless otherwise indicated)

	2008	2009	2010	2011		2012	2013	2014	2015	2016
	Act	Act	Act	Prog	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-16.2	-4.9	-5.0	-5.9	-5.2	-5.9	-7.2	-8.0	-8.8	-9.7
Merchandise trade balance	-19.1	-6.9	-6.0	-5.2	-4.6	-4.6	-4.9	-5.4	-6.0	-6.4
Exports (f.o.b.)	33.7	29.1	37.3	43.6	44.0	47.3	51.4	56.0	61.3	67.1
Imports (f.o.b.)	52.8	36.0	43.2	48.8	48.6	51.9	56.3	61.3	67.3	73.5
Services balance	0.7	-0.3	-0.6	-0.6	-0.9	-1.0	-1.0	-1.1	-1.3	-1.3
Exports of non-factor services	8.8	7.1	6.5	7.4	7.0	7.6	8.2	9.0	9.8	10.7
Imports of non-factor services	8.1	7.4	7.1	8.0	8.0	8.5	9.3	10.1	11.1	12.1
Income balance	-3.7	-1.9	-1.8	-3.3	-3.1	-3.2	-3.7	-4.2	-4.8	-5.2
Receipts	2.3	1.2	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Payments	6.0	3.1	2.9	4.4	4.2	4.3	4.9	5.4	6.0	6.5
Current transfer balance	6.0	4.1	3.4	3.2	3.4	2.8	2.5	2.6	3.2	3.2
Capital and financial account balance	17.8	-2.9	1.5	6.0	3.0	7.9	11.1	11.6	7.5	8.9
Capital account balance	0.6	0.6	0.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Foreign direct investment balance	9.3	3.6	2.2	2.9	2.0	3.5	3.1	3.4	3.7	4.1
Portfolio investment balance	-0.9	0.5	0.7	4.8	3.3	1.6	2.7	2.6	-1.0	-1.0
Other investment balance	8.7	-7.6	-1.7	-2.3	-3.0	2.2	4.8	5.0	4.2	6.2
General government	0.2	-0.5	0.3	-1.2	-1.8	-0.4	0.0	-0.2	-1.5	0.0
Domestic banks	3.0	-5.5	0.6	0.1	-0.9	0.6	0.6	0.7	0.8	0.8
Other private sector	5.5	-1.6	-2.6	-1.1	-0.3	2.1	4.1	4.5	4.9	5.4
Errors and omissions	-1.7	-1.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral financing	...	2.1	3.7	2.8	3.2	...	...	...	...	...
European Commission	...	1.5	2.2	1.4	1.4	...	...	...	...	...
World Bank	...	0.3	0.0	0.3	0.3	...	...	...	...	...
EIB/EBRD/IFC	...	0.3	1.5	1.2	1.5	...	...	...	...	...
Overall balance	0.0	-6.7	-0.7	2.9	0.9	4.0	3.9	3.5	-1.4	-0.8
Financing	0.0	6.7	0.7	-2.9	-0.9	-4.0	-3.9	-3.5	1.4	0.8
Gross international reserves (increase: -)	0.0	-1.1	-3.6	-3.8	-1.8	-2.5	0.7	1.2	2.8	0.8
Use of Fund credit, net	0.0	6.8	4.3	0.9	0.9	-1.5	-4.6	-4.7	-1.4	0.0
Purchases 1/	0.0	6.8	4.3	0.9	0.9	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	-1.5	-4.6	-4.7	-1.4	0.0
Other liabilities, net	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:				(In percent of GDP)						
Current account balance	-11.6	-4.2	-4.1	-4.5	-4.0	-4.4	-4.9	-5.0	-5.0	-5.0
Foreign direct investment balance	6.7	3.0	1.8	2.2	1.5	2.6	2.1	2.1	2.1	2.1
Merchandise trade balance	-13.7	-5.8	-4.9	-4.0	-3.5	-3.4	-3.4	-3.3	-3.4	-3.3
Exports	24.1	24.7	30.6	33.3	33.6	35.2	35.3	34.9	34.8	34.7
Imports	37.8	30.6	35.4	37.2	37.1	38.6	38.7	38.3	38.2	38.0
Gross external financing requirement	33.1	29.7	25.9	27.1	27.3	30.2	32.0	30.0	26.6	25.4
				(Annual percentage change)						
Terms of trade (merchandise)	3.1	0.2	2.5	-3.0	1.5	-0.3	-0.7	-1.0	-0.2	-0.2
Export volume	8.3	-5.3	13.1	16.0	12.8	5.6	7.2	8.0	8.2	8.2
Import volume	7.9	-20.9	11.6	11.1	11.2	4.9	7.2	7.7	8.3	8.3
Export prices	18.7	3.3	6.0	0.6	5.0	1.6	1.2	0.6	1.0	1.0
Import prices	15.4	3.7	3.2	3.6	1.7	1.9	1.3	1.2	1.4	0.9
				(In billions of euros)						
Gross international reserves 2/	28.3	30.9	36.0	39.8	37.8	40.3	39.6	38.5	35.7	34.9
GDP	139.7	117.6	122.1	131.0	130.9	134.5	145.8	160.3	176.1	193.5

Sources: Romanian authorities; and Fund staff estimates and projections.

1/ Includes IMF disbursement to the Treasury of €0.9 billion in 2009 and €1.2 billion in 2010.

2/ Operational defition. Reflects the allocation of SDR 908.8 million that was made avaialable in two tranches in August and September 2009.

Table 6. Romania: Gross Financing Requirements, 2010-12

(In billions of euros, unless otherwise indicated)

	2010	2011					2012					Total
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	2011-12
	Act	Act	Act	Proj	Proj	Proj.	Proj	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**37.5**	**8.8**	**8.7**	**10.3**	**12.3**	**40.0**	**9.0**	**9.7**	**9.5**	**10.8**	**39.0**	**78.9**
I.A. Current account deficit	4.9	0.7	2.1	1.0	1.4	5.2	1.5	1.5	1.5	1.5	5.9	11.1
I.B. Short-term debt	21.1	5.8	4.3	5.6	5.8	21.4	6.1	6.0	6.2	6.0	24.3	45.7
Public sector	4.6	1.9	0.8	1.2	1.1	5.0	1.2	1.2	0.8	0.5	3.8	8.8
Banks	11.2	2.9	2.6	3.3	3.3	12.1	3.5	3.3	3.9	3.4	14.1	26.3
Corporates	5.2	1.0	0.8	1.0	1.4	4.3	1.4	1.4	1.5	2.0	6.4	10.7
I.C. Maturing medium- and long-term debt	11.3	1.9	2.3	3.9	3.5	11.5	1.9	2.5	2.0	3.2	9.7	21.1
Public sector	1.7	0.2	0.3	0.7	0.2	1.5	0.2	0.9	0.2	0.4	1.8	3.4
Banks	3.2	0.2	0.8	2.0	0.7	3.7	0.8	0.6	0.6	0.5	2.6	6.3
Corporates	6.4	1.4	1.1	1.1	2.6	6.2	0.9	1.0	1.1	2.2	5.3	11.5
I.D. Other net capital outflows 1/	0.3	0.4	0.1	-0.2	1.6	1.9	-0.5	-0.3	-0.2	0.1	-0.9	1.0
II. Total financing sources	**33.9**	**8.4**	**10.2**	**7.6**	**11.9**	**38.1**	**9.9**	**10.4**	**9.3**	**11.4**	**41.0**	**79.1**
II.A. Foreign direct investment, net	2.2	0.5	0.7	-0.1	0.8	2.0	0.9	0.9	0.9	0.9	3.5	5.5
II.B. Capital account inflows	0.2	0.1	0.1	0.0	0.2	0.4	0.1	0.1	0.1	0.1	0.5	0.9
II.C. Short-term debt	23.2	6.6	6.4	5.8	6.4	25.2	7.2	6.6	6.4	6.1	26.4	51.5
Public sector	5.4	2.5	1.7	0.7	1.0	6.0	1.4	1.4	0.8	0.5	4.1	10.2
Banks	12.5	2.6	3.3	3.5	3.3	12.7	3.9	3.4	3.9	3.4	14.6	27.4
Corporates	5.3	1.4	1.4	1.5	2.0	6.4	1.9	1.8	1.7	2.1	7.6	14.0
II.D. Medium- and long-term debt	8.2	1.1	3.0	1.9	4.5	10.5	1.6	2.8	1.9	4.3	10.6	21.1
Public sector	2.3	0.3	1.7	0.2	1.5	3.6	0.1	1.3	0.1	1.2	2.6	6.2
Banks	2.3	0.6	0.5	1.1	0.6	2.8	0.7	0.6	0.6	0.6	2.5	5.3
Corporates	3.7	0.3	0.8	0.6	2.4	4.1	0.8	0.9	1.2	2.5	5.5	9.6
Errors and Omissions	-0.9	-0.9	-0.4	0.9	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	-1.2
III. Increase in gross reserves	3.5	1.1	1.9	-1.4	0.2	1.8	1.6	1.1	-0.4	0.1	2.5	4.3
IV. Financing Gap	**8.0**	**2.4**	**0.7**	**0.4**	**0.5**	**4.0**	**0.8**	**0.4**	**-0.2**	**-0.5**	**0.4**	**4.5**
V. Program financing	**8.0**	**2.4**	**0.7**	**0.4**	**0.5**	**4.0**	**0.8**	**0.4**	**-0.2**	**-0.5**	**0.4**	**4.5**
IMF 2/	4.3	0.9	0.0	0.0	0.0	0.9	0.0	0.0	-0.6	-0.9	-1.5	-0.6
Purchases	4.3	0.9	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.9	-1.5	-1.5
Others	3.7	1.5	0.7	0.4	0.5	3.2	0.8	0.4	0.4	0.4	1.9	5.1
European Commission	2.2	1.2	0.2	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	1.4
World Bank	0.0	0.0	0.3	0.0	0.0	0.3	0.4	0.0	0.0	0.0	0.4	0.7
EIB/EBRD/IFC	1.5	0.3	0.3	0.4	0.5	1.5	0.4	0.4	0.4	0.4	1.5	3.0
Memorandum items:												
Rollover rates for amortizing debt ST (in percent)												
Public sector	118	133	210	72	93	120	120	110	100	100	110	115
Banks	112	91	125	104	100	105	110	105	100	100	104	104
Corporates	101	142	174	100	147	151	135	125	115	105	119	131
Rollover rates for amortizing debt MLT (in percent)												
Public sector	135	131	526	25	650	238	50	137	30	260	144	186
Banks	71	274	60	55	88	75	90	95	100	105	97	84
Corporates	58	19	72	59	94	66	90	95	105	115	105	84
Gross international reserves 3/	36.0	…	…	…	…	37.8	…	…	…	…	40.3	…
Coverage of gross international reserves												
- Months of imports of GFNS (next year)	7.6	…	…	…	…	7.5	…	…	…	…	7.4	…
- Short-term external debt (in percent)	117.9	…	…	…	…	108.6	…	…	…	…	102.1	…

Source: Romanian authorities and IMF staff estimates.

1/ Includes includes portfolio equity, financial derivatives and other investments, assets position.

2/ Last disbursement of the previous program is treated as precautionary

3/ Operation Definition

Table 7. Romania: General Government Operations, 2010–12
(In percent of GDP)

	2010	2011 2nd Rev. 6/	2011 Proj 7/	2012 2nd Rev.	2012 Proj. 8/
Revenue	32.8	33.5	33.0	33.9	33.6
Taxes	27.0	28.2	27.9	28.1	27.8
Corporate income tax	2.1	2.0	2.0	2.0	2.0
Personal income tax	3.5	3.5	3.4	3.5	3.4
VAT	7.6	8.6	8.6	8.5	8.6
Excises	3.4	3.7	3.6	3.7	3.6
Customs duties	0.1	0.1	0.1	0.1	0.1
Social security contributions	8.9	9.0	9.0	9.0	8.8
Other taxes	1.3	1.3	1.2	1.3	1.2
Nontax revenue	3.9	3.6	3.3	3.3	3.3
Capital revenue	0.1	0.1	0.1	0.1	0.3
Grants, including EU disbursements	1.8	1.6	1.7	2.4	2.3
Expenditure	39.4	37.9	37.3	36.7	35.5
Current expenditure	35.7	34.2	33.6	32.8	31.7
Compensation of employees	8.3	7.5	7.3	7.2	6.9
Goods and services	5.8	5.4	5.5	5.3	5.4
Interest	1.4	1.8	1.7	1.7	1.8
Subsidies	1.3	1.2	1.2	0.9	0.9
Transfers	18.5	17.9	17.5	17.4	16.3
Pensions	8.2	8.8	8.6	8.7	8.2
Other social transfers	5.2	3.8	3.7	3.5	3.4
Other transfers 1/	4.6	4.9	4.7	4.8	4.3
Other spending	0.6	0.5	0.5	0.5	0.4
Proj. with ext. credits	0.3	0.4	0.4	0.2	0.4
Capital expenditure 2/	3.8	3.7	3.7	3.8	3.8
Reserve fund	0.0	0.0	0.0	0.0	0.0
Net lending and expense refunds	-0.1	0.0	0.0	0.0	0.0
Fiscal balance	-6.5	-4.4	-4.3	-2.8	-1.9
Primary balance	-5.1	-2.6	-2.6	-1.1	-0.2
Fiscal balance including PNDI	-6.5	-4.4	-4.3	NA	-2.1
Financing	6.5	4.4	4.3	2.8	1.9
Privatization proceeds	0.1	0.1	0.1	0.1	0.1
External	2.9	2.2	3.1	1.3	2.1
Domestic	4.1	2.2	1.9	1.3	0.9
Use of deposits	-0.4	NA	-0.7	0.2	-1.1
Financial liabilities					
Gross public debt 3/	31.7	34.4	34.5	34.7	35.8
Gross public debt excl. guarantees	28.7	31.5	31.6	32.1	33.1
External	13.2	14.6	15.3	15.6	16.6
Domestic	15.5	16.8	16.3	16.4	16.4
Memorandum items:					
Total capital spending (excluding PNDI)	7.4	7.2	7.3	7.3	7.2
Fiscal balance (ESA95 basis)	...	...	...	...	...
Output gap 4/	-3.7	-4.7	-4.2	-3.8	-5.0
Conventional structural fiscal balance	-5.1	-2.6	-2.8	-1.4	-0.1
Gross public debt (authorities definition) 5/	37.9				
Nominal GDP (in billions of RON)	513.6	543.0	552.7	588.9	580.7

Sources: Ministry of Finance; Eurostat; and Fund staff projections.

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

3/ Total consolidated public debt, including government debt, local government debt, and guarantees.

4/ Percentage deviation of actual from potential GDP.

5/ Includes guarantees and intra-governmental debt.

6/ Includes arrears reduction plans in VAT (551m), nontax revenues (876m), subsidies (736m), other transfers (454m) and other social transfers (237m).

7/ Includes arrears reduction plans in VAT (1709m), SSC (726m), CIT (8m), excises (72m), subsidies (823m), goods and services (129m), other transfers (1087m), capex (238m), and other social transfers (237m).

8/ Includes arrears reduction plans in VAT (1562m), and other transfers (1562m).

Table 7. Romania: General Government Operations, 2010–12 (concluded)
(In millions of RON)

	2010	2011 2nd Rev. 5/	2011 Proj 6/	2012 2nd Rev.	2012 Proj 7/
Revenue	168,635	182,126	182,360	199,450	195,197
Taxes	138,667	153,232	154,259	165,428	161,384
Corporate income tax	10,969	10,686	11,077	11,876	11,729
Personal income tax	17,957	18,827	18,860	20,418	19,809
VAT	39,246	46,882	47,689	50,247	49,868
Excises	17,312	20,056	19,672	21,751	21,183
Customs duties	574	657	637	716	686
Social security contributions	45,704	49,143	49,532	52,847	50,975
Other taxes	6,905	6,982	6,790	7,572	7,134
Nontax revenue	19,796	19,427	18,260	19,221	18,988
Capital revenue	685	701	701	760	1,486
Grants	9,494	8,766	9,141	14,041	13,338
o/w EU pre-accession funds	4,054	960	1,331	446	818
Financial operations and other	-6	0	0	0	0
Expenditure	202,256	206,080	206,314	215,979	206,407
Current expenditure	183,243	185,526	185,668	193,211	183,833
Compensation of employees	42,839	40,570	40,317	42,500	39,800
Goods and services	29,541	29,217	30,346	31,356	31,486
Interest	7,275	9,597	9,391	10,129	10,228
Subsidies	6,735	6,753	6,660	5,367	5,463
Transfers	95,060	97,281	96,702	102,550	94,807
Pensions	42,107	47,769	47,769	51,014	47,873
Other social transfers	26,505	20,691	20,422	20,676	19,603
Other transfers 1/	23,514	26,344	25,905	28,029	25,236
Other spending	2,933	2,477	2,606	2,831	2,096
Proj. with ext. credits	1,794	2,106	2,252	1,310	2,050
Capital expenditure 2/	19,441	20,304	20,543	22,596	22,342
Reserve fund	0	243	51	172	232
Net lending and expense refunds	-428	7	52	0	0
Fiscal balance	-33,621	-23,953	-23,953	-16,529	-11,210
Primary balance	-26,346	-14,356	-14,562	-6,401	-982
Fiscal balance including PNDI	-33,621	-23,953	-23,953	NA	-12,210
Financing	33,621	23,953	23,953	16,529	11,210
Privatization proceeds	289	400	400	400	400
External	14,807	11,786	16,895	7,505	11,931
Domestic	20,841	11,767	10,616	7,579	5,240
Use of deposits	-2,161	NA	-3,958	1,045	-6,360
Financial liabilities					
Gross public debt 3/	163,023	186,576	190,533	204,433	207,704
Gross public debt excl. guarantees	147,347	170,900	174,858	188,758	192,028
External	67,685	79,471	84,580	92,105	96,511
Domestic	79,663	91,430	90,278	96,653	95,518
Memorandum item:					
Gross public debt (authorities definition) 4/	194,459				

Sources: Ministry of Finance; Eurostat; and Fund staff projections.

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

3/ Total consolidated public debt, including government debt, local government debt, and guarantees.

4/ Includes guarantees and intra-governmental debt.

5/ Includes arrears reduction plans in VAT (551m), nontax revenues (876m), subsidies (736m), other transfers (454m) and other social transfers (237m)

6/ Includes arrears reduction plans in VAT (1709m), SSC (726m), CIT (8m), excises (72m), subsidies (823m), goods and services (129m), other transfers (1087m), capex (238m), and other social transfers (237m).

7/ Includes arrears reduction plans in VAT (1562m), and other transfers (1562m).

Table 8. Romania: Monetary Survey, 2009–12
(In millions of lei (RON), unless otherwise indicated; end of period)

	Dec-09	Dec-10	2011				Dec-12
			Q1	Q2	Q3	Q4 Proj.	Proj.
			I. Banking System				
Net foreign assets	**17,684**	**18,776**	**12,348**	**23,789**	**25,792**	**22,710**	**33,555**
In million euros	4,182	4,382	3,001	5,619	6,075	5,253	7,783
o/w commercial banks	-19,708	-21,158	-21,375	-21,961	-22,151	-22,035	-22,035
Net domestic assets	**171,946**	**183,987**	**183,982**	**176,123**	**183,343**	**196,810**	**205,528**
Public sector credit	26,748	43,393	39,813	34,083	42,286	53,324	69,129
Private sector credit	199,887	209,298	203,956	213,651	221,431	219,356	226,319
Other	-54,688	-68,704	-59,787	-71,611	-80,374	-75,870	-89,920
Broad Money (M3)	**189,630**	**202,763**	**196,331**	**199,912**	**209,135**	**219,520**	**239,084**
Money market instruments	1,617	3,177	3,430	3,822	4,363	4,765	7,148
Intermediate money (M2)	188,013	199,586	192,901	196,090	204,772	214,755	231,935
Narrow money (M1)	79,361	81,605	77,759	80,045	83,966	90,517	95,908
Currency in circulation	23,968	26,793	26,238	26,953	29,406	32,122	34,035
Overnight deposits	55,394	54,812	51,521	53,092	54,560	58,395	61,873
			II. National Bank of Romania				
Net foreign assets	**101,015**	**109,433**	**100,288**	**116,774**	**119,831**	**117,974**	**128,561**
In million euros	23,891	25,540	24,377	27,580	28,226	27,288	29,817
Net domestic assets	**-49,354**	**-54,330**	**-50,408**	**-64,476**	**-64,206**	**-58,813**	**-65,876**
Public sector credit, net	-13,626	-12,795	-16,386	-27,757	-17,764	-16,795	-16,795
Credit to banks, net	-23,848	-26,148	-27,330	-22,610	-24,339	-25,339	-33,339
Other	-11,880	-15,387	-6,692	-14,109	-22,103	-16,678	-15,741
Reserve money	**51,662**	**55,103**	**49,881**	**52,298**	**55,625**	**59,161**	**62,685**
			(Annual percentage change)				
Broad money (M3)	9.0	6.9	3.3	2.5	6.8	8.3	8.9
NFA contribution	2.6	0.6	-7.2	-1.6	0.8	1.9	4.9
NDA contribution	6.4	6.3	10.6	4.1	6.1	6.3	4.0
Reserve money	2.4	6.7	9.0	6.5	12.5	7.4	6.0
NFA contribution	-18.4	16.3	-17.1	-2.4	18.3	15.5	17.9
NDA contribution	20.8	-9.6	26.1	8.8	-5.9	-8.1	-11.9
Domestic credit, real	5.5	3.2	2.1	-5.3	6.6	4.1	4.9
Private sector, real	-3.7	-3.0	-5.3	-6.2	2.9	1.2	-0.1
Public sector, real	159.5	21.9	12.2	18.2	16.4	12.1	18.2
Broad money (M3), in real terms	3.9	-1.0	-4.3	-5.1	3.2	4.5	5.4
Private deposits, at constant e/r	8.1	5.0	1.8	3.2	6.2	7.0	7.7
Private credit, nominal	0.9	4.7	2.3	1.3	6.5	4.8	3.2
Memorandum items							
CPI inflation, eop	4.7	8.0	8.0	8.0	3.5	3.6	3.3
Inflation target	2.5 - 4.5	2.5 - 4.5	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0
Interest rates (percent):							
Policy interest rate	8.00	6.25	6.25	6.25	6.25	…	…
Interbank offer rate, 1 week	10.7	3.6	5.1	4.3	5.5	…	…
Corporate loans 1/	15.4	9.4	9.8	9.3	9.8	…	…
Household time deposits 1/	9.9	7.6	7.1	6.7	6.5	…	…
Share of foreign currency private deposits	38.8	36.1	35.8	34.7	34.0	…	…
Share of foreign currency private loans	60.1	63.0	62.2	62.9	63.6	…	…
M2 velocity	2.65	2.57	2.56	2.59	2.83	2.57	2.50
Money multiplier (M3/reserve money)	3.67	3.68	3.94	3.82	3.76	3.71	3.81

Sources: National Bank of Romania; and Fund staff estimates.
1/ Rates for new local currency denominated transactions.

Table 9. Romania: Financial Soundness Indicators, 2008–11
(In percent)

	2008 Dec.	2009 Dec.	2010 Mar.	2010 Jun.	2010 Sep.	2010 Dec.	2011 Mar.	2011 June	2011 Sep.
Core indicators									
Capital adequacy									
Capital to risk-weighted assets	13.8	14.7	15.0	14.3	14.6	15.0	14.9	14.2	13.4
Tier 1 capital to risk-weighted assets	11.8	13.4	14.2	13.4	13.8	14.2	14.5	13.6	12.9
Asset quality									
Nonperforming loans (1/) to total gross loans	2.8	7.9	9.1	10.2	11.7	11.9	12.7	13.4	14.2
Nonperforming loans (1/) net of provisions to capital	10.7	11.3	12.6	14.5	16.3	15.7	15.7	16.5	17.8
Earnings and profitability									
Return on assets	1.6	0.2	0.5	-0.1	-0.2	-0.2	0.5	0.1	-0.3
Return on equity(2/)	17.0	2.9	6.0	-1.6	-2.1	-1.7	5.0	0.6	-3.4
Net interest income to operating income	44.8	44.1	55.7	58.2	58.7	60.6	59.8	63.7	62.3
Noninterest expense to operating income (cost to income)	55.7	63.9	56.5	59.2	58.6	64.9	65.6	67.5	66.1
Personnel expense to operating income	23.4	20.3	20.7	21.6	21.2	21.0	22.8	23.3	22.4
Liquidity									
Liquid assets (3/)to total assets	47.1	57.4	58.6	59.1	59.3	60.0	58.8	58.7	60.7
Liquid assets (3/) to short-term liabilities (4/)	230.5	132.0	150.0	146.7	148.7	142.2	151.8	143.5	143.6
Liquid assets (3/) to total attracted and borrowed sources	116.2	79.4	81.2	79.8	82.1	80.9	80.5	80.4	81.6
Foreign exchange risk									
Net open position in foreign exchange, in percent of capital	1.6	2.3	1.6	-3.2	1.4	-1.4	-2.9	-3.4	-4.2
Lending in foreign exchange, in percent of non-gov. credit	57.8	60.1	60.4	62.8	62.5	63.0	62.2	62.9	63.6
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.8	43.6	44.7	44.1	43.5	43.8	43.2	43.6
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	38.8	37	38	37.4	36.0	35.6	34.6	34.0
Encouraged indicators									
Deposit-taking institutions									
Leverage ratio (5/)	8.1	7.6	8.1	7.9	7.9	8.1	8.0	7.8	7.5
Personnel expenses to noninterest expenses	41.9	31.8	36.6	36.4	36.1	32.3	34.7	34.5	33.9
Customer deposits to total (non-interbank) loans	81.9	88.7	88.3	85.1	86.0	84.8	84.0	81.6	81.7

Source: Romanian National Bank.
1/ The NPLs represent un-adjusted exposures of loans and related interests overdue for more than 90 days and/or for which legal proceedings were initiated.
2/ Return on equity is calculated as Net profit/loss to average own capital.
3/ Liquid assets = balance sheet assets and off balance sheets items with residual maturity of up to 3 months.
4/ Short term liabilities =balance sheet liabilities and off balance sheet items with residual maturity of up to 3 months.
5/ Tier 1 Capital to average assets.

Table 10. Romania: Schedule of Reviews and Purchases

Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
March 25, 2011	60.0	5.82	Approval of arrangement
June 27, 2011	430.0	41.74	First review and end-March 2011 performance criteria
September 29, 2011	430.0	41.74	Second review and end-June 2011 performance criteria
December 19, 2011	430.0	41.74	Third review and end-September 2011 performance criteria
March 15, 2012	430.0	41.74	Fourth review and end-December 2011 performance criteria
June 15, 2012	430.0	41.74	Fifth review and end-March 2012 performance criteria
September 15, 2012	430.0	41.74	Sixth review and end-June 2012 performance criteria
December 15, 2012	430.0	41.74	Seventh review and end-September 2012 performance criteria
March 15, 2013	20.6	2.00	Eighth review and end-December 2012 performance criteria
Total	3090.6	300	

Source: IMF staff estimates.

Table 11. Romania: Indicators of Fund Credit, 2011–16 1/
(In millions of SDR)

	2011	2012	2013	2014	2015	2016
Existing Fund Credit						
Stock 2/	10,569	9,262	5,210	1,329	96	0
Obligations 3/	37	1,446	4,159	3,931	1,244	98
Repurchase	0	1307	4052	3881	1233	96
Charges	37	138	108	50	11	2
Prospective Fund Credit under Stand-By Arrangement						
Disbursement	1,350	1,720	21	0	0	0
Stock 2/	1,350	3,070	3,091	3,091	2,093	550
Obligations 3/	7	28	36	37	1,032	1,563
Repurchase	0	0	0	0	998	1,543
Charges	7	28	36	37	34	21
Stock of existing and prospective Fund credit						
In millions of SDR	11,919	12,332	8,301	4,419	2,189	550
In percent of quota	1,157	1,197	806	429	213	53
In percent of GDP	10.2	10.3	6.5	3.1	1.4	0.3
In percent of exports of goods and services	26.2	25.3	15.8	7.8	3.5	0.8
In percent of gross reserves	35.5	34.6	23.8	13.1	7.0	1.8
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	81	1,678	4,436	4,077	2,294	1,661
In percent of quota	7.9	162.9	430.6	395.8	222.7	161.3
In percent of GDP	0.1	1.4	3.5	2.9	1.5	1.0
In percent of exports of goods and services	0.2	3.4	8.4	7.2	3.7	2.5
In percent of gross reserves	0.2	4.7	12.7	12.1	7.4	5.5

Source: IMF staff estimates.

1/ Using IMF actual disbursements, SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of October 6, 2011.

2/ End of period.

3/ Repayment schedule based on repurchase obligations.

Table 12. Romania: Public Sector Debt Sustainability Framework, 2006-16
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	12.6	12.7	13.6	23.9	31.7	**34.5**	**35.8**	**34.5**	**32.8**	**30.9**	**28.5**	**-0.9**
o/w foreign-currency denominated	10.9	9.3	8.6	15.4	20.4	21.2	21.6	20.0	18.7	17.7	16.7	
Change in public sector debt	-5.0	0.1	0.9	10.3	7.8	2.7	1.3	-1.3	-1.7	-1.9	-2.4	
Identified debt-creating flows (4+7+12)	-4.2	0.2	3.9	7.7	7.6	2.0	0.2	-1.1	-1.3	-1.6	-2.1	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.6	0.2	-0.3	-0.5	-0.8	-1.2	
Revenue and grants	32.3	32.3	32.2	31.4	32.8	33.0	33.6	34.1	34.3	34.4	34.6	
Primary (noninterest) expenditure	32.9	34.6	36.3	37.5	38.0	35.6	33.8	33.8	33.8	33.6	33.4	
Automatic debt dynamics 2/	-4.3	-2.0	-0.1	1.6	2.6	-0.5	0.1	-0.7	-0.8	-0.8	-0.9	
Contribution from interest rate/growth differential 3/	-2.1	-1.4	-1.7	1.7	0.7	-0.5	0.1	-0.7	-0.8	-0.8	-0.9	
Of which contribution from real interest rate	-0.9	-0.8	-0.9	0.7	0.4	0.1	0.7	0.5	0.5	0.5	0.2	
Of which contribution from real GDP growth	-1.2	-0.7	-0.8	1.0	0.3	-0.6	-0.6	-1.2	-1.3	-1.2	-1.1	
Contribution from exchange rate depreciation 4/	-2.2	-0.6	1.6	0.0	1.9	...	...	...	...	...	...	
Other identified debt-creating flows	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	
Privatization receipts (negative)	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.8	-0.1	-3.0	2.6	0.2	0.7	1.1	-0.2	-0.4	-0.3	-0.3	
Public sector debt-to-revenue ratio 1/	39.1	39.4	42.4	76.2	96.7	104.5	106.4	101.1	95.5	89.6	82.4	
Gross financing need 6/	4.3	4.4	6.7	18.5	14.1	13.2	12.3	11.4	9.9	7.6	5.6	
in billions of U.S. dollars	5.2	7.5	13.6	30.2	22.8	24.4	23.3	23.3	22.2	18.4	15.0	
Scenario with key variables at their historical averages 7/						**34.5**	**33.7**	**31.8**	**30.0**	**28.5**	**27.1**	**-2.9**
Scenario with no policy change (constant primary balance) in 2011-2016						**34.5**	**38.2**	**39.8**	**41.1**	**42.4**	**43.4**	**-1.4**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.9	6.3	7.3	-7.1	-1.3	2.0	1.8	3.5	4.0	4.0	4.0	
Average nominal interest rate on public debt (in percent) 8/	5.4	7.1	7.1	8.6	6.1	5.8	5.4	5.3	5.6	5.7	5.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-5.2	-6.4	-8.1	4.5	1.7	0.3	2.1	1.7	1.6	1.7	1.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	19.4	6.5	-16.5	0.3	-10.7	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	10.6	13.5	15.2	4.1	4.4	5.5	3.2	3.6	4.0	4.0	4.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	14.8	12.0	12.4	-3.9	0.0	-4.2	-3.5	3.4	4.3	3.4	3.3	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.6	0.2	-0.3	-0.5	-0.8	-1.2	

1/ Coverage: General government gross debt, including guarantees.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 13. Romania: External Debt Sustainability Framework, 2006-16
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	42.1	47.1	51.8	69.0	75.7	**77.5**	**77.5**	**73.9**	**69.4**	**64.5**	**61.8**	**-5.8**
Change in external debt	3.3	4.9	4.8	17.2	6.7	1.7	0.0	-3.6	-4.5	-4.9	-2.7	
Identified external debt-creating flows (4+8+9)	-5.4	-1.4	0.4	10.5	-0.8	-1.5	-0.7	-1.6	-1.4	0.9	1.1	
Current account deficit, excluding interest payments	9.2	12.2	10.1	2.4	2.5	1.9	2.4	3.0	3.3	3.5	3.7	
Deficit in balance of goods and services	12.0	14.0	13.2	6.1	5.4	4.2	4.1	4.1	4.1	4.1	4.0	
Exports	32.1	29.2	30.4	30.7	35.9	39.0	40.8	40.9	40.5	40.4	40.2	
Imports	44.2	43.2	43.6	36.8	41.3	43.2	44.9	45.0	44.6	44.5	44.2	
Net non-debt creating capital inflows (negative)	-8.6	-5.8	-6.1	-3.4	-2.4	-4.1	-3.8	-4.0	-3.7	-1.5	-1.6	
Automatic debt dynamics 1/	-6.0	-7.8	-3.6	11.5	-1.0	0.6	0.7	-0.6	-1.0	-1.1	-1.0	
Contribution from nominal interest rate	1.2	1.2	1.5	1.8	1.6	2.1	2.0	1.9	1.7	1.5	1.4	
Contribution from real GDP growth	-2.5	-2.1	-3.1	4.4	0.8	-1.4	-1.3	-2.5	-2.7	-2.5	-2.4	
Contribution from price and exchange rate changes 2/	-4.7	-7.0	-2.0	5.4	-3.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	8.8	6.4	4.3	6.7	7.5	3.2	0.8	-2.1	-3.1	-5.8	-3.8	
External debt-to-exports ratio (in percent)	131.0	160.9	170.3	224.5	211.2	198.4	189.9	180.5	171.3	159.8	153.6	
Gross external financing need (in billions of Euros) 4/	21.7	35.9	46.2	34.9	31.6	35.7	40.7	46.6	48.1	46.9	49.1	
in percent of GDP	22.2	28.8	33.1	29.7	25.9	27.3	30.2	32.0	30.0	26.6	25.4	
Scenario with key variables at their historical averages 5/						**77.5**	**74.0**	**70.6**	**67.0**	**61.0**	**57.1**	**-9.4**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.9	6.3	7.3	-7.1	-1.3	2.0	1.8	3.5	4.0	4.0	4.0	
GDP deflator in Euros (change in percent)	13.8	19.8	4.4	-9.4	5.1	5.1	1.0	4.7	5.7	5.6	5.6	
Nominal external interest rate (in percent)	3.8	3.7	3.6	2.9	2.4	2.9	2.7	2.6	2.5	2.4	2.3	
Growth of exports (Euro terms, in percent)	19.3	15.9	16.6	-14.9	21.1	16.7	7.5	8.6	8.8	9.5	9.5	
Growth of imports (Euro terms, in percent)	25.2	24.7	13.2	-28.9	16.3	12.4	6.8	8.5	8.9	9.7	9.2	
Current account balance, excluding interest payments	-9.2	-12.2	-10.1	-2.4	-2.5	-1.9	-2.4	-3.0	-3.3	-3.5	-3.7	
Net non-debt creating capital inflows	8.6	5.8	6.1	3.4	2.4	4.1	3.8	4.0	3.7	1.5	1.6	

e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in uro terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

ROMANIA: LETTER OF INTENT

Bucharest, December 2, 2011

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

Dear Mme. Lagarde:

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

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

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

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

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

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

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

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

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

Sincerely,

/s/	/s/
Gheorghe Ialomiţianu Minister of Public Finance	Mugur Isarescu Governor of the National Bank of Romania

ROMANIA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Economic Developments and Outlook

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

Fiscal Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Sector

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

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

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

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

Monetary Policy

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

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

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

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

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

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

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

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

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

State-Owned Enterprises

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

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

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

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

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

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

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

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

Other Structural Reforms

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

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

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

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

Table 1. Romania: Quantitative Program Targets

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

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

Table 2. Romania: Performance for Third Review

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

ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 2, 2011

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

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

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

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

A. Floor on the Change in Net Foreign Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Inflation consultation band

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

C. Performance Criterion on General Government Balance

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

Cumulative floor on general government balance[1]

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

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

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

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

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

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

+ (b) claims of the government on EU funds;
+ (c) property fund obligations not yet paid;

+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing.

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

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

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

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

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

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

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

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

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

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

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

G. Indicative Target on General Government Current Primary Spending

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

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

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

H. Indicative Target on the Execution of the PNDI Program

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

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

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

I. Indicative Target on Local Government Arrears

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

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

J. Monitoring of Public Enterprises

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

K. Private Management for Key SOEs

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

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

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

L. Reporting Requirements

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

Romania: Data Provision to the IMF and EC

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

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

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

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

ANNEX
Measures to Improve Performance of SOEs under Monitoring

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

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

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

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

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

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

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

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

C.N. Căi Ferate CFR S.A.

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

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

S.C. Interventii Feroviare S.A.

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

S.C. Electrificare CFR S.A.

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

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

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

S.C. Metrorex S.A.

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

C.N. Tarom S.A.

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

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

C.N. Poşta Românã S.A.

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

S.C. Oltchim S.A.

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

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

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

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

S.C. Electrocentrale Bucuresti S.A.

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

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

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

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

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

- Conclude privatization offer by end-2012.

C.N. a Huilei S.A

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

SNa Lignitului Oltenia S.A.

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

S.C. Hidroelectrica S.A.

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

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

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

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

INTERNATIONAL MONETARY FUND

ROMANIA

Third Review Under the Stand-By Arrangement, and Request for Modification of Performance Criteria— Supplementary Information

Prepared by the European Department
(In Consultation with Other Departments)

Approved by Poul Thomsen and David Marston

December 13, 2011

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on December 5, 2011**. The additional information does not change the thrust of the staff appraisal.

2. **Recent indicators confirm strong third quarter growth, but a slowdown is expected going forward.** Full Q3 GDP data confirmed the flash estimate of 1.8 percent quarterly growth (4.4 percent y-o-y). Domestic demand grew sharply, with private consumption and investment both turning positive, while the external sector also supported growth. Agriculture posted a 22 percent growth rate (y-o-y), but all other major sectors also grew (except "other services"). High frequency indicators for October were also positive and export growth remained strong, but industrial orders dropped sharply and construction slipped, suggesting declining future output as the eurozone crisis spills over into Romania. Annual inflation eased slightly in November, to 3.4 percent (from 3.6 percent in October).

3. **Financial market stress has eased in recent days, but conditions remain fragile.** CDS spreads have fallen by 50 basis points since November 25 (in line with other emerging European countries) but remain well above their levels earlier in the year. The leu has been roughly stable. Central Bank reserves fell by some €0.5 billion in November on top of a drop in October, reflecting in part intervention to stabilize the currency. The government has had a couple of successful T-bill auctions at rates below 7 percent, but with shorter maturities.

4. The 2012 budget is on track for approval by year-end. The constitutional court recently approved a wage a pension freeze for 2012, clearing the way for the budget to target a cash deficit of 1.9 percent of GDP.

5. **The government has met the prior actions.** In early December, the parliament approved health copayment legislation, and the government issued an emergency ordinance to apply the revised claw back tax on pharmaceuticals. The energy regulator approved a decision to hike natural gas prices to non-household consumers by 5 percent on January 1, 2012. The agreed actions to publish tenders and appoint privatization advisors for selected state-owned firms were also completed.

Table 1(Revised table 2 of the staff report). Romania: Performance for Third Review

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/475
FOR IMMEDIATE RELEASE
December 19, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review Under Stand-By Arrangement for Romania

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Romania's economic performance under a program supported by a 24-month Stand-By Arrangement (SBA). The authorities have indicated that they will continue treating the arrangement as precautionary and therefore do not intend to draw under it. Completion of the review makes an additional amount equivalent to SDR 430 million (about €507 million, or about US$661 million) available for disbursement, bringing the total resources that are currently available to Romania under the SBA to SDR 1.35 billion (about €1.6 billion, or about US$2.1 billion).

The SBA was approved on March 25, 2011 (see Press Release No 11/101) in the amount of SDR 3.1 billion (about €3.6 billion, or about US$4.7 billion) and came into effect on March 31, 2011.

Following the Executive Board's discussion on Romania, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

"Romania has made good progress under the Fund-supported program. Policy implementation has remained strong and all program targets were met. Economic growth has resumed while inflation has fallen. However, risks have risen considerably due to the financial turbulence in the euro area. Continued commitment to the economic reform agenda is crucial to help withstand current uncertainties.

"The authorities are on track to meet their fiscal targets for 2011, and their 2012 budget should bring the deficit well below 3 percent of GDP next year. Plans to address the chronic financial problems in the health care sector and to improve tax administration are welcome. Further progress is also needed to improve absorption of EU funds. Additional efforts to reform state-owned enterprises, together with enhanced regulation and improved market-oriented pricing, will be essential to reduce arrears, improve economic efficiency, and boost growth.

"Risks in the banking system, arising from difficulties elsewhere in Europe, warrant strong supervisory vigilance. The focus should be on enhanced monitoring and detailed contingency plans—including procedures for using the newly enhanced bank resolution powers—to guard against possible contagion. While inflation has dropped sharply, monetary policy should remain cautious given current uncertainties."

Statement by Mr. Menno Snel, Executive Director for Romania and Mr. Mihai Tanasescu, Senior Advisor to the Executive Director December 19, 2011

The economic program supported by the Fund, the European Commission and the World Bank played an important role in stabilizing the Romanian economy, generating concrete results in boosting growth and maintaining fiscal and financial stability. The current precautionary Stand-By Arrangement approved in March 2011, aims at strengthening macroeconomic policies, accelerating structural reforms, and consolidating economic development. The track record under the program to date is strong. All performance criteria and all quantitative targets for the third review were met, and the authorities continue their efforts on a large structural agenda.

Recent economic developments

Economic growth has resumed. Romania posted the fourth consecutive quarter of growth in the third quarter, when growth accelerated to 4.4 percent due to a favorable agriculture harvest, a recovery in construction, and renewed industrial growth. The recovery in domestic demand, however, remained weak while export growth has stabilized. As a whole, real GDP growth is estimated to reach around 2 percent at end-2011 (up from 1.5 percent previously forecast), and is expected to continue on a positive path in 2012. However, 2012 economic growth is likely to be less robust than previously foreseen, reflecting mainly the deteriorating external environment and spillover effects into domestic demand via the banking system. Amid signs of a gradually improving labor market and the anticipated absorption of EU funds, 2012 growth is expected to be mainly driven by domestic demand, reaching around 1.8-2.2 percent.

The inflation rate has dropped sharply in recent months to 3.4 percent in November, reflecting a large decline in food prices and the elimination of the first-round effect of the 2010 VAT increase from the 12-month index. We expect inflation to continue to decline, and the latest developments indicate that the NBR’s 2011 inflation target will be met by a comfortable margin. In 2012 inflation will continue its downward path and is likely to be within the NBR’s target band.

The external position improved significantly. The current account deficit is projected to stabilize at around 4.2 percent in 2011 and 2012. The recent growth in exports (+17.3 percent in October 2011/October 2010) improved the trade balance. Net exports in 2012 are expected to remain broadly stable as import demand slows in line with lower export growth.

Due to the recent turbulence in international markets, CDS spreads have risen apace with other economies in the region, and consumer confidence has fallen. Risk aversion on the external markets has led the *leu* to depreciate by 4 percent since July, and yields on domestic treasuries have been rising. The authorities have also postponed a dollar-denominated bond issue planned for November due to market uncertainties. On a positive note, international reserves remained comfortable at 36 billion Euros, covering more than 100 percent of the short-term debt residual maturity.

Despite the progress achieved, the recovery remains vulnerable to adverse developments in international markets and weaker than expected growth in Western Europe. Spillovers from the ongoing turbulence in the Euro area could further dampen exports and affect capital flows to Romania through the banking system. The authorities will remain vigilant, act proactively, and take the necessary steps to contain these risks.

Fiscal policy

The fiscal package implemented since the beginning of the previous program in 2009 has produced the targeted adjustment and put the fiscal stance on the right path. For 2011, the authorities are on track to meet the cash fiscal deficit target of 4.4 percent of GDP. Since the prospects for 2012 have worsened, the authorities have taken a conservative approach to the fiscal planning. The 2012 budget is based on a cash deficit of 1.9 percent of GDP, well below 3 percent of GDP on ESA terms. The authorities felt that a prudent approach is warranted to withstand pre-election spending pressures and contain deficit financing costs in the increasingly uncertain external environment. To achieve this goal, the authorities decided to freeze the public wages and pensions and to continue reductions in public employment.

On the expenditure side, the proposed decision to freeze the wages and pensions, together with the cuts in district heating, and reduction in co-financing of EU funded projects will provide an additional fiscal adjustment of 2.1 percentage points of GDP. The authorities will continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds. In this context, the authorities approved a list of 100 EU-funded priority projects whose implementation will be strictly monitored. The recent decision to create the Ministry of European Affairs will also accelerate this process. On health care reform, the authorities will implement a comprehensive package of measures to address the structural deficits of the health care system. They already approved new legislation introducing copayments for medical services, and a claw-back tax on pharmaceuticals. In the long term, the authorities plan to phase in a fundamental restructuring of the system to address not only spending inefficiencies but also the underfunding of the health care system.

On the revenue side, tax policies will remain largely unchanged, including the VAT rate, which will be kept at 24 percent. With the technical assistance of the Fund, the authorities will review the tax code by the end of the year to close tax loopholes and improve its efficiency. Under the current program, improving tax administration and fighting tax evasion are crucial elements to increase revenue. The authorities made progress in the areas of risk assessment, taxpayer segmentation, office network reorganization, and indirect audit methods.

To continue the fiscal consolidation path, the authorities are committed to decreasing the stock of arrears. Arrears of the general government have been declining since the beginning of the program and are almost zero today. However, challenges remain in local governments, where reducing the stock of existing arrears will require stricter enforcement of the law, and in state-owned enterprises. Additional efforts are needed to continue reducing these challenges. To this end, the authorities have prepared a series of schemes to clear state owned enterprise arrears via netting arrangements, debt swaps, recapitalization of firms, arrears securitization and government lending.

Monetary and financial sector policies

The monetary authorities responded appropriately to recent economic developments, and the Central Bank has taken important measures to bring down the inflation. In November the NBR cut its policy rate by 25 basis points to 6 percent, while maintaining the reserves requirements on local and FX currencies. This is the first policy cut since May 2010, as inflationary pressures have eased significantly after the global food and energy price shocks receded. As we expect inflation to continue to decline, the Central Bank's 2011 inflation target will be met by a comfortable margin. In light of the gathering risks of contagion from financial disturbances in the region and possible capital outflows, the monetary authorities will remain vigilant against inflation risks and committed to take action as needed to assure achievement of its 2012 inflation target.

The Romanian financial system so far has weathered well the impact of the economic downturn of the past two years. The banking sector remains well capitalized, with an average solvency ratio of 13.4 percent and a tier one capital ratio of 12.9 percent at end-September. NPLs rose to 14 percent, but provisioning remains prudent, covering some 97 percent of NPLs. Despite an increase in corporate lending, which more than offset a slight decline in household lending, credit growth remains weak in real terms. A key role in keeping the financial system in good health has been played by the European Bank Coordination Initiative. The aggregate exposure to Romania of the nine largest foreign banks stood at 99 percent of the March 2007 level, and even though they have not agreed on a specific target exposure, these banks have affirmed their long-term commitment to Romania and continue to report exposures. In light of the current international vulnerabilities, the Central Bank remains vigilant to weaknesses in the banking system, and stands ready to provide liquidity as necessary to mitigate segmentation in the interbank market. It is also refining its full range of contingency measures to be deployed if necessary to preserve depositor confidence.

On the regulatory front, the NBR continues to make progress, and the authorities have finalized the regulatory framework and tax treatment for filters of provisioning that will preserve the current prudent approach once the International Reporting Standards are introduced for the banks at the beginning of 2012. At the same time, the NBR has tightened the regulatory treatment of banks' foreign currency lending to households, including via differential loan-to-value limits for lending in domestic and foreign currency on a hedged and unhedged basis.

Structural reforms

Under the current program the authorities are committed to deep-rooted reform of the state-owned enterprises (SOEs), especially in the transport and energy sectors, to enable sustainable economic growth and better competitiveness. The authorities made progress in the reform agenda strengthening the database for monitoring local government state-owned enterprises. Restructuring plans for all 154 companies have been finalized, and the authorities have started to implement them. Arrears are expected to be reduced by around 1 percent of GDP. A corporate governance reform for SOEs has been approved, which requires regular independent external audits, quarterly publication of financial data, and reinforcement of OECD principles on corporate governance. Progress is also achieved in the privatization process, and despite some delays, the authorities remain committed to offering minority and majority stakes in a series of companies over the coming months.

In the energy sector, the authorities envisage major reforms, including a change in the national energy strategy with a view to attracting more private capital and allowing for more transparent, flexible, and competitive energy production and supply. To enhance the pricing and regulatory framework, the government will approve and submit legislation to Parliament ensuring a complete transposition of the 3rd Energy Package as agreed with the European Commission, including the functional and financial independence of the energy regulator. To better align the price with actual costs, the authorities approved an additional increase of the gas price by 5 percent starting January 2012.

In the transport sector, the authorities continued to implement measures to cut expenditures and raise revenues. In the rail sector they implemented standard costs for infrastructure procurement and maintenance of rolling stock. In order to bring the rail sector closer to economic viability, the authorities will continue the process of closing 1000 kilometers of rail lines. At the same time, major infrastructure projects using EU funds are advancing and revenues are increasing through tariff adjustments and enhanced toll collection.

In conclusion, my authorities concur that the current precautionary Stand-By Arrangement will maintain the reform momentum, provide additional security against unforeseen shocks, and build on the considerable progress achieved over the past two and half years, thereby setting the stage for strong and sustainable economic development while maintaining external and internal stability.