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Romania: First Review under the Stand-By Arrangement and Request for Modification of Performance Criteria—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Romania.

In the context of the first review under the stand-by arrangement and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the First Review under the Stand-By Arrangement and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on May 9, 2011, 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 June 9, 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 of June 27, 2011 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 27, 2011 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Romania.

The document listed below has been or will be separately released.

Letter of Intent and TMU sent to the IMF by the authorities of Romania*

*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

First 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 M. Thomsen and Aasim Husain

June 9, 2011

Stand-By Arrangement (SBA) and follow-up SBA: A new 24-month, SDR 3,090.6 million (€3.5 billion, US$4.9 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 second tranche of SDR 430 million will be made available upon completion of this review. The authorities are treating the arrangement as precautionary. Funds under the new program are also provided by the European Union (on a precautionary basis) and the World Bank.

Status of the current program: All end-March quantitative performance criteria and indicative targets for the first review were met. Inflation remained within the inner band of the inflation consultation mechanism. All structural benchmarks, including on stock-taking of arrears in the general government and state-owned enterprises (SOEs), which was reset as a prior action, are expected to be met.

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

Discussions: Discussions were held in Bucharest, April 27–May 9, 2011. The mission met with President Basescu, Prime Minister Boc, Finance Minister Ialomiţianu, Central Bank Governor Isarescu, other senior officials, representatives of 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 and F. Hasanov (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. **The economy has stabilized and growth is now resuming.** Recent data suggest that the recovery has restarted and will slowly gain momentum in 2011. Growth is expected to reach 1½ percent this year, and accelerate to 3¾–4 percent in 2012. Inflation is expected to remain above 5 percent, exceeding the central bank's inflation target (3 percent ± 1 ppt) in 2011 before gradually returning to the target range in 2012. CDS spreads have been declining, the currency is appreciating, and capital inflows have resumed amidst rising confidence indicators. Strong export performance is expected to stabilize the current account deficit below 5 percent in 2011–12.

2. **Romania has made a strong start under the new program**. The authorities met all performance criteria for the first review, including on arrears for the central government and the indicative targets for SOE deficits and arrears. Preliminary results from a stock-taking exercise for arrears and unpaid bills (a structural benchmark) confirm substantial arrears in state-owned enterprises and show additional unpaid bills in the health sector. The structural benchmark on preparation of strategic action plans for key SOEs was met, but there will be a delay in amending legislation to permit the use of the deposit guarantee fund to facilitate bank restructuring, and in issuing a government ordinance to eliminate the legal basis for *stimulente* funds pending clarification of legal issues. The structural benchmark for a shift in the VAT mandatory threshold and introduction of a simplified taxation system has also been adjusted to enable sufficient preparation and consultation with the European authorities.

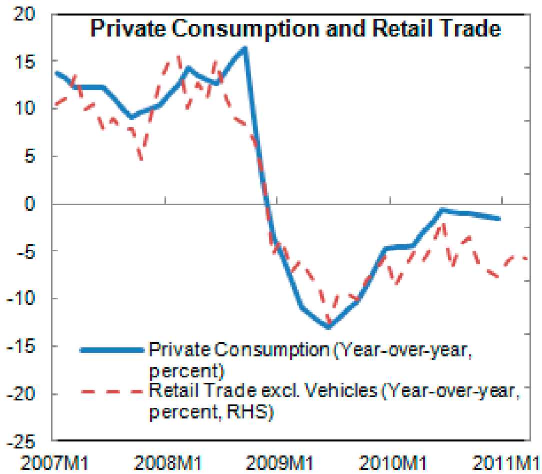
3. **Implementing the ambitious structural reform agenda and achieving the fiscal goals for 2012 will be challenging.** The program's objectives include deep-rooted reforms in the energy and transport sectors, including pricing reforms, improved regulation, and the restructuring and privatization of SOEs. It also seeks to strengthen managerial oversight and governance of SOEs and to improve the efficiency of the public sector. While the authorities are committed to implementing these reforms, they are both technically demanding and politically difficult, with political constraints likely to intensify as the 2012 elections approach. Fiscal performance is on track to meet the 2011 deficit target, but the 2012 objective will likely require additional adjustment, as well as firm determination to reject pressures for significant tax cuts or expenditures hikes.

II. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

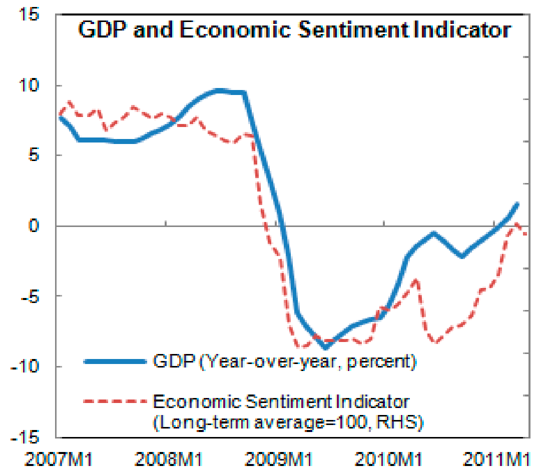
A. Recent Developments

4. **Following a severe downturn in 2009–10, growth is now resuming**. Fueled by strong exports, particularly in the automotive sector, growth reached 0.6 percent (qoq) in Q1 2011. Shorter-term indicators show robust growth in industrial production and a rise in economic sentiment. Consumer confidence is also improving while the monthly decline in retail sales has started to reverse. Nevertheless, weak disposable incomes and rising inflationary pressures are weighing on the recovery of household demand. The registered

unemployment rate fell to 5.9 percent in March, mainly due, however, to a declining labor force rather than job creation. Real wage growth remains negative.

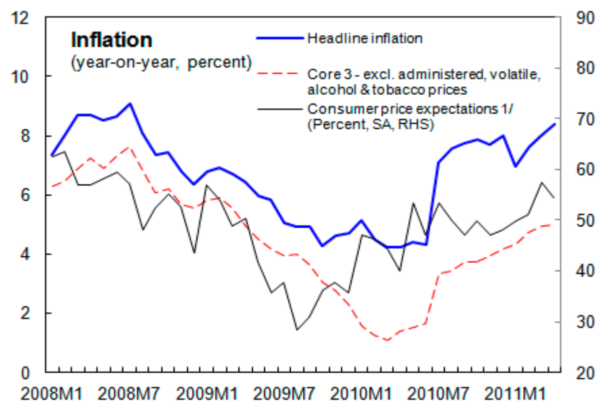


Sources: Haver; and IMF staff estimates.



Sources: Haver; and IMF staff estimates.

5. **Inflation has been higher than expected due to rising food and energy prices.** CPI inflation jumped to 8.3 percent in April from 7.0 percent in January, reflecting global food and energy prices increases and the high share of food in the CPI basket. Core inflation[1], excluding VAT effects, has also risen, due in part to the large contribution from non-volatile processed foods. Although expectations of price increases are rising, this has not yet been reflected in wages and unit labor costs.



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

6. **Financial market stress has remained low in recent months, with little spillover effects from the difficulties elsewhere in Europe.** Since January, the sovereign CDS spread has narrowed by around 70 basis points and Romanian equity markets have gained more than 7 percent. Portfolio inflows have risen rapidly in the first quarter of this year. Since late 2010, the leu has appreciated by 4 percent against the euro, mainly reflecting improved market confidence.

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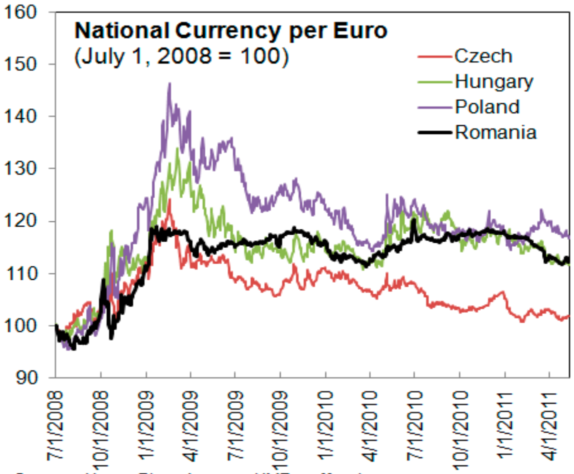
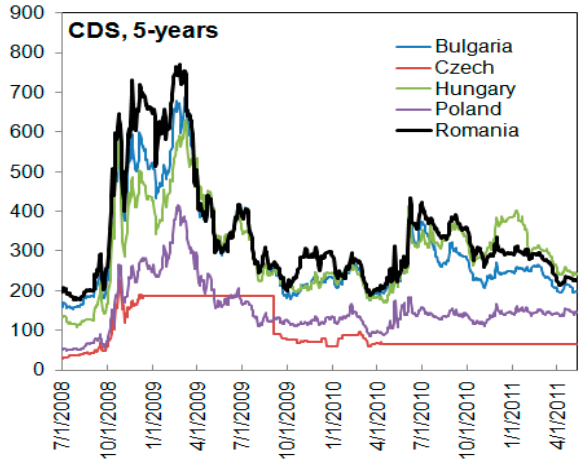
[1] As measured by the Core 3 indicator, which excludes energy, administered prices, unprocessed foods, alcohol, and tobacco.

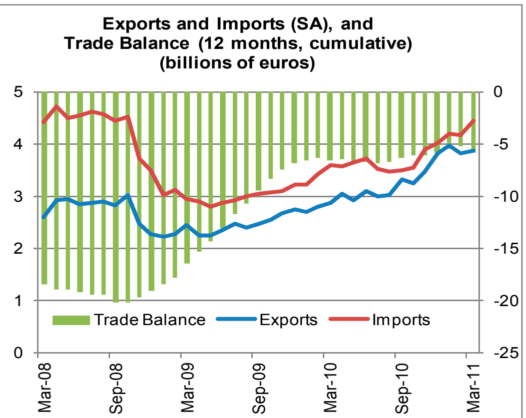


Sources: Haver; Bloomberg; and IMF staff estimates.



Sources: Haver; Bloomberg; and IMF staff estimates.

7. **Romania's external position continues to improve.** The current account deficit improved from 13.4 percent of GDP in 2007 to 4.1 percent of GDP in 2010, driven by a strong shrinking trade deficit. Exports are booming with the recovery in major trading partners while subdued domestic demand is limiting import growth. In Q1, the trade and current account balances were down nearly 2/3 from the previous year. Foreign direct investment (FDI) continued to be weak, with activity mostly in intercompany lending. Official financing remained the major source of inflows although an increase in non-residents holdings of domestic treasuries was also evident. International reserves remained stable in Q1 2011, meeting the end-March NFA target by some €169 million.



Sources: Haver; and IMF staff estimates.

B. Macroeconomic Outlook and Risks

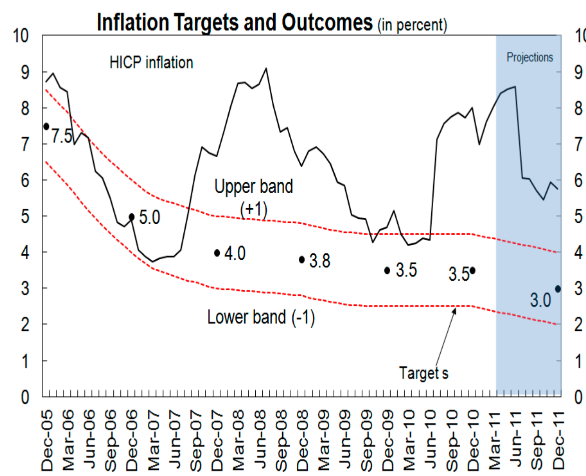
8. **The macroeconomic outlook is expected to improve in 2011–12 with a gradual pickup in growth, a stable current account, and inflationary pressures that are still high but will begin to recede after mid-2011.**

- ***Growth***. Growth is expected to reach 1½ percent in 2011, driven by strong external demand. Domestic demand is expected to recover more gradually, led by investment. In 2012, growth is expected to accelerate to 3¾–4 percent as supply shocks recede and domestic demand becomes the main driver, supported by a recovery in private consumption and improved EU funds absorption. Increased investor confidence, coupled with planned privatization under the program is expected to bring renewed FDI and banking inflows. Growth should remain somewhat above the 3–3 ½ percent estimated increase in potential output in 2013–16, allowing for the output gap to close by 2016.

Macroeconomic Outlook (in percent; unless noted otherwise)						
	2007	2008	2009	2010	2011 Proj.	2012 Proj.
Real GDP growth	6.3	7.3	-7.1	-1.3	1.5	3.9
Domestic demand growth	14.2	7.3	-12.9	-1.0	0.9	3.8
CPI Inflation, average	4.8	7.8	5.6	6.1	6.8	4.6
CPI Inflation, end-of-period	6.6	6.3	4.8	8.0	5.7	3.6
Current account balance (percent of GDP)	-13.4	-11.6	-4.2	-4.1	-4.7	-4.9

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

- ***Inflation***. Inflation will remain high throughout 2011, likely triggering the inflation consultation mechanism under the Fund program in future reviews. In the second half of the year, the 12 month CPI will decline (as the effects of the July 2010 VAT increase drop out), but envisaged adjustment in administered prices and high energy prices will leave inflation well above the previously forecast path. Staff expects headline CPI to recede to around 5.7 percent[2] by the end of 2011, breaching the NBR's inflation target. For 2012, a further disinflation towards the central bank's target (3 percent ±1 ppt.) is expected, though policy action may be needed to achieve it.



Source: Haver; staff estimates.

- ***External position***. The current account deficit is projected to stabilize at under 5 percent of GDP in 2011–12. In line with recent strong growth in exports, the trade balance will improve in 2011, partly offset by repatriation of profits. Remittances are not expected to grow due to continued slack in host economies, such as Spain and Italy. Private capital inflows are expected to improve over the program period, with FDI rebounding from recession lows and portfolio inflows also recovering. Under staff's baseline scenario, no new financing gap is envisaged, consistent with the program's precautionary nature.

[2] This forecast includes the elimination of heating subsidy at the central government level, which will contribute to a 0.6 percent increase in annual inflation.

- ***Risks.*** Risks to growth are largely balanced. On the downside, domestic political tensions could lead to policy reversals, dampening confidence, and weakening performance; spillovers from the ongoing turbulence in the euro area periphery could depress exports or raise risk premia and affect capital flows to Romania. In an extreme event, some effects on the financial sector might also occur (given the presence of several subsidiaries of eurozone periphery banks in Romania), but strong capital buffers in banks, tight banking supervision, and healthy NBR reserves would mitigate this risk. On the upside, a faster-than-expected recovery of consumer confidence and rapid implementation of structural reforms could catalyze faster growth and stronger capital inflows. Inflation risks still tilt to the upside. A continued surge in commodity prices and further adjustment in administered prices could boost inflation as could excessive capital inflows (as currently experienced in other emerging market countries). On the downside, underlying inflationary pressures could be mitigated by the still large output gap and the appreciating currency.

III. Policy Discussions

A. Fiscal Policies

9. **The authorities are on track to meet their 2011 deficit target of 4.4 percent of GDP.** The fiscal data through April show a deficit well below program. Tax revenues have been slightly higher than anticipated, but both current and capital expenditure have been lower, producing a much smaller deficit. The resulting fiscal space will likely be needed to accommodate additional spending arising in the health sector and SOEs (see below).

Fiscal Performance, Jan to April, 2011 1/
(billions, RON)

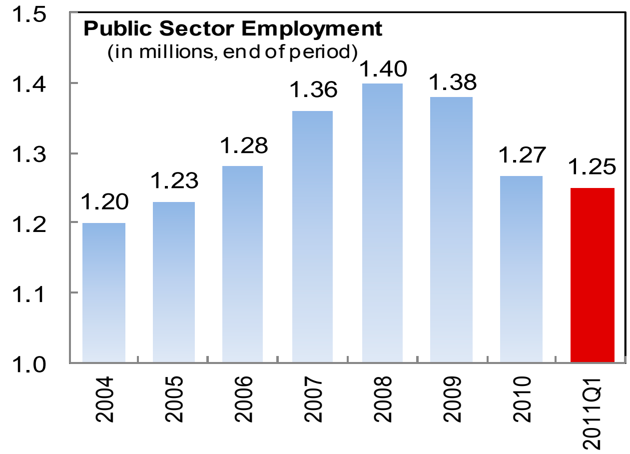
	Projection	Actual	Deviation (in percent)
Total revenue	58.1	58.0	-0.1
Tax revenue	49.3	49.8	1.1
Corporate income tax	4.5	4.9	8.7
Personal income tax	5.9	5.8	-1.1
VAT	14.1	14.3	1.4
Excises	5.2	5.6	7.5
Soc. sec. contributions	16.1	15.8	-1.9
Other tax revenue	3.5	3.4	-2.4
Nontax revenue	5.7	5.8	1.2
Other revenue	3.1	2.5	-20.1
Total expenditure	66.3	62.4	-5.9
Wages	12.8	12.8	0.5
Goods and services	9.8	9.4	-4.4
Interest	2.9	2.8	-4.3
Subsidies	2.5	2.3	-6.4
Transfers	32.3	31.0	-3.7
Social assistance	22.8	22.7	-0.6
Other transfers	9.4	8.4	-11.3
Capital	5.5	3.8	-31.0
Other	0.6	0.3	-56.6
Deficit/Surplus	-8.3	-4.4	-47.2

Source: Romanian authorities; and staff estimates.
1/ Estimates.

10. **Expenditure reforms continue to underpin the fiscal adjustment in 2011**. The 2011 budget included tight current spending limits and reflected the initial effects of reforms in pensions and social benefits undertaken in 2010. In addition, key policies being implemented include: (i) further rationalization of public employment linked to functional reviews of important ministries;[3] (ii) replacement of central government heating subsidies with targeted assistance and streamlining of social assistance (¶19); (iii) elimination of *stimulente* funds (structural benchmark, end-August); (iv) a temporary increase in distribution of dividends from profitable state-owned enterprises (SOEs) in 2011 and 2012

[3] Public employment fell by another 15,000 (to 1.25 million) in the first quarter of 2011.

allowing the authorities to pay unregistered bills uncovered in the stocktaking exercise (¶12); and (v) ongoing reforms in the health sector (¶14). However, the envisaged health reforms will produce results only over time and it is likely that 2011 health spending (together with payment of previous unpaid bills) will exceed its budget allocation, necessitating an additional reallocation of about 0.2 percent of GDP in the mid-year budget revision process.



Source: Ministry of Public Finance; IMF staff estimates.

11. **Significant challenges remain in achieving the 3 percent of GDP deficit target (in both cash and accrual terms) in 2012.** The authorities' plan assumes savings from reforms already implemented such as pension reform, means testing for social programs, and continued expenditure restraint, especially on the wage bill and subsidies. Health reforms should also contribute. However, additional measures will likely be needed. An adjustment of about ½ percent of GDP would be required to cover the inclusion of several loss-making SOEs in general government accounts from this year.[4,5] Furthermore, political pressures exist to reduce social contribution rates and fully restore the remainder of the 25 percent public wage cut passed in mid-2010. The authorities are currently finalizing the medium-term Fiscal Strategy for 2012–14 which will incorporate some of these measures and also set aggregate expenditure ceilings for 2012 budget discussions later in the year. Staff will advocate concentrating on further efforts measures to contain expenditures rather than on additional revenue measures.

12. **In addition to ongoing efforts to eliminate the arrears of the central government, the authorities are now also focusing on reducing the arrears of the rest of the public sector.** Arrears for the central government and social security system declined in the first quarter as did those of local governments. However, total arrears of SOEs have grown by about ¼ percent of GDP to more than 4 percent of GDP. The recent stocktaking exercise revealed unpaid bills at the general government level, mainly in the health sector (about 0.1 percent of GDP). At the local level, there are bills related to VAT payments (about 0.1 percent of GDP), and others under dispute in courts. The authorities have developed an action plan to deal with arrears, the key elements of which are as follows:

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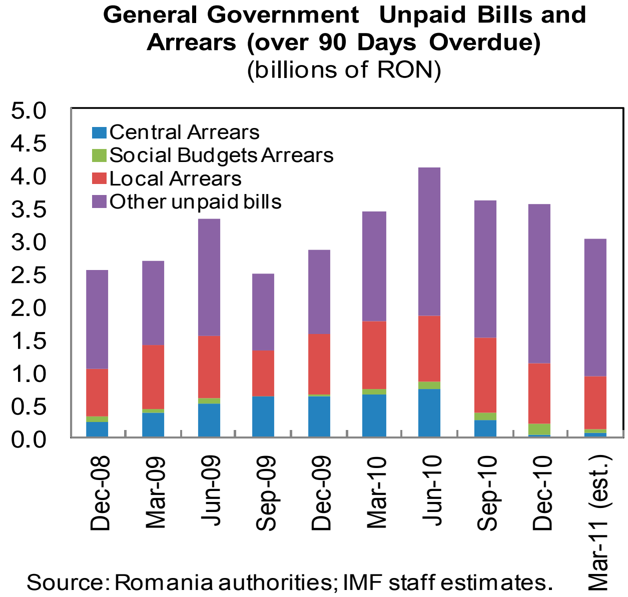
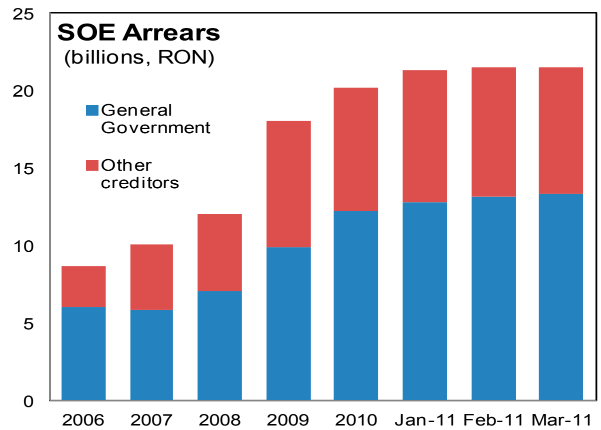
[4] The authorities are designing a monitoring system to obtain timely information from these SOEs. Once it is fully functional, the performance criterion on general government overall balance in 2011 will be amended to include the operating balance of these entities.

[5] Under Eurostat rules, an SOE must be included as part of the general government when more than half of its resources come from the state over a three year period. Several Romanian firms fall within this threshold and will be folded into the general government statistics in the course of 2011.



Source: Romania authorities; IMF staff estimates.



Source: Romanian authorities; IMF staff estimates.

- **Health.** After verifying validity of the bills received, the authorities will clear all arrears by end-2011. Continued health reforms (¶14) should prevent accumulation of new arrears.

- **Local governments.** The amendment to the local government public finance law, effective January 2011, does not allow accumulation of arrears and requires a balanced budget execution, including unpaid bills.

- **SOEs.** Strategies will include bankruptcy procedures, scheduled repayment , netting out of arrears within the general government, provision of resources by the state to clear arrears (with the clearance by EU competition authorities), restructuring and securitization, and debt-equity swaps. The authorities will also restructure SOEs at the same time to preclude accumulation of new arrears (structural benchmark, LOI ¶7).

The authorities also plan to reduce the period for paying bills over the next two years as the forthcoming EU directive takes effect. Lastly, as part of the next phase in the integration of the accounting reporting system with the Treasury payment system, the commitment control and reporting module for all levels of government will be designed by end-September 2011.

13. **Work continues in improving EU structural funds absorption and prioritizing capital spending.** Efforts are underway to strengthen the administrative capacity of units managing the funds, including by providing expert assistance to help beneficiaries in all project stages. The government has moved the EU structural funds unit from the Ministry of Public Finance to the Prime Minister's office to facilitate coordination across ministries. In addition, the authorities have started prioritizing investment projects to release cofinancing funds for EU related projects. The database of all investment projects at the central level is expected to be completed by June, and a final report with an action plan on prioritizing investment is expected by end-September (structural benchmark). The government will also amend public procurement legislation to bring it in line with EU law and will develop standard bidding documents for key sectors to reduce contested tenders.

14. **Major health care reforms (LOI ¶13) are underway, but expenditures are still likely to exceed the budget.** The authorities have implemented significant cost-cutting reforms with the goal of improving efficiency while achieving EU average benchmarks (Box 1). The legislation for modest copayments is expected to be passed by parliament in the coming months. With the assistance from the World Bank, a major redesign of the publicly insured basic benefits package is being undertaken, to take effect in 2012. IT reforms continue with the introduction of electronic prescriptions, strict drug use protocols, and national health cards in 2012 to control fraud and monitor spending. Containing the escalating costs of drugs, however, remains a significant challenge. An additional budget allocation will likely be needed in the mid-year budget revision to cover unpaid bills before they become arrears.

Box 1. Key Health Care Reform Measures Implemented with World Bank Assistance

- Drug benchmarking for major drug lists;
- Reduction of hospital inpatient admissions by 10 percent;
- Budget cuts for financing of 67 hospitals reducing financed hospital beds from 135,200 to 129,500 to be effective July 2011. Further reduction planned until 2013 to reach the EU average.
- Elimination of mandatory contracting with all hospitals;
- Design of mechanisms to allow higher financing for more complex treatments while reducing financing for others;
- Reduction of physicians' reimbursement based on capitation from 70 percent to 50 percent, and introduction of indicative caps for services;

Clarification of legislation on claw back tax for pharmaceuticals (effective end-April).

15. **On the revenue front, tax administration reforms are underway to improve collections and fight tax evasion.** Work is ongoing (with IMF TA) on setting up the high net wealth individual program and developing indirect audit methods, based on which a compliance risk strategy for will be implemented by September. The government will pass an ordinance on restructuring the tax administration (ANAF) (prior action) that will allow for staffing the newly created Tax Verification Directorate and will close about 150 inefficient local offices. To focus limited resources on medium and large taxpayers, the authorities will introduce a simplified taxation regime in key economic sectors by end-December and will request from the EU an increase in the VAT registration threshold with those below the threshold moved to the simplified regime (structural benchmark).

16. **The authorities continue to improve their financing strategy.** The strategy involves extending the maturity of domestic debt while building the yield curve, consolidating financial buffers to guard against unforeseen shocks, and continuing being regularly present in the debt markets. A "euro medium-term notes" program is in the final stages of preparation, and the first Eurobond is expected to be issued by mid-year. The buffers are being built to reach approximately four months of financing needs in 2011–12. A formal review of the debt management strategy, with the assistance of IMF staff, the EC, and the World Bank, will also be conducted in 2011.

B. Structural Reforms

State-Owned Enterprises

17. **SOE reform is crucial in order to bring in much needed private investment and managerial know-how while restoring firms' financial viability.** Under the program, governance reforms will require regular independent external audits, quarterly publication of financial data, and reinforcement of OECD principles on corporate governance (structural benchmark). Private management experience will be brought into the largest SOEs that remain under majority government ownership. Financial control of SOEs will be moved from line ministries to the MOPF and will include enhanced reporting mechanisms. Action plans will be developed by mid-July to restructure the SOEs and reduce their arrears (structural benchmark, LOI ¶7 and ¶19).

18. **The authorities are stepping up their efforts to restructure the transport and energy sectors, which remain a significant fiscal burden and bottleneck to growth.**

- **In the transport sector, steps to improve infrastructure and increase efficiency in service provision are underway.** Major infrastructure projects using EU structural funds have been approved and project execution is beginning. Revenues will be increased through better cost-recovery, while costs will be reduced by better aligning staffing, refocusing services, introducing standard costs for contracts as well as better control mechanisms. To bring in private management and capital, the authorities will offer minority stakes in the cargo rail company (CFR Marfa) and the national air carrier (Tarom).

- **In the energy sector, privatization plans are moving ahead with the goal of bringing in urgently needed investments**. After three years of inconclusive efforts to form two national "champions", the government is moving ahead with an alternative energy strategy. Much needed capital and managerial know-how will be brought into the energy sector through IPOs, sales of stakes to strategic partners and capital increases. The authorities have agreed to private stakes in several additional companies compared to those agreed upon in the original program, including Hidroelectrica, Nuclearelectrica, Electrica Serv, and the three energy complexes in Craiova, Rovinari and Turceni. Legal advisors will be appointed for privatization of some key firms by mid-July (structural benchmark).

- **The authorities have also committed to addressing pricing and regulatory deficiencies and to liberalize the energy market.** Measures include: (i) restoring the energy regulator's (ANRE) full operational and financial autonomy; (ii) bringing gas prices for non-residential consumers in line with the current formula; and (iii) presenting a roadmap for phasing out regulated prices in electricity and gas while protecting vulnerable groups of the society. The government will shortly issue an ordinance enabling separate pricing formulae for households and non-residential customers (prior action). In addition, state-owned energy generation companies will be required to sell their output transparently through the OPCOM Power Exchange, which will ensure that below-market bilateral contracts are no longer executed. Over the medium term, the government will also develop a roadmap to overcome the chronic problems in the district heating system.

Other reforms

19. **The authorities have undertaken important reforms in labor legislation and social protection**. The new Labor Code, enacted April 30, aims to improve labor market flexibility by promoting fixed-term and temporary employment, extending probation periods, and increasing the flexibility of working hours. The controversial Social Dialogue Code was recently promulgated after being cleared by the Constitutional Court. It aims to make the wage-setting process more flexible and allow for a better orientation of wage growth on productivity developments. Key elements include raising the representativity thresholds for both trade unions and employers' associations, abolishing the collective bargaining at national level, and elimination of the automatic *ergo-omnes* extension at the sectoral level. The authorities are continuing making efforts to streamline social assistance while protecting the vulnerable through means-testing of benefits. A new Social Assistance Code has been drafted to consolidate the existing 54 categories of social benefits into 9. Social inspection has yielded significant results, as the number of beneficiaries of heating allowances has declined by half in 2011. The overall measures on social benefit reforms will result in fiscal savings of around 0.8 percent of GDP in 2010–13.

C. Financial Sector Policies

20. **The banking system continues to weather the economic crisis well.** Bank profitability turned positive in the first quarter, and the system remains well-capitalized, with an average capital ratio of 14.75 percent and all banks above 11 percent. Non-performing loans (NPLs) continued to rise, albeit at a slower pace than in 2010. The increase in the NPL ratio also reflected a decline in nominal lending over the first quarter. The NPL ratio is higher in domestic currency credits, particularly in the SME segment. Deposits declined modestly as well, slightly increasing the loan to deposit ratio. At end-March 2011, the aggregate exposure to Romania of the nine largest foreign banks participating in the European Bank Coordination Initiative stood at 97 percent of the level when the initiative commenced.

Romanian Banking System - Core Indicators (in percent)

	Dec-08	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Capital adequacy							
Capital adequacy ratio	13.8	14.7	15.0	14.3	14.6	14.7	14.8
Leverage Ratio[1/]	8.1	7.6	8.1	7.9	7.0	7.9	7.9
Asset quality							
Non-performing loan ratio[2/]	2.8	7.9	9.1	10.2	11.7	11.9	12.7
Loan loss ratio[3/]	6.5	15.3	17.2	17.8	20.2	20.8	22.0
Profitability							
Return on assets	1.6	0.2	0.5	-0.1	-0.2	-0.1	0.5
Return on equity	17.0	2.9	6.0	-1.6	-2.1	-1.0	4.9
Liquidity							
Loans to deposit ratio	122.0	112.8	113.2	117.5	116.3	113.5	114.8
Immediate liquidity ratio[4/]	34.4	35.3	37.1	35.9	36.7	37.9	37.2

Source: NBR.

1/Tier 1 capital / total average net assets.
2/Unadjusted exposure from loans and interest falling under "doubtful" and "loss" / total classified loans and interest, excluding off-balance sheet items.
3/Unadjusted exposure from loans classifieds as "loss" defined as past 90 days and/or initiation of legal preceding / total loans and interest, excluding off-balance sheet items.
4/Cash, sight and term deposits with banks plus government securities free of pledge / total liabilities.

21. **The NBR will need to remain vigilant regarding potential pockets of weakness in the banking system, which could be exacerbated by spillovers from Europe.** Some small- and medium-sized banks with high cost ratios, rising loan impairments, and lower than average provisions, will continue to incur losses during 2011. Further capital will be required in some cases, under the continued close oversight of the supervisor.[6] Subsidiaries of eurozone periphery banks are better capitalized than the system average, their liquidity position remains in line with that of the rest of the system, and there have been no indications of adverse movements in deposits. These subsidiaries in Romania constitute approximately 16 percent of system assets. However, the NBR is alert to the risk that developments in the European periphery could lead to segmentation in the interbank market, with some banks having only limited access, and it stands ready to provide liquidity support as needed.

Romania: Key Indicators for Subsidiaries of Euro Area Periphery Banks, end-March 2011 (in percent)

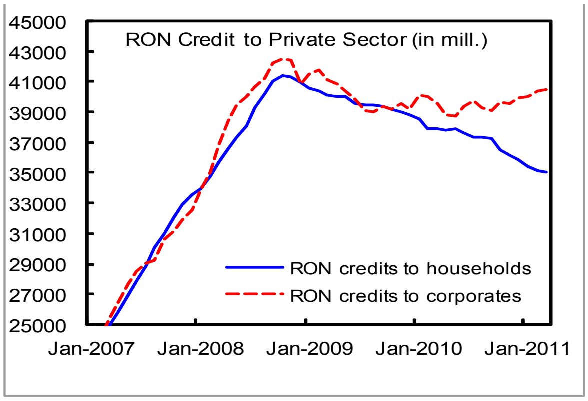
	Solvency ratio	Liquidity ratio
Euro area periphery banks average	16.76	1.35
System average	14.75	1.37

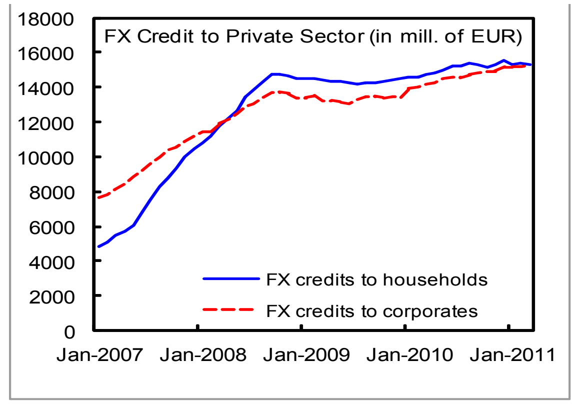
Source: NBR and staff calculations.

22. **Progress continues to be made on the regulatory front, albeit with some delay on the bank resolution mechanism.** The supervisor has agreed to retain key aspects of the current prudent and simple approach to provisioning under International Financial Reporting Standards, which are to be introduced at the beginning of 2012. The central bank is developing new regulations to discourage un-hedged consumer borrowing in foreign currency to mitigate the risk of further euroization due to the interest differential, exchange

[6] In aggregate, these banks comprise less than 7 percent of the market share.

rate expectations, and the stated policy of euro adoption by 2015.[7,8] While the authorities have undertaken significant reforms to strengthen the financial safety net, a measure enabling the Deposit Guarantee Fund (DGF) to facilitate the new bank resolution and restructuring tools needed to make the bank resolution regime operational is still outstanding due to ongoing discussions with the European Commission (modified benchmark).





D. Monetary and Exchange Rate Policies

23. **After significant easing in 2010, monetary conditions have started to tighten due to the appreciation of the leu**. However, on March 31, the NBR eased its monetary stance by lowering reserve requirements on FX deposits.[9] While the nominal effective exchange rate appreciated by about 4 percent in the first quarter, the policy rate has been on hold at 6.25 percent since May 2010. RON liquidity conditions tightened slightly as shown by an uptick in the interbank and bank lending rates in January-February, perhaps reflecting expectations of higher ECB rates and the need for increasing margins to cover the provisioning for continued rise in NPLs. In its May inflation report, the NBR signaled a tightening policy bias should underlying inflationary pressures materialize.

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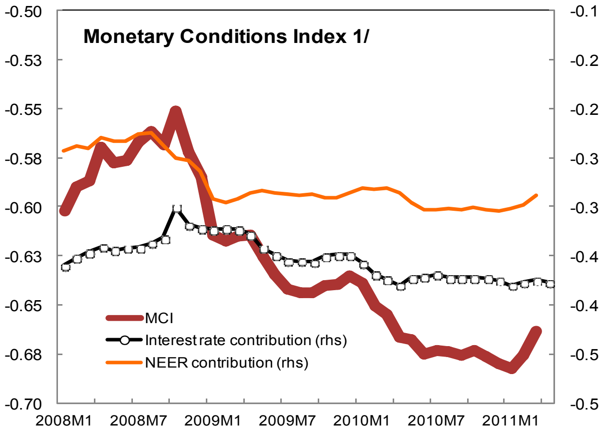
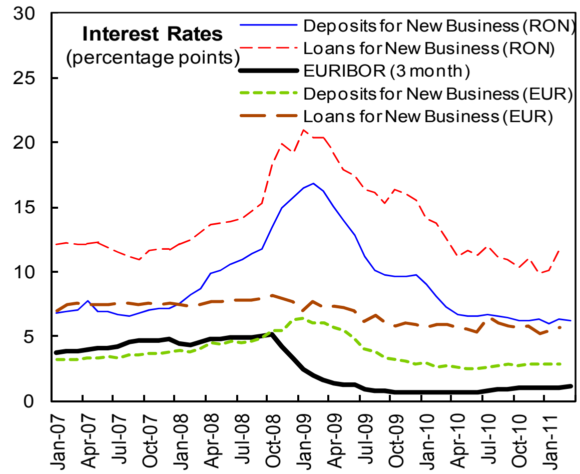
[7] These regulations will not cover mortgage lending due to concerns about market impact. Housing in Romania is priced in euros and long term loans are denominated in foreign currency (primarily euros) as the domestic yield curve remains liquid at short maturities only.

[8] The authorities recently announced that they will retain their euro adoption target date of 2015, although they acknowledge that the target date is very ambitious.

[9] The reserve requirements are now 20 (down from 25 percent) for foreign currency liabilities and 15 percent for local currency liabilities, including both short-term and long-term (with clauses referring to early withdrawal, repayment and transfer).

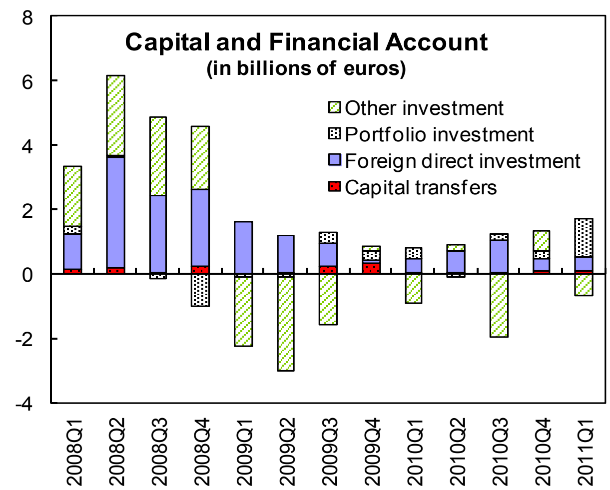


1/ Weighted average of the annual change in the 3-month interbank offer rate and the nominal effective exchange rate (at a ratio of 1.5 to 1)



Sources: NBR; Haver; and IMF staff estimates.

24. **The authorities remain wary of large, destabilizing capital inflows, potentially complicating the pace of monetary policy tightening**. Portfolio investment saw a resurgence in Q1 2011. To limit volatile short-term inflows while maintaining the upward policy bias, the authorities argued for using the various instruments available in the policy toolkit other than the policy rate. In particular, to discourage short-term capital inflows, the NBR considered it appropriate to maintain the current large spread around the policy rate for interbank rates and allow greater exchange rate fluctuations to introduce some uncertainty in investment returns.[10] The staff also suggested that there was scope to accumulate additional reserves.



Source: National Bank of Romania

25. **Romania's competitiveness remains adequate.** The recent appreciation of the leu and higher inflation have partially reversed the 15 percent improvement in competitiveness experienced since mid-2007, as measured by the Real Effective Exchange Rate. However, consistent with the increasing world market shares of Romania's exports, exchange rate assessment based on extended CGER analysis do not show a misalignment in the currency (Box 2) and the exchange rate is justified by fundamentals.

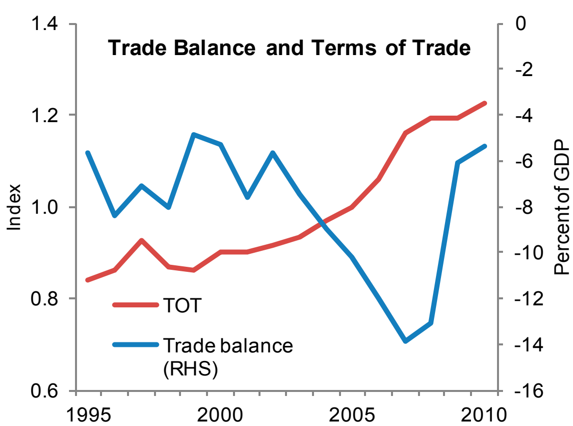
[10] Romania has a large spread for interbank market rates (400 basis points around the policy rate, where the upper bound is the Lombard rate and the lower bound is the overnight standing facility), allowing for greater fluctuations of the interbank rate. Heavy reliance on the overnight standing facility has allowed the interbank rate to come closer to the lower end of the band.

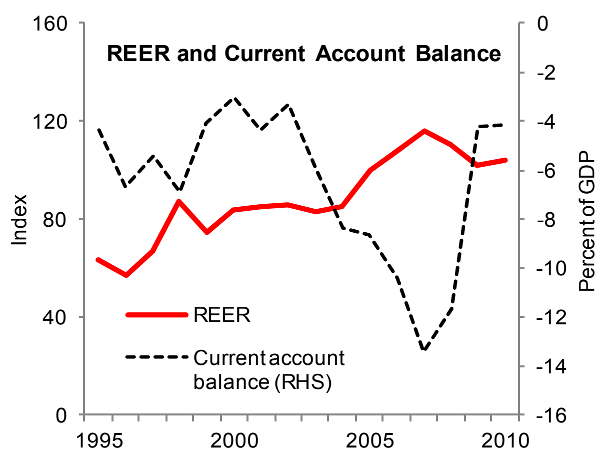
Box 2. Exchange Rate Assessment and Competitiveness

An assessment of the real effective exchange rate (REER) at end-2010 does not suggest significant exchange rate misalignment.[1] The three extended CGER methodologies yield estimates ranging from undervaluation of -0.1% to overvaluation of 5.2%. The macroeconomic balance approach suggests that the adjustment in the current account in 2009-10 was sufficient to ensure that medium run path stays near the norm and a slight depreciation of 5.2 percent would close the gap. Equilibrium real exchange rate regressions indicate that the current level of real exchange rate is only 1.2 percent lower than what is implied by terms of trade, productivity, government expenditures, and initial net foreign assets (NFA). Finally, the current level of the real exchange rate stabilizes the NFA at -66 percent of GDP.

Methodology[1/]	**Magnitude of Misalignment**[2]
Macroeconomic Balance	Slight overvaluation:
Equilibrium Real	No misalignment: 1.2%
External Sustainability	No misalignment: -0.1%
Overall assessment	**No misalignment**

1/ Based on Vitek (2011) framework, which uses a panel data set of annual macroeconomic variables for 182 economies, including remittance inflows.
2/ Stabilizing NFA at -66 percent of GDP.



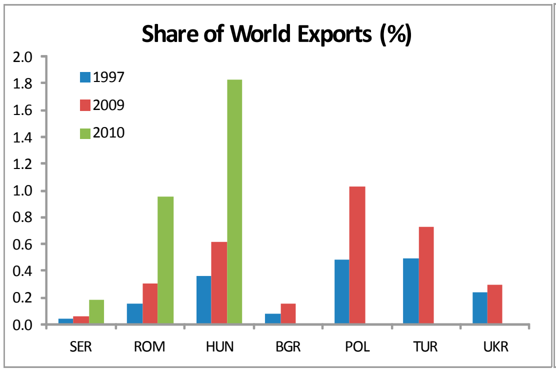


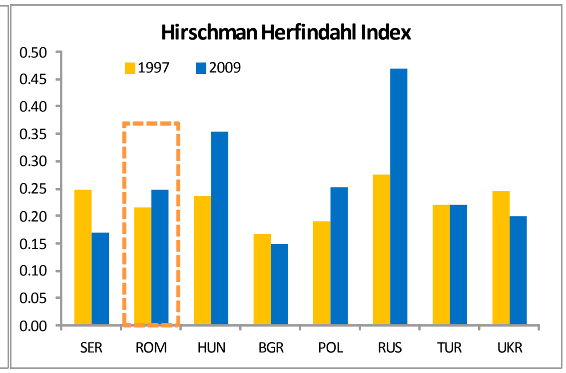
Romania's export share in world trade has also increased, driven by improved terms of trade, EU membership, and export product diversification. About 70 percent of Romania's trade is with the EU, with Germany and Italy having the largest share. In 2010, a rise in EU imports from the periphery relative to the rest of the world led to a significant jump in Romania's export share. The Hirschman Herfindahl Index (HHI)[2] measuring the degree of export diversification suggests that exports are becoming more concentrated in some sectors, in line with the regional trend, but there is more diversification across products mainly in the manufacturing, machinery and transport sectors.

[1/] Vitek, F. (2011) "Exchange Rate Assessment Tools for Advanced, Emerging, and Developing Economies," SPR, unpublished memo. April, 15. http://www-intranet.imf.org/fundwide/collaboration/CCW/Pages/SPR-REER-Data-Set-and-Programs.aspx?PageView=Shared.

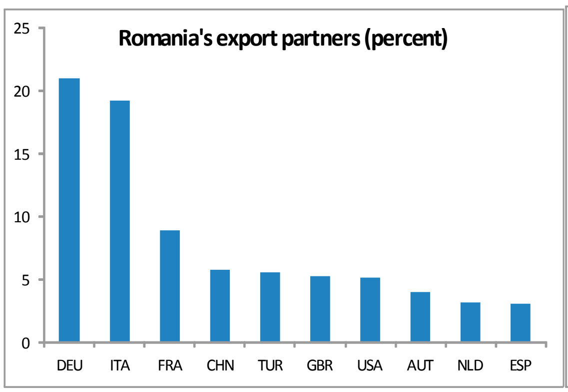
[2/] A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country with only one export will have a value of 1 (least diversified).

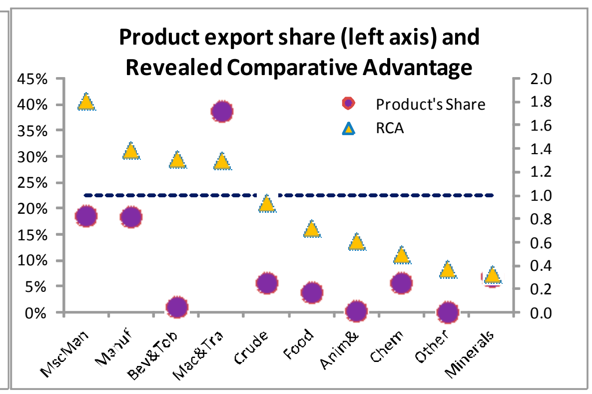
Box 2. Exchange Rate Assessment and Competitiveness (continued)





Nonetheless, there is still some room for improving export potential. The Revealed Comparative Advantage (RCA) indicator suggests that Romania is in the process of expanding the products in which it has a trade potential, namely in manufacturing, machinery and transport and beverages and tobacco sectors. However, there is scope for further diversification among commodity products, where Romania also has high revealed comparative advantage.[3]





[3/] A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

IV. Program Modalities and Other Issues

26. **The attached Letter of Intent (LOI) describes the authorities' progress in implementing their economic program and sets out their commitments through end-June 2011**. Some modifications to the program's conditionality are proposed (Tables 1–2)***:***

- *Prior actions are proposed* for: (i) the completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs which is reset from structural benchmark for April 30, 2011;[11] (ii) passage of the

[11] For local government SOEs, the stocktaking of arrears and unpaid bills as of end-December will be completed by end-June 2011.

government decision on ANAF restructuring; and (iii) approval of a government ordinance separating the Unitary Gas Cost (CUG) prices between households and non-residential customers and allowing the regulator, ANRE, full autonomy to adjust the CUG price to non-residential customers. The prior actions were set on policy actions crucial for implementing the program's structural agenda. The completion of the arrears stocktaking exercise (to be met pending finalization of the audited statements) will allow the design of mechanisms to permanently address arrears in the government and SOEs. The decision on restructuring the tax authority (ANAF) is essential to the program's strategy of improving tax administration and creating space for eventual reduction in tax rates. The pricing decision on energy will allow for the process of price adjustment needed for energy sector reforms without unduly burdening household consumers.

- *Revisions to the timeframe for achieving the structural benchmarks are proposed* (Table 2): In view of the administrative and legal feasibility within the stipulated timeframe, the target date for meeting the structural benchmark for: (i) introduction of a simplified taxation system for smaller taxpayers under the VAT threshold is shifted to Dec 31, 2011; (ii) Elimination of the legal basis of *stimulente* funds, is reset to Aug 31, 2011; and (iii) Amending legislation to allow the DGF resources to facilitate bank restructuring is reset to Nov 30, 2011.

- *New structural benchmarks are being added with a focus on SOE reforms* (Table 2): (i) As part of the restructuring and privatization strategy, preparation of actions plans for the remaining SOEs of the central government, design of mechanisms to facilitate restructuring and securitizing SOE arrears, and appointment of legal advisors for partial privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz are proposed by July 15, 2011; (ii) Approval of legislation to improve governance of SOEs by Aug. 31, 2011. These benchmarks have been focused on key energy and transport companies under the purview of the Ministries of Economy and Transport, which are the main recipients of state subsidies and responsible for much of the large outstanding arrears.

27. **Program Modalities.** Romania is not expected to face actual balance of payments financing needs in 2011 and 2012 and the Stand-By Arrangement as well as financing commitments from the EU will continue to be treated as precautionary. Even in the event of a shock scenario in the euro area periphery, staff analysis suggests that reserve buffers should be adequate to cover potential financing gaps arising from a direct liquidity shock to the banking system and indirect economy-wide shocks.

28. **Romania's capacity to repay the Fund is expected to remain strong.** Fund credit outstanding would peak in 2011 at 35.5 percent of gross reserves. Peak payments would be in 2013–14 at a still manageable 11.7 and 10.8 percent of gross reserves and around 8.7 and 7.6 percent of exports of goods and services. While this exposure remains large, servicing risks are mitigated by the relatively low level of public debt. Direct public indebtedness is

expected to remain under 40 percent of GDP, with public external debt peaking at around 15 percent of GDP in 2012. Total external debt is projected to decline from its end-2010 level of 74.4 percent of GDP in the medium run. Romania's strong political commitment to the SBA and its excellent track record servicing external obligations also provide comfort that it will fulfill its financial obligations to the Fund in a timely manner. In addition, an updated safeguards assessment, which will be completed by the time of the board meeting, found that a relatively strong safeguards framework is in place, while recommending measures to improve NFA reporting standards, sustain effective audit oversight, and enhance accounting disclosures. The authorities have agreed to implement the recommendations of the assessment.

29. **Fund staff has continued to cooperate closely with the staff of the European Commission (EC) and the World Bank (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 EC approved disbursal of the final tranche of its support program (€150 million) in May and approved their new precautionary arrangement of €1.4 billion which parallels the new Fund SBA.

V. Staff Appraisal

30. **Romania is now beginning to reap the benefits of the difficult economic adjustment undertaken over the past 2½ years.** The economic recovery is now taking root, with booming exports and a gradual recovery in domestic demand. Country risk (as measured by CDS spreads) has declined significantly; capital inflows have restarted; and the currency has appreciated. Competitiveness remains adequate and growth has been mainly export driven on the strength of the core euro area recovery. Despite high NPLs, the banking sector remains liquid and well-capitalized, reflecting strong banking supervision and support from parent banks.

31. **Fiscal reforms have put the government on track to reach its 2011 fiscal deficit, but challenges remain ahead of an election year in 2012.** The difficult fiscal measures undertaken in 2010 have borne fruit in a falling deficit and overperformance vis-à-vis the program targets in 2011. Moreover, pension, social benefits, and public wage reforms should produce significant additional savings in the coming years. However, important fiscal challenges remain:

- Significant pressures remain in the **health care sector**, especially with respect to drug reimbursement policy, where further reforms are required to stay within budget constraints and to avoid further arrears accumulation.

- Successful efforts to clear **payments arrears** in the central government must be expanded to tackle the persistent arrears problems in local governments and state-owned enterprises. Clear settlement mechanisms need to be drawn up promptly to deal with these large outstanding arrears while ensuring that any financing by the central government is conditional on restructuring measures and consistent with EU regulations. SOE arrears in particular constitute a huge drag on economic activity, and their continued rise could threaten fiscal stability and macroeconomic growth.

- Growth in the **public wage bill** must continue to be restrained. While legally obliged by the Constitutional Court decision to eventually reverse the 2010 wage cuts, the authorities must do so consistent with their 2012 deficit objective and while moving to the new unified wage system. Further restructuring of public employment in line with the recent functional reviews will be crucial.

- While some progress has been made to accelerate **absorption of EU structural funds**, further reforms in capital spending are needed to prioritize scarce financial and technical resources on projects with international support and with the highest returns.

- Efforts to improve **tax administration** are advancing too slowly, leaving Romania with high tax rates collected on a relatively narrow base and a large informal sector. Over time, tax administration should allow for a gradual reduction in rates as the tax base expands.

- A declining risk premium and an environment of favorable capital flows to emerging economies provide a welcome opportunity for the authorities to step-up efforts to build deeper **fiscal financing** buffers and extend the yield curve.

32. **Sustainable economic growth will require pressing ahead with agreed reforms in economic sectors currently plagued by underperforming state firms and functioning in conditions where market forces are not fully operational.** Faster implementation of reforms in the energy market and transport sectors is needed to improve the pricing framework and provide more independent and transparent regulation. Staff welcomes the authorities' plans to adopt a more aggressive strategy for private participation in current firms and urges them to consider majority privatization in some cases to attract more investment into these sectors. The authorities should also invite private independent managerial oversight to improve governance in the SOEs. Enhanced monitoring and strengthened governance are also key steps to reverse operating losses and mounting arrears.

33. **The authorities' strongly proactive stance in banking supervision has helped forestall banking sector difficulties, but continued vigilance is needed.** With NPLs expected to continue to rise in the coming months, risks remain. These may need to be watched particularly carefully in smaller locally-owned banks without the prospect of parent support. The authorities should continue to elaborate detailed contingency plans in case of difficulties, as well as to develop procedures to use their newly enhanced bank resolution powers so as to be fully prepared in the event a bank were to face problems. The authorities also need to be prepared for the potential impact of any banking sector turbulence in the euro area periphery.

34. **The central bank should be prepared to tighten monetary policy in the coming months to assure achievement of its 2012 inflation target.** Further expected hikes in administered prices, rising core inflation, and increasing inflation expectations all suggest an elevated risk of second-round effects. As a first step, the authorities should increase open market operations to mop up excess liquidity and bring market interest rates closer to the policy rate. An increase in the policy rate, possibly supported by higher reserve requirements, may well be necessary soon. Staff recognizes the authorities' concern regarding volatile capital inflows, but sees inflation as the greater danger at this time. In this context, the latest reduction in the reserve requirements for forex deposits appears to have been counterproductive. Going forward, some differential between reserve requirement in local currency and FX should be maintained to help discourage excessive FX credit growth. The NBR should also avoid letting considerations of its own balance sheet unduly affect its monetary policy decisions.

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

Box 3. The Stand-By Arrangement

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

Length: 24 months.

Phasing: SDR 60 million was made available after the arrangement became effective on March 31, 2011. SDR 430 million will be made available subject to the completion of this review. Seven subsequent disbursements, totally SDR 2600.6 million, are contingent upon completion of the second to the eighth reviews.

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

- ***Prior Action***

➢ Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs.[1] *(reset from structural benchmark for April 30, 2011)*

➢ Pass the ordinance on ANAF restructuring. *(proposed)*

➢ Approval of a government ordinance separating the CUG prices between households and non-residential customers and allowing ANRE full autonomy to adjust the CUG price to non-residential customers. *(proposed)*

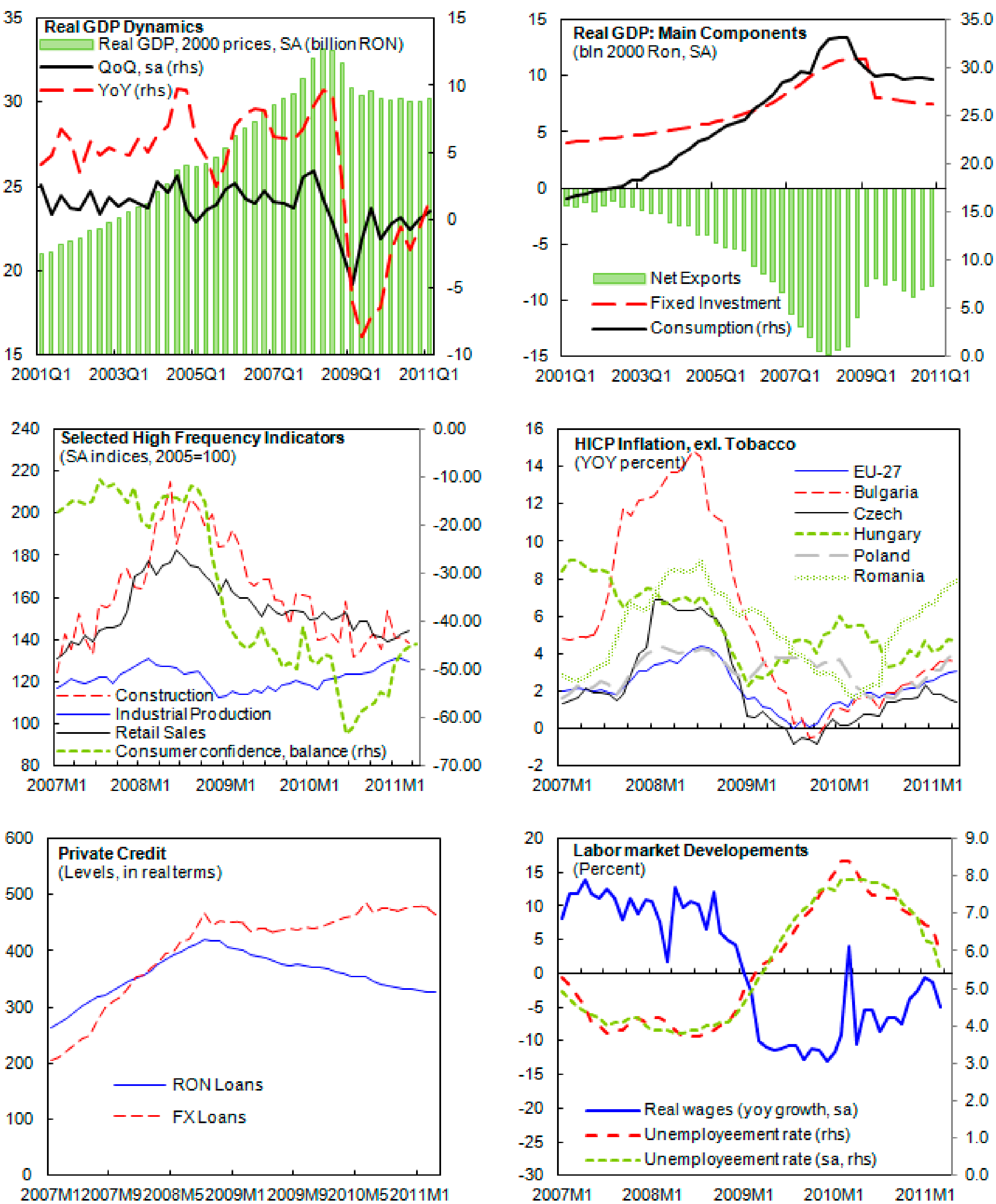
[1] For local government SOEs, the stocktaking of arrears and unpaid bills as of end-December will be completed by end-June 2011.

Box 3. The Stand-By Arrangement (continued)

Structural Benchmarks

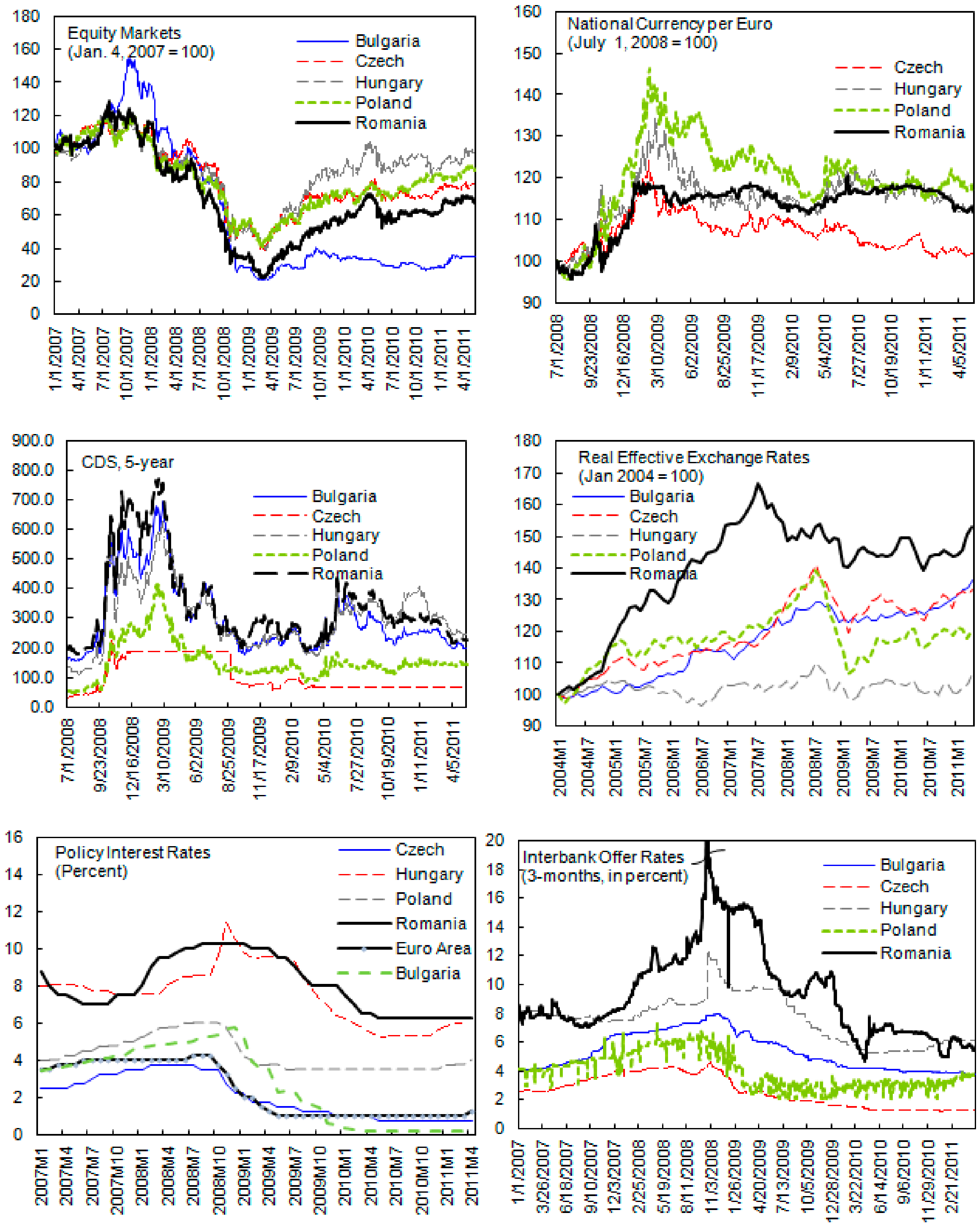
- Preparation of strategic action plans for key SOEs (as specified in TMU) *April 30, 2011*
- Undertake SOE reforms, including (i) appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; and (iii) design of mechanisms to facilitate restructuring and securitizing SOE arrears. *July 15, 2011 (proposed)*
- Approve legislation, by government ordinance or the Parliament, to improve governance of SOEs. *Aug. 31, 2011 (proposed)*
- Elimination of the legal basis of *stimulente* funds, effective January 1, 2012. *August. 31, 2011 (reset from June 30, 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 plan. *September 30, 2011.*
- Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions. *November 30, 2011 (reset from July 31, 2011)*
- 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. *December 31, 2011 (reset from June 30, 2011)*

Figure 1. Romania: Recent Economic Trends



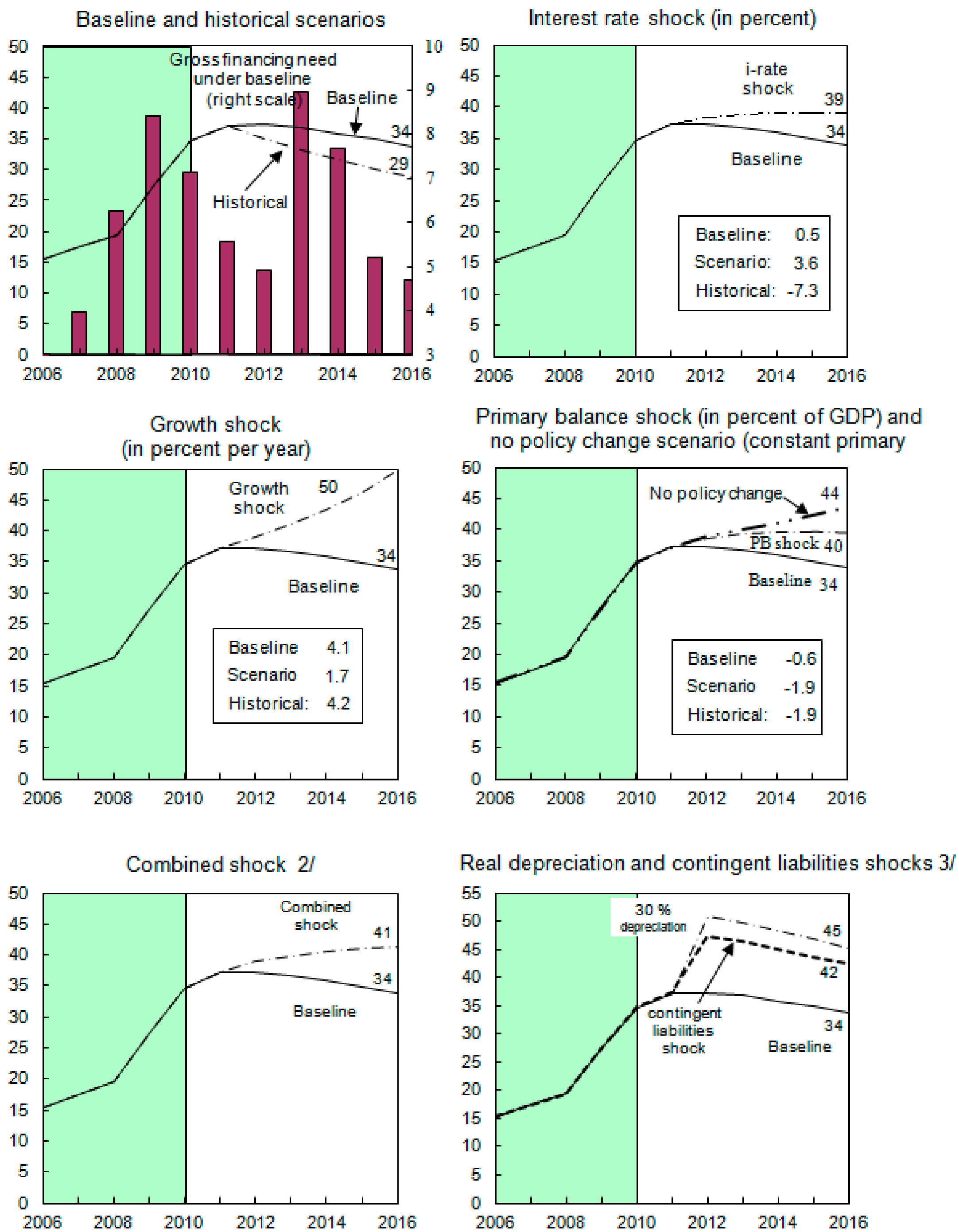
Source: Haver; Staff Estimates.

Figure 2. Romania: Financial Developments



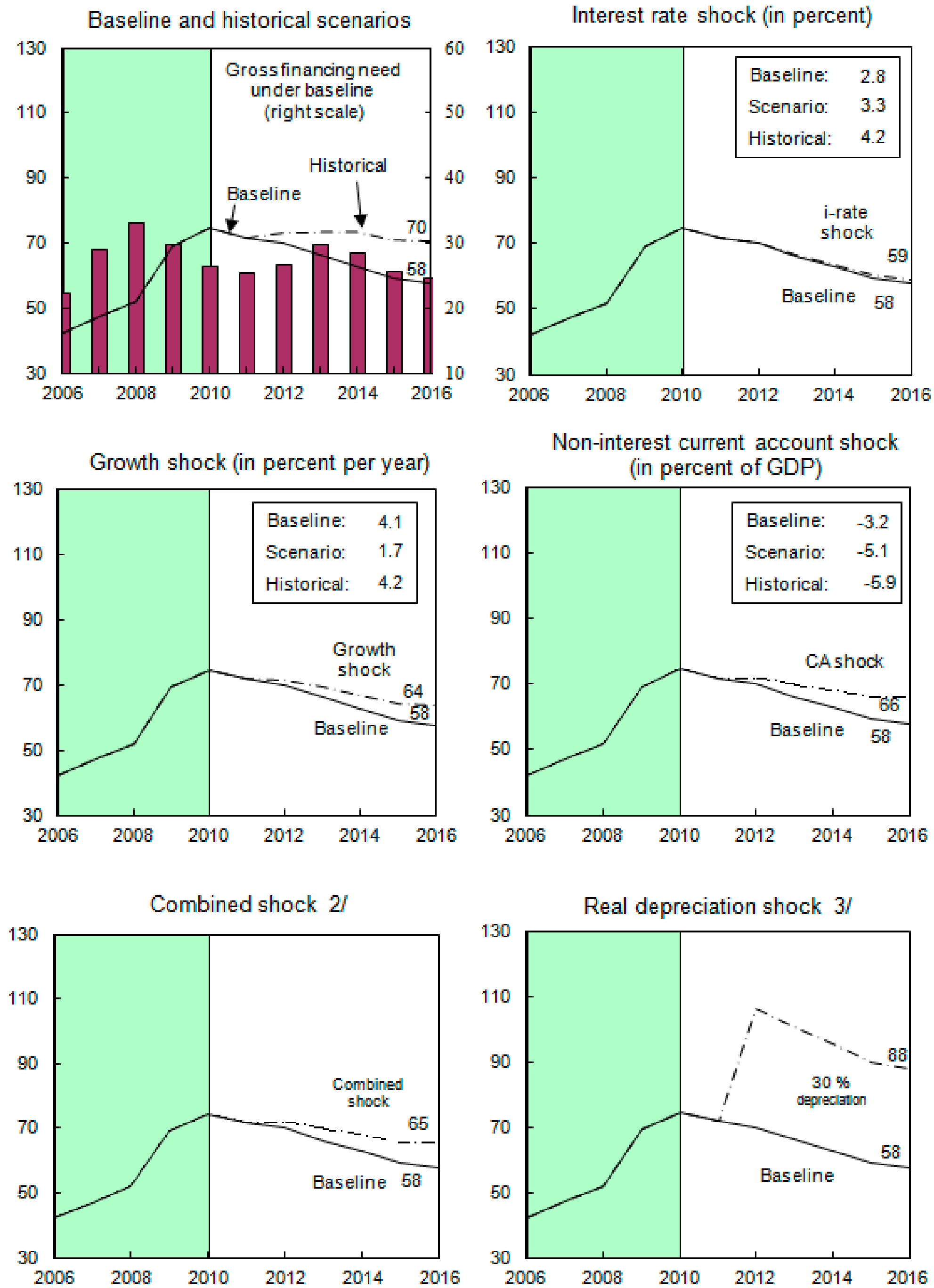
Source: Bloomberg; Haver.

Figure 3. 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 4. 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 2010.

Table 1. Romania: Quantitative Program Targets

	2010	2011				
	Dec	March		June	Sept	Dec
	Actual	Prog.	Prelim.	Prog.	Prog.	Indicative
I. Quantitative Performance Criteria						
1. Change in net foreign assets (mln euros) 1/ 2/ 3/	20,026	-50	119	250	500	500
2. Floor on general government overall balance (mln lei) 4/ 5/	-33,621	-7,289	-5,254	-12,600	-17,500	-23,953
3. Stock of central government and social security arrears (bn lei)	0.19	0.20	0.13	0.20	0.15	0.10
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	14.0	8.1	14.0	14.0	14.0
II. Continuous Performance Criterion						
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0
III. Inflation Consultation						
6. 12-month rate of inflation in consumer prices						
Outer band (upper limit)	…	9.0	…	8.8	6.2	5.7
Inner band (upper limit)	…	8.0	…	7.8	5.2	4.7
Actual/*Center point*	8.0	*7.0*	8.0	*6.8*	*4.2*	*3.7*
Inner band (lower limit)	…	6.0	…	5.8	3.2	2.7
Outer band (lower limit)	…	5.0	…	4.8	2.2	1.7
IV. Indicative Target						
7. General government current primary spending (excl. EU funds and social assistance, mln lei) 4/	131,938	32,000	30,670	64,000	95,100	128,200
8. Operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/	-6.4	-1.7	-0.7	-2.7	-3.6	-4.0
9. Stock of arrears of key SOEs (as defined in TMU (bn. lei))	18.1	19.5	19.2	19.5	19.0	18.0
10. Stock of local government arrears (bn lei)	0.91	0.95	0.82	0.90	0.85	0.80
Memorandum Item:						
Revenue of general government, net of EU funds (mln. lei) 4/	159,141	40,100	40,238	82,250	127,000	171,000

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

Table 2. Romania: Performance for First Review and Proposed New Conditionality

Measure	Target Date	Comment
Prior actions		
1. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (¶19).	At least 5 working days before the Executive Board meeting	
2. Pass the government decision on ANAF restructuring (¶9).		
3 Approval of a government ordinance separating the CUG prices between households and non-residential customers and allowing ANRE full autonomy to adjust the CUG price to non-residential customers (¶22).		
Quantitative performance criteria		
1. Floor on general government overall balance	March 31, 2011	Met
2. Ceiling on general government guarantees	March 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	March 31, 2011	Met
4. Non-accumulation of external debt arrears	March 31, 2011	Met
5. Floor on net foreign assets	March 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	March 31, 2011	Met
2. Ceiling on local government domestic arrears	March 31, 2011	Met
3. Floor on the operating balance and ceiling on arrears of key loss-making SOEs	March 31, 2011	Met
Inflation consultation band		
Inner band	March 31, 2011	Met
Outer band	March 31, 2011	Met
Structural benchmarks		
1. Preparation of strategic action plans for key SOEs (as specified in TMU) (¶19).	April 30, 2011	Met
2. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs	April 30, 2011	Reset as prior action
3. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (¶9).	June 30, 2011	Reset to Dec. 31, 2011
4. Eliminate by government ordinance the legal basis of stimulente funds, effective January 1, 2012 (¶9).	June 30, 2011	Reset to Aug. 31, 2011
5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions (¶16).	July 31, 2011	Reset to Nov. 30, 2011
6. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan (¶11).	Sept. 30, 2011	
New structural benchmarks		
1. Undertake SOE reforms, including (i) appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz (¶21,¶23); (ii) Preparation of action plans for the remaining SOEs of the central government (¶19); (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears (¶7).	July 15, 2011	
2. Approve legislation to improve governance of SOEs (¶20).	Aug. 31, 2011	

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

	2007	2008	2009	2010	2011 Prog.	2011 Proj.	2012 Proj.
Output and prices			(Annual percentage change)				
Real GDP	6.3	7.3	-7.1	-1.3	1.5	1.5	3.9
Contributions to GDP growth							
Domestic demand	14.2	7.3	-12.9	-1.0	1.2	0.9	3.8
Net exports	-9.6	-1.0	7.5	-0.2	0.2	0.6	-0.1
Consumer price index (CPI, average)	4.8	7.8	5.6	6.1	5.4	6.8	4.6
Consumer price index (CPI, end of period)	6.6	6.3	4.7	8.0	3.7	5.7	3.6
Producer price index (end of period)	7.6	15.3	1.9	6.3	…	…	…
Unemployment rate (average)	4.3	4.0	6.3	7.6	6.6	6.1	5.8
Nominal wages	22.7	23.7	8.5	2.4	4.7	5.7	7.0
Saving and Investment			(In percent of GDP)				
Gross domestic investment	31.0	31.3	25.3	26.5	24.6	26.0	26.1
Gross national savings	17.6	19.7	21.1	22.3	19.5	21.3	21.2
General government finances							
Revenue	32.3	32.2	31.4	32.8	33.3	33.1	33.7
Expenditure	35.4	37.0	38.7	39.4	37.7	37.5	36.8
Fiscal balance	-3.1	-4.8	-7.3	-6.5	-4.4	-4.4	-3.0
Privatization proceeds 1/	0.1	0.1	0.0	0.1	0.0	0.1	0.1
External financing	0.1	0.4	2.9	2.5	2.8	2.4	1.4
Domestic financing	2.9	4.3	4.4	4.0	1.6	2.0	1.5
Structural fiscal balance 2/	-5.8	-8.3	-7.0	-5.1	-2.5	-2.7	-1.7
Gross public debt (direct debt only)	17.5	19.5	27.4	34.7	36.1	37.2	37.3
Money and credit			(Annual percentage change)				
Broad money (M3)	33.7	17.5	9.0	6.9	10.3	10.2	15.2
Credit to private sector	60.4	33.7	0.9	4.7	7.7	7.0	7.3
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	-5.0	-4.7	-4.9
Merchandise trade balance	-14.3	-13.7	-5.8	-4.9	-5.1	-4.5	-4.6
Capital and financial account balance	17.6	12.7	-2.5	1.2	5.3	3.5	8.5
Foreign direct investment balance	5.7	6.7	3.0	2.2	2.9	3.1	3.2
International investment position	-40.1	-51.8	-68.3	-61.3	-75.3	-62.6	-61.1
Gross official reserves	23.0	20.2	26.2	29.5	31.7	29.2	29.4
Gross external debt	47.1	51.8	69.0	74.4	78.9	74.0	71.9
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)	8.4	-5.0	-7.5	1.9	…	…	…
GDP deflator based (percentage change)	17.3	1.5	-8.8	0.3	…	…	…
Memorandum Items:							
Nominal GDP (in bn RON)	416.0	514.7	498.0	513.6	542.0	542.9	588.4

Social and Other Indicators

GDP per capita (current US$, 2009): $7,500; **GDP per capita, PPP** (current international $, 2009): $14,198

Unemployment rate: 5.4% (April 2011)

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, 2008–2016

	2008	2009	2010	2011 Prog.	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	1.5	3.9	4.2	4.0	4.1	4.1
Real domestic demand	7.3	-12.9	-1.0	1.2	0.9	3.8	4.2	4.2	4.3	4.3
Consumption	8.7	-7.8	-2.1	0.2	0.1	3.4	3.7	4.1	4.5	4.5
Investment	3.7	-26.2	2.7	-1.0	3.3	5.0	6.0	4.8	3.9	3.7
Exports	8.3	-5.3	13.1	7.2	7.9	7.5	9.0	8.5	8.5	8.5
Imports	7.9	-20.9	11.6	6.7	5.5	6.9	8.5	8.7	8.7	8.7
Consumer price index (CPI, average)	7.8	5.6	6.1	5.4	6.8	4.6	3.1	3.0	3.0	3.0
Consumer price index (CPI, end of period)	6.3	4.7	8.0	3.7	5.7	3.6	3.0	3.0	3.0	3.0
Saving and investment (in percent of GDP)										
Gross national saving	19.7	21.1	22.3	19.5	21.3	21.2	21.8	22.5	22.8	23.0
Government	1.5	-0.8	0.8	2.7	2.8	4.5	5.3	6.0	5.5	5.1
Private	18.2	21.9	21.5	16.8	18.4	16.7	16.5	16.5	17.3	17.9
Gross domestic investment	31.3	25.3	26.5	24.6	26.0	26.1	26.8	27.5	27.8	28.0
Government	6.3	6.5	7.4	7.1	7.1	7.5	8.3	8.6	7.9	7.3
Private	25.0	18.8	19.1	17.4	18.9	18.6	18.5	18.9	19.9	20.7
General government (in percent of GDP)										
Revenue	32.2	31.4	32.8	33.3	33.1	33.7	33.9	33.9	33.2	32.6
Tax revenue	18.4	17.8	18.1	18.9	18.8	18.8	18.8	18.8	18.8	18.7
Non-Tax revenue	3.1	2.9	3.9	3.5	3.5	3.7	3.6	3.6	3.6	3.6
Grants	0.9	1.0	1.8	1.6	1.6	2.4	2.7	2.8	2.2	1.8
Expenditure	37.0	38.7	39.4	37.7	37.5	36.8	36.6	36.1	35.2	34.3
Fiscal balance	-4.8	-7.3	-6.5	-4.4	-4.4	-3.0	-2.7	-2.2	-2.0	-1.7
Structural fiscal balance 1/	-8.3	-7.0	-5.1	-2.5	-2.7	-1.7	-1.7	0.0	0.0	0.0
Gross public debt (direct debt only)	19.5	27.4	34.7	36.1	37.2	37.3	36.8	35.9	34.9	33.8
Monetary aggregates (annual percent change)										
Broad money	17.5	9.0	6.9	10.3	10.2	15.2	15.0	15.2	14.8	15.1
Domestic credit	33.7	0.9	4.7	7.7	7.0	7.3	7.4	9.7	11.1	11.4
Balance of payments (in percent of GDP)										
Current account	-11.6	-4.2	-4.1	-5.0	-4.7	-4.9	-5.0	-5.0	-5.0	-5.0
Trade balance	-13.7	-5.8	-4.9	-5.0	-4.5	-4.6	-4.6	-4.5	-4.6	-4.5
Services balance	0.5	-0.2	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Income balance	-2.7	-1.6	-1.6	-2.2	-2.4	-2.6	-2.6	-2.7	-2.9	-3.0
Transfers balance	4.3	3.5	2.8	2.8	2.6	2.6	2.7	2.7	2.9	3.0
Capital and financial account balance	12.8	-1.9	1.2	5.0	3.5	8.5	9.0	8.8	6.2	6.7
Foreign direct investment, balance	6.7	3.0	2.2	2.9	3.1	3.2	3.2	3.3	3.3	3.4
Memorandum items:										
Gross international reserves (in billions of euros)	28.3	30.9	36.0	40.4	38.4	42.1	43.9	45.8	46.6	50.3
Gross international reserves (in months of next year's imports)	7.8	7.4	7.7	8.0	7.5	7.5	7.1	6.8	6.3	6.3
International investment position (in percent of GDP)	-51.8	-68.3	-61.3	-75.3	-62.6	-61.1	-61.8	-62.0	-60.0	-59.0
Real effective exchange rate, CPI based	-5.0	-7.5	1.9	-0.2	5.5	1.7	2.7	2.7	2.2	2.0
External debt (in percent of GDP)	51.8	69.0	74.4	78.9	74.0	71.9	67.5	63.5	59.4	57.2
Short-term external debt (in percent of GDP)	14.7	13.1	15.3	15.9	14.9	14.6	14.1	13.7	13.3	13.0
Terms of trade (percent change)	3.1	0.2	2.5	1.5	-0.2	-0.9	-0.9	0.1	0.1	0.1
Nominal GDP (in millions of lei)	514,700	498,008	513,641	542,035	542,920	588,407	643,032	699,761	762,248	829,404
Nominal GDP (in millions of Euros)	139,666	117,558	122,062	127,237	131,329	143,012	158,588	175,549	194,242	214,338
Output Gap	10.0	-0.8	-3.7	-5.2	-4.6	-3.5	-2.3	-1.4	-0.6	0.0

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

1/ Actual fiscal balance adjusted for the automatic effects of internal imbalance (output gap) and external imbalance (absorption gap) on the fiscal position.

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	-6.4	-6.2	-7.0	-7.9	-8.8	-9.7	-10.7
Merchandise trade balance	-19.1	-6.9	-6.0	-6.4	-6.0	-6.6	-7.2	-8.0	-9.0	-9.8
Exports (f.o.b.)	33.7	29.1	37.3	41.1	42.2	46.2	50.6	55.3	60.7	66.6
Imports (f.o.b.)	52.8	36.0	43.2	47.5	48.2	52.8	57.9	63.3	69.7	76.3
Services balance	0.7	-0.3	-0.6	-0.8	-0.5	-0.6	-0.7	-0.7	-0.8	-0.9
Exports of non-factor services	8.8	7.1	6.5	7.0	7.4	8.1	8.8	9.7	10.6	11.6
Imports of non-factor services	8.1	7.4	7.1	7.8	7.9	8.7	9.5	10.4	11.4	12.5
Income balance	-3.7	-1.9	-1.9	-2.1	-3.2	-3.7	-4.2	-4.8	-5.5	-6.4
Receipts	2.3	1.2	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Payments	6.0	3.1	2.9	3.2	4.3	4.8	5.4	6.0	6.8	7.7
Current transfer balance	6.0	4.1	3.4	2.9	3.4	3.8	4.2	4.7	5.6	6.4
Capital and financial account balance	17.8	-2.9	1.5	6.7	4.6	12.2	14.3	15.4	12.0	14.3
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	2.7	3.7	4.1	4.5	5.1	5.7	6.5	7.3
Portfolio investment balance	-0.9	0.5	0.7	2.0	3.4	1.8	2.7	2.6	-1.0	-1.0
Other investment balance	8.7	-7.6	-2.1	0.4	-3.5	5.3	6.0	6.5	6.0	8.5
General government 1/	0.2	-0.5	-0.1	-0.3	-1.4	0.0	0.0	-0.2	-1.5	0.0
Domestic banks	3.0	-5.5	0.6	0.0	-0.3	1.2	1.4	1.5	1.7	1.9
Other private sector	5.5	-1.6	-2.7	0.8	-1.7	4.1	4.6	5.1	5.8	6.5
Errors and omissions	-1.7	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective financing	...	2.1	3.7	3.2	3.2	...	...	...	...	...
European Commission	...	1.5	2.2	1.4	1.4	...	...	...	...	...
World Bank	...	0.3	0.0	0.7	0.7	...	...	...	...	...
EIB/EBRD/IFC	...	0.3	1.5	1.2	1.2	...	...	...	...	...
Overall balance	0.0	-6.7	-0.7	3.5	1.6	5.2	6.4	6.7	2.3	3.7
Financing	0.0	6.7	0.7	-3.5	-1.6	-5.2	-6.4	-6.7	-2.3	-3.7
Gross international reserves (increase: -)	0.0	-1.1	-3.6	-4.4	-2.5	-3.7	-1.8	-1.9	-0.9	-3.7
Use of Fund credit, net	0.0	6.8	4.3	0.9	0.9	-1.5	-4.7	-4.7	-1.4	0.0
Purchases 2/	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	-4.7	-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	-5.0	-4.7	-4.9	-5.0	-5.0	-5.0	-5.0
Foreign direct investment balance	6.7	3.0	2.2	2.9	3.1	3.2	3.2	3.2	3.3	3.4
Merchandise trade balance	-13.7	-5.8	-4.9	-5.1	-4.5	-4.6	-4.6	-4.5	-4.6	-4.5
Exports	24.1	24.7	30.6	32.3	32.1	32.3	31.9	31.4	31.2	30.9
Imports	37.8	30.6	35.4	37.4	36.7	36.9	36.4	36.0	35.8	35.4
Gross external financing requirement	33.1	29.7	26.5	26.9	26.1	27.4	30.3	28.6	25.6	24.4
				(Annual percentage change)						
Terms of trade (merchandise)	3.1	0.2	2.7	-0.7	1.5	-0.2	-0.9	-0.9	0.1	0.1
Export volume	8.3	-5.3	13.1	7.2	7.9	7.6	8.2	8.3	8.1	8.1
Import volume	7.9	-20.9	11.6	6.7	5.5	6.9	8.4	8.0	8.3	8.3
Export prices	18.7	3.3	6.0	2.8	5.0	1.6	1.0	0.8	1.3	1.3
Import prices	15.4	3.7	3.2	3.6	3.6	1.9	1.9	1.6	1.2	1.2
				(In billions of euros)						
Gross international reserves 2/	28.3	30.9	36.0	40.4	38.4	42.1	43.9	45.8	46.6	50.3
GDP	139.7	117.6	122.1	127.2	131.3	143.0	158.9	176.1	194.8	215.6

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, and issuance of €1 billion Eurobond

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	Year	2011-12
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
I. Total financing requirements	**37.6**	**8.8**	**10.4**	**8.7**	**10.7**	**38.8**	**39.6**	**78.3**
I.A. Current account deficit	5.0	0.6	2.3	1.8	1.4	6.2	7.0	13.3
I.B. Short-term debt	20.8	6.0	5.8	4.8	5.7	22.4	23.0	45.4
Public sector	4.5	1.9	0.6	0.6	0.6	3.7	4.2	7.9
Banks	11.2	3.0	3.8	2.8	3.8	13.4	13.2	26.6
Corporates	5.1	1.1	1.4	1.4	1.3	5.3	5.6	10.9
I.C. Maturing medium- and long-term debt	11.3	1.6	2.1	1.8	3.3	8.8	9.7	18.5
Public sector	1.7	0.3	0.2	0.2	0.2	1.0	1.1	2.1
Banks	3.1	0.2	0.6	0.5	0.6	1.9	2.1	4.0
Corporates	6.5	1.1	1.3	1.1	2.5	5.9	6.5	12.5
I.D. Other net capital outflows 1/	0.5	0.6	0.2	0.3	0.2	1.3	-0.1	1.2
II. Total financing sources	**34.2**	**8.3**	**9.8**	**8.2**	**10.9**	**37.2**	**45.0**	**82.2**
II.A. Foreign direct investment, net	2.6	0.4	1.2	1.8	0.7	4.1	4.5	8.6
II.B. Capital account inflows	0.2	0.1	0.1	0.2	0.2	0.6	0.5	1.1
II.C. Short-term debt	23.3	6.5	5.9	4.9	5.7	23.0	26.2	49.2
Public sector	5.5	2.5	0.6	0.6	0.6	4.2	4.2	8.3
Banks	12.5	2.8	3.8	2.8	3.8	13.2	14.5	27.7
Corporates	5.3	1.2	1.5	1.5	1.4	5.6	7.5	13.1
II.D. Medium- and long-term debt	8.1	1.3	2.6	1.4	4.2	9.5	13.7	23.3
Public sector	1.9	0.3	1.3	0.1	1.4	3.0	2.8	5.8
Banks	2.3	0.6	0.6	0.5	0.6	2.3	2.1	4.4
Corporates	3.9	0.4	0.8	0.9	2.2	4.3	8.8	13.1
III. Increase in gross reserves	3.5	1.8	0.1	0.2	0.5	2.5	3.9	6.5
IV. Financing Gap	**8.0**	**2.4**	**0.7**	**0.7**	**0.3**	**4.1**	**-1.5**	**2.6**
V. Program financing	**8.0**	**2.4**	**0.7**	**0.7**	**0.3**	**4.1**	**-1.5**	**2.6**
IMF 2/	4.3	0.9	0.0	0.0	0.0	0.9	-1.5	-0.6
Purchases	4.3	0.9	0.0	0.0	0.0	0.9	0.0	0.9
Repurchases							-1.5	-1.5
Others	3.7	1.5	0.7	0.7	0.3	3.2	0.0	3.2
European Commission	2.2	1.2	0.2	0.0	0.0	1.4	0.0	1.4
World Bank	0.0	0.0	0.3	0.4	0.0	0.7	0.0	0.7
EIB/EBRD/IFC	1.5	0.3	0.3	0.3	0.3	1.2	0.0	1.2
Memorandum items:								
Rollover rates for amortizing debt ST (in percent)								
Public sector	122	132	93	93	93	113	100	106
Banks	112	93	100	100	100	99	110	104
Corporates	104	109	107	107	107	105	135	121
Rollover rates for amortizing debt MLT (in percent)								
Public sector	112	100	554	33	564	302	260	280
Banks	74	300	100	100	100	121	100	110
Corporates	60	36	60	80	90	72	135	105
Gross international reserves 3/	36.0	…	…	…	…	38.4	42.1	…
Coverage of gross international reserves								
- Months of imports of GFNS (next year)	6.2	…	…	…	…	6.1	6.7	…
- Short-term external debt (in percent)	115.1	…	…	…	…	117.7	100.9	…

Source: IMF staff estimates.

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

2/ Last disbursement of the current program is treated as precautionary.

3/ Operation definition.

Table 7. Romania: General Government Operations, 2008–12
(In percent of GDP)

	2008	2009	2010	2011 Prog.	2011 Proj.	2012 Proj.
Revenue	32.2	31.4	32.8	33.3	33.1	33.7
Taxes	27.9	27.4	27.0	28.1	27.9	27.6
Taxes on profits	2.8	2.7	2.1	2.0	1.9	1.9
Taxes on income	3.6	3.7	3.5	3.5	3.5	3.5
Value-added taxes	7.9	6.9	7.6	8.5	8.5	8.5
Excises	2.7	3.1	3.4	3.4	3.4	3.4
Customs duties	0.2	0.1	0.1	0.1	0.1	0.1
Social security contributions	9.5	9.6	8.9	9.2	9.1	8.8
Other taxes	1.2	1.2	1.3	1.4	1.3	1.3
Nontax revenue	3.1	2.9	3.9	3.5	3.5	3.7
Capital revenue	0.2	0.1	0.1	0.1	0.1	0.1
Grants, including EU disbursements	0.9	1.0	1.8	1.6	1.6	2.4
Expenditure	37.0	38.7	39.4	37.7	37.5	36.8
Current expenditure	32.5	34.8	35.7	33.9	33.7	33.0
Compensation of employees	8.9	9.4	8.3	7.5	7.5	7.2
Maintenance and operations	6.2	5.6	5.8	5.4	5.5	5.2
Interest	0.7	1.2	1.4	1.8	1.7	1.7
Subsidies	1.5	1.4	1.3	1.1	1.1	0.9
Transfers 1/	15.1	16.7	18.5	17.8	17.6	17.8
Pensions 2/	6.4	8.0	8.2	8.7	8.6	8.5
Other social transfers	4.1	4.8	5.2	3.9	3.9	3.7
Other transfers 3/ 4/	3.4	3.4	4.6	4.7	4.6	5.1
o\w contribution to EU budget	0.9	1.1	1.0	1.1	1.1	1.0
o\w pre-accession EU funds	0.0	0.6	0.8	0.2	0.2	0.0
Other spending	1.2	0.5	0.6	0.4	0.4	0.5
Proj. with ext. credits	0.0	0.4	0.3	0.4	0.4	0.2
Capital expenditure 5/	4.6	4.4	3.8	3.7	3.7	3.7
Reserve fund	0.0	0.0	0.0	0.0	0.0	0.1
Net lending	-0.1	-0.5	-0.1	0.0	0.0	0.0
Fiscal balance	-4.8	-7.3	-6.5	-4.4	-4.4	-3.0
Primary balance	-4.1	-6.1	-5.1	-2.7	-2.7	-1.3
Financing	4.8	7.3	6.5	4.4	4.4	3.0
Privatization proceeds 6/	0.1	0.0	0.1	0.0	0.1	0.1
External	0.4	2.9	2.5	2.8	2.4	1.4
Domestic	4.3	4.4	4.0	1.6	2.0	1.5
Financial liabilities						
Gross public debt 7/	21.3	29.6	37.7	37.7	40.1	40.0
Gross public debt excl. guarantees	19.5	27.4	34.7	36.1	37.2	37.3
External	6.9	10.0	13.1	16.3	14.8	15.1
Domestic	12.6	17.4	21.5	19.8	22.4	22.2
Memorandum items:						
Total capital spending	6.3	6.5	7.4	7.1	7.1	7.3
Fiscal balance (ESA95 basis)	-5.3	-8.3	...	...	...	...
Output gap 8/	10.0	-0.8	-3.7	-5.3	-4.6	-3.5
Conventional structural fiscal balance	-8.3	-7.0	-5.1	-2.5	-2.7	-1.7
Nominal GDP (in billions of RON)	514.7	498.0	513.6	542.0	542.9	588.4

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

1/ Increase in 2009 mostly reflects higher EU-financed capital spending and budgeted rise in pensions.

2/ Projected increase in pensions in 2011 is due to a reclassification of some pensions from the state budget to the pension fund.

3/ Includes co-financing of EU projects.

4/ In 2011, projected increase is due to higher outlays in state aid and transfers to state

5/ Does not include all capital spending.

6/ Excludes receipts from planned privatizations under the program.

7/ Total public debt, including government debt, local government debt, and guarantees.

8/ Percentage deviation of actual from potential GDP.

Table 7. Romania: General Government Operations, 2008–12 (concluded)
(In millions of RON)

	2008	2009	2010	2011 Prog.	2011 Proj.	2012 Proj
Revenue	165,549	156,373	168,635	180,329	179,725	198,568
Taxes	143,855	136,350	138,667	152,124	151,520	162,144
Taxes on profits	14,426	13,466	10,969	10,850	10,430	11,304
Taxes on income	18,523	18,551	17,957	18,827	18,828	20,405
Value-added taxes	40,874	34,322	39,246	46,232	46,232	50,181
Excises	13,646	15,646	17,312	18,502	18,652	20,215
Customs duties	962	656	574	610	614	670
Social security contributions	49,008	47,829	45,704	49,739	49,500	51,497
Other taxes	6,416	5,879	6,905	7,364	7,264	7,872
Nontax revenue	15,892	14,487	19,796	18,971	18,971	21,867
Capital revenue	1,076	546	685	477	477	517
Grants	4,702	5,057	9,494	8,757	8,757	14,040
o/w EU pre-accession funds	…	2,959	4,054	951	951	1,322
Financial operations and other	25	-67	-6	…	…	…
Expenditure	190,407	192,782	202,256	204,282	203,680	216,243
Current expenditure	167,095	173,445	183,243	183,763	183,161	193,983
Compensation of employees	45,608	46,676	42,839	40,570	40,570	42,595
Maintenance and operations	32,012	28,028	29,541	29,143	29,643	30,521
Interest	3,776	6,063	7,275	9,500	9,500	10,031
Subsidies	7,899	7,215	6,735	5,780	5,780	5,367
Transfers 1/	77,800	83,407	95,060	96,627	95,525	104,507
Pensions	33,187	39,851	42,107	47,357	46,958	50,275
Other social transfers	20,973	24,101	26,505	21,150	21,150	21,622
Other transfers 2/	17,646	16,931	23,514	25,687	24,984	29,772
o\w contribution to EU budget	4,506	5,650	5,153	6,160	6,160	6,175
o\w pre-accession EU funds		2,959	4,054	951	951	
Other spending	5,993	2,523	2,933	2,433	2,433	2,838
Proj. with ext. credits	0	2,056	1,794	2,142	2,142	963
Capital expenditure 3/	23,794	21,837	19,660	20,313	20,313	21,853
Reserve fund	0	0	0	207	207	407
Net lending	-481	-2,500	-647	0	0	0
Fiscal balance	-24,858	-36,409	-33,621	-23,953	-23,955	-17,675
Primary balance	-21,082	-30,346	-26,346	-14,453	-14,455	-7,644
Financing	24,858	36,409	33,621	23,953	23,955	17,675
Privatization proceeds	371	0	289	0	400	400
External	2,284	14,343	12,974	15,123	13,020	8,229
Domestic	22,203	22,067	20,647	8,830	10,935	9,046
Financial liabilities						
Gross public debt 4/	109,752	147,329	193,894	204,184	217,850	235,125
Gross public debt excl. guarantees	100,435	136,662	178,219	195,843	202,175	219,450
External	35,733	49,993	67,533	88,563	80,553	88,782
Domestic	64,702	86,669	110,686	107,280	121,621	130,668

Sources: Ministry of Finance; Eurostat; and Fund staff projections.
1/ Increase in 2009 mostly reflects higher EU-financed capital spending and budgeted rise in pensions.
2/ Includes co-financing of EU projects.
3/ Does not include all capital spending.
4/ Total public debt, including government debt, local government debt, and guarantees.

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

	Dec-09	Dec-10	2011 Q1	2011 Q2 Proj.	2011 Q3 Proj.	2011 Q4 Proj.	Dec-12 Proj.
			I. Banking System				
Net foreign assets	**17,684**	**18,776**	**12,348**	**11,082**	**13,907**	**25,377**	**46,829**
In million euros	4,182	4,382	3,001	2,607	3,268	5,957	11,158
o/w commercial banks	-19,708	-21,158	-21,375	-21,158	-21,158	-21,158	-21,158
Net domestic assets	**171,946**	**183,987**	**183,982**	**193,414**	**198,732**	**198,136**	**210,666**
Public sector credit	26,748	43,393	39,813	42,313	44,813	53,324	69,129
Private sector credit	199,887	209,298	203,956	217,114	220,932	223,891	240,167
Other	-54,688	-68,704	-59,787	-66,013	-67,013	-79,080	-98,630
Broad Money (M3)	**189,630**	**202,763**	**196,331**	**204,496**	**212,639**	**223,512**	**257,494**
Intermediate money (M2)	188,013	199,586	192,901	200,926	208,961	218,747	248,059
Money market instruments	1,617	3,177	3,430	3,570	3,678	4,765	9,436
Narrow money (M1)	79,361	81,605	77,759	87,271	94,005	100,872	110,961
Currency in circulation	23,968	26,793	26,238	26,946	26,677	32,582	35,841
Overnight deposits	55,394	54,812	51,521	60,325	67,329	68,290	75,120
			II. National Bank of Romania				
Net foreign assets	**101,015**	**109,433**	**100,288**	**101,028**	**103,945**	**115,508**	**135,623**
In million euros	23,891	25,540	24,377	23,765	24,426	27,115	32,316
Net domestic assets	**-49,354**	**-54,330**	**-50,408**	**-49,692**	**-50,228**	**-55,499**	**-69,611**
Public sector credit, net	-13,626	-12,795	-16,386	-19,173	-19,223	-16,795	-16,795
Credit to banks, net	-23,848	-26,148	-27,330	-23,130	-20,130	-21,130	-29,130
Other	-11,880	-15,387	-6,692	-7,389	-10,875	-17,574	-23,686
Reserve money	**51,662**	**55,103**	**49,881**	**51,336**	**53,717**	**60,009**	**66,011**
			(Annual percentage change)				
Broad money (M3)	9.0	6.9	3.3	4.8	8.6	10.2	15.2
NFA contribution	2.6	0.6	-7.2	-8.2	-5.3	3.3	9.6
NDA contribution	6.4	6.3	10.6	13.0	13.9	7.0	5.6
Reserve money	2.4	6.7	9.0	4.5	8.6	8.9	10.0
NFA contribution	-18.4	16.3	-17.1	-34.4	-13.8	11.0	33.5
NDA contribution	20.8	-9.6	26.1	38.9	22.4	-2.1	-23.5
Domestic credit, real	5.5	3.2	2.4	-0.6	5.9	5.5	8.3
Private sector, real	-3.7	-3.0	-5.0	-4.4	1.2	2.9	4.1
Public sector, real	159.7	21.9	12.7	12.7	17.1	11.7	18.5
Broad money (M3), in real terms	4.0	-1.0	-4.0	-2.7	3.5	6.0	11.8
Private deposits, at constant e/r	8.1	5.0	1.8	4.2	5.2	9.3	13.2
Private credit, nominal	0.9	4.7	2.3	3.0	6.3	7.0	7.3
Memorandum items							
CPI inflation, eop	4.7	8.0	7.6	8.5	5.6	5.7	3.6
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	…	…	…
Interbank offer rate, 1 week	10.7	3.6	3.3	…	…	…	…
Corporate loans 1/	15.4	9.5	9.8	…	…	…	…
Household time deposits 1/	9.9	7.6	7.2	…	…	…	…
Share of foreign currency private deposits	38.8	36.1	35.8	…	…	…	…
Share of foreign currency private loans	60.1	63.0	62.2	…	…	…	…
M2 velocity	2.65	2.57	2.57	2.55	2.55	2.59	2.67
Money multiplier (M3/reserve money)	3.67	3.68	3.94	3.98	3.96	3.72	3.90

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

Table 9. Romania: Financial Soundness Indicators, 2008–10
(In percent)

	2008 Dec	2009 Mar	2009 Jun	2009 Sep	2009 Dec	2010 Mar	2010 Jun	2010 Sep	2010 Dec	2011 Mar
Core indicators										
Capital adequacy										
Capital to risk-weighted assets	13.8	13.16	13.51	13.73	14.7	15.0	14.3	14.6	14.7	14.8
Tier 1 capital to risk-weighted assets	11.8	11.4	11.9	12.0	13.4	14.2	13.4	13.8	13.8	14.4
Asset quality										
Nonperforming loans (1/) to total gross loans	2.8	4.0	4.7	6.5	7.9	9.1	10.2	11.7	11.9	12.7
Nonperforming loans (1/) net of provisions to capital	10.7	15.9	24.3	8.8	11.3	12.6	14.5	16.3	15.7	15.7
Earnings and profitability										
Return on assets	1.6	-0.3	0.1	0.3	0.2	0.5	-0.1	-0.2	-0.1	0.4
Return on equity(2/)	17.0	-2.9	0.6	3.2	2.9	6.0	-1.6	-2.1	-1.0	4.9
Net interest income to operating income	44.8	38.9	38.4	41.8	44.1	55.7	58.2	58.7	58.2	59.8
Noninterest expense to operating income (cost to income)	55.7	57.1	67.2	65.4	63.9	56.5	59.2	58.6	64.1	65.6
Personnel expense to operating income	23.4	21.4	22.8	21.4	20.3	20.7	21.6	21.2	20.6	22.8
Liquidity										
Liquid assets (3/)to total assets	47.1	51.7	54.7	53.9	57.4	58.6	59.1	59.3	59.9	58.8
Liquid assets (3/) to short-term liabilities (4/)	230.5	226.3	261.9	136.3	132.0	150.0	146.7	148.7	144.6	151.8
Liquid assets (3/) to total attracted and borrowed sources	116.2	119.2	130.6	87.7	79.4	81.2	79.8	82.1	81.2	74.9
Foreign exchange risk										
Net open position in foreign exchange, in percent of capital	1.6	-2.3	-2.5	1.7	2.3	1.6	-3.2	1.4	1.3	-2.8
Lending in foreign exchange, in percent of non-gov. credit	57.8	59	59.1	59.7	60.1	60.4	62.8	62.5	63	62.2
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.3	41.8	44.1	42.8	43.6	44.7	44.1	43.5	43.7
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	37.1	35.6	37.8	38.8	37	38	37.4	36	35.6
Encouraged indicators										
Deposit-taking institutions										
Leverage ratio (5/)	8.1	6.8	6.9	7.0	7.6	8.1	7.9	7.9	7.9	7.9
Personnel expenses to noninterest expenses	41.9	37.5	33.9	32.7	31.8	36.6	36.4	36.1	32.2	34.7
Customer deposits to total (non-interbank) loans	81.9	80.2	83.9	85.1	88.7	88.3	85.1	86.0	88.1	87.1

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: Millions of SDRs	Amount of Purchase: Percent of Quota	Conditions
March 25, 2011	60.0	5.82	Approval of arrangement
June 24, 2011	430.0	41.74	First review and end-March 2011 performance criteria
September 15, 2011	430.0	41.74	Second review and end-June 2011 performance criteria
December 15, 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/	82	1,468	4,177	3,939	1,246	99
Repurchase	0	1307	4052	3881	1233	96
Charges	82	161	125	58	14	3
Prospective Fund Credit under Stand-By Arrangement						
Disbursement	1,350	1,720	21	0	0	0
Stock 2/	1,350	3,070	3,091	2,914	1,917	550
Obligations 3/	10	36	46	223	1,039	1,390
Repurchase	0	0	0	176	998	1,366
Charges	10	36	46	47	41	23
Stock of existing and prospective Fund credit						
In millions of SDR	11,919	12,332	8,301	4,243	2,013	550
In percent of quota	1,157	1,197	806	412	195	53
In percent of GDP	10.4	9.9	6.0	2.8	1.2	0.3
In percent of exports of goods and services	27.5	26.1	16.1	7.6	3.3	0.8
In percent of gross reserves	35.5	33.6	21.8	10.8	5.0	1.3
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	173	1,711	4,464	4,272	2,300	1,488
In percent of quota	16.8	166.0	433.3	414.6	223.2	144.5
In percent of GDP	0.2	1.4	3.2	2.8	1.4	0.8
In percent of exports of goods and services	0.4	3.6	8.7	7.6	3.8	2.2
In percent of gross reserves	0.5	4.7	11.7	10.8	5.8	3.5

Source: IMF staff estimates.

1/ Using IMF actual disbursements, SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of March 2, 2011.

2/ End of period.

3/ Repayment schedule based on repurchase obligations.

Table 12. Romania: Public Sector Debt Sustainability Framework, 2006-2016
(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/	15.4	17.5	19.5	27.4	34.7	**37.2**	**37.3**	**36.8**	**35.9**	**34.9**	**33.8**	**-1.2**
o/w foreign-currency denominated	7.1	6.6	6.5	15.0	20.4	23.2	21.5	18.2	15.1	11.7	10.1	
Change in public sector debt	-0.3	2.1	2.0	7.9	7.3	2.5	0.1	-0.5	-0.9	-1.0	-1.1	
Identified debt-creating flows (4+7+12)	-3.0	-0.1	2.7	7.9	7.8	2.5	0.1	-0.5	-0.8	-1.0	-1.1	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.0	0.5	0.2	0.0	
Revenue and grants	32.3	32.3	32.2	31.4	32.8	33.1	33.7	33.9	33.9	33.2	32.6	
Primary (noninterest) expenditure	32.9	34.6	36.3	37.5	38.0	35.8	35.0	34.9	34.4	33.4	32.7	
Automatic debt dynamics 2/	-3.1	-2.3	-1.3	1.8	2.7	-0.1	-1.2	-1.5	-1.3	-1.2	-1.1	
Contribution from interest rate/growth differential 3/	-1.7	-1.9	-2.6	1.9	0.6	-0.1	-1.2	-1.5	-1.3	-1.2	-1.1	
Of which contribution from real interest rate	-0.7	-1.1	-1.6	0.4	0.2	0.4	0.2	0.0	0.0	0.1	0.2	
Of which contribution from real GDP growth	-1.0	-0.8	-1.0	1.4	0.3	-0.5	-1.3	-1.4	-1.4	-1.4	-1.3	
Contribution from exchange rate depreciation 4/	-1.4	-0.4	1.3	0.0	2.1	...	...	...	...	...	...	
Other identified debt-creating flows	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	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/	2.8	2.2	-0.7	0.0	-0.6	0.0	-0.1	-0.1	-0.1	0.0	0.0	
Public sector debt-to-revenue ratio 1/	47.6	54.2	60.7	87.4	105.7	112.5	110.5	108.5	105.8	105.1	103.7	
Gross financing need 6/	1.8	3.9	6.2	8.4	7.1	5.6	4.9	9.0	7.7	5.2	4.7	
in billions of U.S. dollars	2.2	6.7	12.8	13.7	11.5	10.0	9.6	19.2	18.1	13.4	13.3	
Scenario with key variables at their historical averages 7/						**37.2**	**35.1**	**33.2**	**31.5**	**30.1**	**28.8**	**-3.1**
Scenario with no policy change (constant primary balance) in 2011-2016						**37.2**	**38.8**	**39.9**	**41.0**	**42.3**	**43.6**	**-1.5**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.9	6.3	7.3	-7.1	-1.3	1.5	3.9	4.2	4.0	4.1	4.1	
Average nominal interest rate on public debt (in percent) 8/	6.1	5.8	5.2	6.0	5.3	5.3	5.0	5.0	4.9	5.2	5.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-4.5	-7.7	-10.1	1.9	0.9	1.2	0.6	0.1	0.3	0.6	0.8	
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	4.1	4.3	4.8	4.6	4.6	4.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	14.8	12.0	12.4	-3.9	0.0	-4.3	1.8	3.9	2.5	1.2	1.7	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.0	0.5	0.2	0.0	

1/ Coverage: General government gross debt, excluding 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 $r - \pi (1+g)$ 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, 2006-2016
(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	74.4	**74.0**	**71.9**	**67.3**	**63.3**	**59.2**	**57.2**	**-6.9**
Change in external debt	3.3	4.9	4.8	17.2	5.4	-0.4	-2.1	-4.6	-4.0	-4.1	-2.0	
Identified external debt-creating flows (4+8+9)	-5.4	-1.4	0.4	10.5	-1.2	-2.0	-2.1	-2.7	-2.2	-0.2	-0.2	
Current account deficit, excluding interest payments	9.2	12.2	10.1	2.4	1.7	2.6	2.9	3.1	3.2	3.5	3.6	
Deficit in balance of goods and services	12.0	14.0	13.2	6.1	5.4	4.9	5.0	5.0	4.9	5.0	5.0	
Exports	32.1	29.2	30.4	30.7	35.9	37.7	38.0	37.4	36.9	36.6	36.4	
Imports	44.2	43.2	43.6	36.8	41.2	42.7	43.0	42.4	41.9	41.6	41.3	
Net non-debt creating capital inflows (negative)	-8.6	-5.8	-6.1	-3.4	-2.8	-5.7	-4.4	-4.9	-4.7	-2.8	-2.9	
Automatic debt dynamics 1/	-6.0	-7.8	-3.6	11.5	-0.1	1.1	-0.6	-0.8	-0.7	-0.8	-0.8	
Contribution from nominal interest rate	1.2	1.2	1.5	1.8	2.5	2.1	2.1	1.9	1.7	1.5	1.4	
Contribution from real GDP growth	-2.5	-2.1	-3.1	4.4	0.8	-1.1	-2.6	-2.7	-2.4	-2.4	-2.2	
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	6.5	1.6	0.0	-1.9	-1.8	-3.9	-1.8	
External debt-to-exports ratio (in percent)	131.0	160.9	170.3	224.5	207.3	196.1	189.5	180.0	171.5	161.8	157.3	
Gross external financing need (in billions of Euros) 4/	21.7	35.9	46.2	34.9	32.3	34.2	39.2	48.2	50.3	49.9	52.5	
in percent of GDP	22.2	28.8	33.1	29.7	26.5	26.1	27.4	30.3	28.6	25.6	24.4	
Scenario with key variables at their historical averages 5/						**74.0**	**72.7**	**70.5**	**68.3**	**63.8**	**61.3**	**-9.7**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.9	6.3	7.3	-7.1	-1.3	1.5	3.9	4.2	4.0	4.1	4.1	
GDP deflator in Euros (change in percent)	13.8	19.8	4.4	-9.4	5.1	6.0	4.8	6.6	6.6	6.3	6.0	
Nominal external interest rate (in percent)	3.8	3.7	3.6	2.9	3.7	3.1	3.0	2.9	2.9	2.7	2.6	
Growth of exports (Euro terms, in percent)	19.3	15.9	16.6	-14.9	21.2	13.2	9.5	9.5	9.3	9.7	9.7	
Growth of imports (Euro terms, in percent)	25.2	24.7	13.2	-28.9	16.3	11.4	9.6	9.6	9.4	10.1	9.6	
Current account balance, excluding interest payments	-9.2	-12.2	-10.1	-2.4	-1.7	-2.6	-2.9	-3.1	-3.2	-3.5	-3.6	
Net non-debt creating capital inflows	8.6	5.8	6.1	3.4	2.8	5.7	4.4	4.9	4.7	2.8	2.9	

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 - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) 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 [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 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, June 9, 2011

Mr. John Lipsky
The Acting Managing Director
International Monetary Fund
Washington, DC, 20431
U.S.A.

Dear Mr. Lipsky:

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

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

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

- *Structural benchmarks*. Preparation of strategic action plans for key state-owned enterprises (SOEs) has been completed. We have also completed the stocktaking of arrears for the general government and state-owned enterprises, but we are awaiting final audited accounts in SOEs to fully fulfill the structural benchmark and expect to meet it by the time of the Board meeting (prior action).

3. In view of our strong performance under the macroeconomic program supported by the Stand-By Arrangement (SBA), the Government of Romania and the National Bank of

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

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

Fiscal Policy

5. For 2011, we remain committed to the cash fiscal deficit target of 4.4 percent of GDP (or within 5 percent in ESA terms) and are on track to meet it. Revenues (net of EU funds) were slightly above expectations in the first quarter, while both current and capital expenditures were below the program, allowing us to meet the deficit target with a comfortable margin. For the remainder of the year, we will continue implementing policies outlined in the previous LOI of March 10, 2011. On the expenditure side, we will continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds (¶10), if needed using the additional resources allocated to investment in the first half of the year.[1] We will maintain tight control on current spending, including by continuing to rationalize public employment (which has declined by another 15,000 to 1.25 million in the first quarter of 2011). By end-August, we will improve the legislation to provide heating allowances to target the vulnerable members of society, while generating significant savings for the budget. We have temporarily increased distribution of dividends from 2010 and 2011 profits of state-owned enterprises (SOEs), which will allow us to pay for unregistered bills uncovered in the stocktaking exercise. Should the economic recovery create sufficient fiscal space, we will consider a gradual reduction in social contributions. We will also continue our improvements in tax administration to improve the yield from existing taxes (¶9). We will improve the reporting system for the state-owned enterprises (SOEs) that are to be added to the ESA definition of the general government[2] and with the technical assistance of Eurostat, enhance our ability to measure the fiscal deficit on an accrual basis. Once this system is fully functional, we will request that the performance criterion on general government overall balance be amended to include the operating balance of these entities.

[1] As indicated in our March letter, if absorption improves sufficiently we will work on solutions to create greater fiscal space for investment from mid-2011.

[2] Specifically, we will require monthly cash revenues, expenditures, and overdue payment bills statements as well as final quarterly fiscal statements as provided by other general government entities within the same deadline.

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

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

- After verifying the validity of bills in the ***health sector***, we will repay arrears in full by end-2011. The continuation of health reforms (¶12) is paramount to precluding the accumulation of any new arrears.
- At the ***local level***, the new amendments to the local government public finance law will bar accumulation of arrears, and we will vigorously enforce the new law.
- Over the next two years the ***period for paying bills submitted*** to the central government and social security system will be gradually reduced. The EU directive 7 in this area will be transposed into Romanian law on a timely basis.
- For ***SOEs***, arrears will be dealt with by six different mechanisms: (i) nonviable firms will be moved into bankruptcy, allowing the legal procedures to handle creditor claims; (ii) firms with sufficient positive cash flow will be required to pay down

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

[4] If required, the data will be verified with the help of external audit teams.

arrears on an agreed schedule; (iii) the government will develop arrangements to cancel or forgive arrears to the state itself, (iv) in appropriate cases (and with the clearance of EU competition authorities), the government will explore capital increases and/or financial support to provide resources to pay arrears; and (v) the government will design and launch mechanisms to facilitate restructuring and securitizing SOE arrears; and (vi) where possible, debt-equity swaps or privatization proceeds could be used to cancel arrears. These mechanisms will be developed by mid-July (structural benchmark) and we will consult with IMF and EU staff and EU competition authorities in the design of these schemes. Firms' participation in them will be strictly conditioned on their successful execution of agreed action plans to assure that arrears do not re-accumulate.

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

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

9. Improving tax administration and fighting tax evasion are crucial elements of our strategy to increase revenue. We are making progress on implementing the recently approved ordinance relating to high net wealth individuals, and the government decision on indirect audit methods; however, additional efforts are needed. An organizational strategy and implementation plan for incorporating indirect audit methods into our compliance functions will be done by end-June 2011. We will pass the government decision on ANAF restructuring (prior action) that will allow us to staff the Tax Verification Directorate by July and we will close approximately 150 regional offices by end-September. We will also develop and implement a compliance risk strategy in accordance with best practices by September 2011. With help from the IMF and EC, we will introduce simplified taxation for smaller taxpayers in key economic sectors under the threshold, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (structural benchmark, end-December 2011). We are planning expansion of e-filing and further simplification of tax forms and the number of payments required with a view to providing a

one-stop shop for tax payments. We will continue our efforts to introduce IT systems and consolidate the IT department in ANAF to improve tax administration. We will also improve the activity of the central point for screening and referral of potential cases of tax fraud and will continue to strengthen guidelines for identification of tax fraud. Having incorporated the *stimulente* into the base wage, we have prepared the government ordinance to eliminate the legal basis of all *stimulente* funds effective January 1, 2012 and will pass it by end-August (structural benchmark). To encourage tax collection efforts, performance bonuses may be granted to tax collectors within the 30 percent bonus limit (as defined in the implementing legislation) for sustained improvements in revenues.

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

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

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

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

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

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

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

- ***Pharmaceutical expenditures.*** Significant savings are already anticipated through reference prices and the greater use of generic drugs on schedules A, B, C1, and C3. For the C2 schedule, we will develop procedures and mechanisms that will lead to a reduction in the spending on these drugs, including settlement prices, and wherever possible, a revision of the list of compensated and free drugs and moving to generics. For 2012, pharmaceutical costs of the most expensive drugs will be further controlled by applying strict drug use protocols and a new electronic prescription module for the National Health Information System, following strict procedures.

- ***Physician expenditures.*** We have reduced the share of per-capita reimbursement of primary care physicians from 70 to 50 percent. We have also begun producing indicative caps for quarterly services contracted with hospitals and physicians—as well as prescriptions issued—and will develop financial incentives for physicians who remain within the ceilings.

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

Financial Sector

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

16. We continue to review the DGF, banking and winding-up legislation and will make any changes necessary to ensure their mutual consistency. Parliamentary ratification of earlier amendments to the winding-up legislation remains to be completed. The passage of amendments to the Deposit Guarantee Fund (DGF) law to allow for the use of the resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorized by the National Bank of Romania regarding the transfer of deposits, including purchase and assumptions, if such use would be less costly than the direct payment of deposit guarantees, has been delayed by ongoing discussions on bank resolution issues with staff of the European Commission and the Fund. Accordingly we now anticipate completing this structural benchmark by end-November 2011 (modified benchmark). We have finished the testing stage for expanding the range of collateral eligible for NBR lending operations to include leu-denominated IFI issued bonds and euro-denominated sovereign bonds; implementation is expected by end-May.

17. We remain committed to the introduction of IFRS accounting standards in the banking system beginning in 2012. To achieve this, by end-June the NBR will release for

consultation draft proposals for prudential filters that would preserve prudent bank solvency, provisions, and reserves. The authorities will ensure, by the end of 2011, that the prudential treatment of debt-for-equity swaps does not result in a weakening of banks' financial positions[5] and impose requirements for banks to have in place methodologies for valuing the equity at the lowest value applicable according to the accounting treatment. The NBR will also consult the industry on regulatory proposals to ensure that foreign currency credit to households is appropriately priced in order to reflect the risk represented by lending in foreign currency to unhedged borrowers. We will continue to consult with the IMF and EC staff before introducing or amending other aspects of the regulatory framework and make efforts to avoid adopting legislative initiatives, such as the current draft of the personal insolvency law or proposals for the debt collecting law, which could undermine debtor discipline.

Monetary and Exchange Rate Policy

18. The NBR's 2011 inflation target is now unlikely to be met due to the unexpected surge in international food and energy prices, as well as the envisaged adjustment of administered prices in the remainder of the year. The inflation consultation band with the Fund is also likely to be triggered later in the year. We now expect inflation to peak at 8½ percent in mid-year, before gradually declining to slightly above 5 percent by the end of 2011[6]. While increases in core inflation (net of the VAT increase) remain limited so far, continued high headline inflation presents risks of rising inflationary expectations and consequent second round effects. To forestall such pressures, we will shift our monetary policy stance to a tightening bias and take action as needed to ensure 2012 inflation target is met. In particular, we will continue to improve our liquidity management so as to bring money market rates closer to the policy rate. At the same time, the NBR would remain alert to the potential risks of the return of significant capital inflows as the economy recovers. The leu appreciation (about 4 percent against the euro) in recent months has helped moderate inflationary pressures without as yet causing significant competitiveness effects.

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

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

Structural reforms

State-Owned Enterprises

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

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

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

Roads (CNADNR)

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

Railways

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

maintenance on lines for another 20 percent of the system or close them. All subsidiaries except those specified in the TMU will be integrated into the mother company by end-September. Insolvency procedures will continue in the Tipografia subsidiary, while the Telecomunicatii and GEI Palat subsidiaries will be folded into the Ministry of Transport.

Metropolitan transit

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

Air transport

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

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

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

other competitive procedures (gas), and that prices in existing contracts will be adjusted to prevailing market rates as quickly as legally permissible. If EU infringement procedures require faster action, we will comply with their requirements.

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

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

Labor Markets

25. We have made substantial reforms in the labor legislation. The new Labor Code, which has entered into force on April 30th, aims to improve labor market flexibility by promoting fixed-term and temporary employment, extending probation periods, and increasing the flexibility of working hours. The Social Dialogue Code, which modifies collective bargaining and other labor relations, has recently been cleared by the Constitutional Court and will soon be promulgated. Key elements of the social dialogue

reform include raising the representativity thresholds for both trade unions and employers' associations, abolishing the collective bargaining at national level, and elimination of the automatic *erga-omnes* extension at sectoral level. We are committed to ensuring that the new legislation observes EU directives and core ILO and EU conventions.

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

Program modifications and monitoring

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

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

Attachments

Table 1. Romania: Quantitative Program Targets

	2010	2011				
	Dec	March		June	Sept	Dec
	Actual	Prog.	Prelim.	Prog.	Prog.	Indicative
I. Quantitative Performance Criteria						
1. Change in net foreign assets (mln euros) 1/ 2/ 3/	20,026	-50	119	250	500	500
2. Floor on general government overall balance (mln lei) 4/ 5/	-33,621	-7,289	-5,254	-12,600	-17,500	-23,953
3. Stock of central government and social security arrears (bn lei)	0.19	0.20	0.13	0.20	0.15	0.10
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	14.0	8.1	14.0	14.0	14.0
II. Continuous Performance Criterion						
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0
III. Inflation Consultation						
6. 12-month rate of inflation in consumer prices						
Outer band (upper limit)	…	9.0	…	8.8	6.2	5.7
Inner band (upper limit)	…	8.0	…	7.8	5.2	4.7
Actual/*Center point*	8.0	*7.0*	8.0	*6.8*	*4.2*	*3.7*
Inner band (lower limit)	…	6.0	…	5.8	3.2	2.7
Outer band (lower limit)	…	5.0	…	4.8	2.2	1.7
IV. Indicative Target						
7. General government current primary spending (excl. EU funds and social assistance, mln lei) 4/	131,938	32,000	30,670	64,000	95,100	128,200
8. Operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/	-6.4	-1.7	-0.7	-2.7	-3.6	-4.0
9. Stock of arrears of key SOEs (as defined in TMU (bn. lei))	18.1	19.5	19.2	19.5	19.0	18.0
10. Stock of local government arrears (bn lei)	0.91	0.95	0.82	0.90	0.85	0.80
Memorandum Item:						
Revenue of general government, net of EU funds (mln. lei) 4/	159,141	40,100	40,238	82,250	127,000	171,000

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

Table 2. Romania: Performance for First Review and Proposed New Conditionality

Measure	Target Date	Comment
Prior actions		
1. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (¶19).	At least 5 working days before the Executive Board meeting	
2. Pass the government decision on ANAF restructuring (¶9).		
3 Approval of a government ordinance separating the CUG prices between households and non-residential customers and allowing ANRE full autonomy to adjust the CUG price to non-residential customers (¶22).		
Quantitative performance criteria		
1. Floor on general government overall balance	March 31, 2011	Met
2. Ceiling on general government guarantees	March 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	March 31, 2011	Met
4. Non-accumulation of external debt arrears	March 31, 2011	Met
5. Floor on net foreign assets	March 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	March 31, 2011	Met
2. Ceiling on local government domestic arrears	March 31, 2011	Met
3. Floor on the operating balance and ceiling on arrears of key loss-making SOEs	March 31, 2011	Met
Inflation consultation band		
Inner band	March 31, 2011	Met
Outer band	March 31, 2011	Met
Structural benchmarks		
1. Preparation of strategic action plans for key SOEs (as specified in TMU) (¶19).	April 30, 2011	Met
2. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs	April 30, 2011	Reset as prior action
3. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (¶9).	June 30, 2011	Reset to Dec. 31, 2011
4. Eliminate by government ordinance the legal basis of stimulente funds, effective January 1, 2012 (¶9).	June 30, 2011	Reset to Aug. 31, 2011
5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions (¶16).	July 31, 2011	Reset to Nov. 30, 2011
6. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan (¶11).	Sept. 30, 2011	
New structural benchmarks		
1. Undertake SOE reforms, including (i) appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz (¶21,¶23); (ii) Preparation of action plans for the remaining SOEs of the central government (¶19); (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears (¶7).	July 15, 2011	
2. Approve legislation to improve governance of SOEs (¶20).	Aug. 31, 2011	

ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

June 9, 2011

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

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

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the 2011 budget*. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the LOI (¶5) and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat.

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

A. Floor on the Change in Net Foreign Assets

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

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

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

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

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

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

	2010	2011			
	December (stock)	March actual	June PC	September PC	December indicative
Cumulative change in NFA	20,026	119[2]	250	500	500
Memorandum Item: Gross Foreign Assets	32,432	996	1000	1000	1000

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

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

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

	2011			
	March	June	September	December
Cumulative flows from end of previous year	1,200	1,650	2,050	2,050

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.

	2010	2011			
	December (actual)	March (actual)	June (target)	September (target)	December (indicative)
Outer band (upper limit)			8.8	6.2	5.7
Inner band (upper limit)			7.8	5.2	4.7
Actual / *Center point*	8.0	8.0	*6.8*	*4.2*	*3.7*
Inner band (lower limit)			5.8	3.2	2.7
Outer band (lower limit)			4.8	2.2	1.7

C. Performance Criterion on General Government Balance

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

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 (performance criterion)	-12,600
End-September 2011 (performance criterion)	-17,500
End-December 2011 (indicative)	-23,953

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

11. The budget deficit will be measured from above the line using the budget execution data. Once the reporting system for SOEs is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government which will include the following SOEs[1]: Compania Nationala a Huilei S.A., Compania Nationala de Atostrazi si Drumari Nationale, Fondul Proprietatea, Metrorex S.A., Regia Autonoma Administratia Fluviala a Dunarii de Jos Galati, Societatea Nationala a Carbunelui S.A., Societatea Nationala de Transport Feroviar de Calatori, Compania Nationala de Radiocomunicatii Navale Radio Constanta, Compania Nationala de Căi Ferate CFR S.A., Termoelectrica S.A., Acvavalor S.A., Aeroportul Arad S.A., Aeroportul Iasi RA, Aeroportul International Baia Mare R.A., Aeroportul Satu Mare R.A., Aeroportul Stefan Cel Mare Suceava R.A., Aeroportul Transilvania–Tirgu Mures R.A., Aeroportul Tulcea, Citadin S.A. Hundedoara, Edil Therma Hunedoara, Goscomloc S.A., Gospodarie Oraseneasca S.A., Societatea Nationala "Aeroportul International Mihail Kogalniceanu", T.S.P Ecoterm S.A., Termica S.A.

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

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

[1] The list of SOEs to be included in the definition of general government will be determined by Eurostat in the upcoming months, including possible revisions to those SOEs already incorporated.

+ (c) property fund obligations not yet paid;
+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing.

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

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

Cumulative projected revenue of general government, net of EU funds[1]	(In millions of lei)
End-December 2010 (actual)	159,141
End-March 2011 (actual)	40,238
End-June 2011 (projection)	82,250
End-September 2011 (projection)	127,000
End-December 2011 (projection)	171,000

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

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

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

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

Ceiling on new general government guarantees issued from end-2008 until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (performance criterion)	14
End-September 2011 (performance criterion)	14
End-December 2011 (indicative)	14

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 (stock, actual)	0.19
End-March 2011 (stock, preliminary)	0.15
End-June 2011 (performance criterion)	0.20
End-September 2011 (performance criterion)	0.15
End-December 2011 (indicative)	0.10

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

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

G. Indicative Target on General Government Current Primary Spending

19. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers

category, Reserve Fund, and other expenditure as classified in the monthly reporting tables. The current spending target will be adjusted for the extra spending due to swap arrangement between local governments and public enterprises by an amount spent in the respective quarter.[2]

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 (indicative)	64,000
End-September 2011 (indicative)	95,100
End-December 2011 (indicative)	128,200

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

H. Indicative Target on Local Government Arrears

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

Stock in local government arrears	(In billions of lei)
End-December 2010 (stock, actual)	0.91
End-March 2011 (stock, preliminary)	0.82
End-June 2011 (indicative)	0.90
End-September 2011 (indicative)	0.85
End-December 2011 (indicative)	0.80

I. Monitoring of Public Enterprises

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

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

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

following public enterprises: C.N. Căi Ferate CFR S.A., C.N. de Autostrãzi de Drumuri Naționale 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 Intreținere și 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 București 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. Intervenții Feroviare S.A., S. C. Telecomunicații 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]	(In billions of lei)
End-December 2010 (actual)	-6.4
End-March 2011 (preliminary)	-0.7
End-June 2011 (indicative)	-2.7
End-September 2011 (indicative)	-3.6
End-December 2011 (indicative)	-4.0

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

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

Ceiling on stock of arrears	(In billions of lei)
End-December 2010 (actual)	18.1
End-March 2011 (preliminary)	19.2
End-June 2011 (indicative)	19.5
End-September 2011 (indicative)	19.0
End-December 2011 (indicative)	18.0

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

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

25. To address pricing and regulatory deficiencies, the following steps will be undertaken, within the timetable described below, to restore the energy regulator's (ANRE)

operational and financial autonomy in accordance with EU legislation (third energy package) (LOI, ¶22)

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

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

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

K. Reporting Requirements

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

Romania: Data Provision to the IMF

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 25th day of the following month
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th 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 will be reported to IMF staff within 25 days

Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
The operating balance, profits, stock of arrears, and personnel expenditures of key public enterprises (as defined in ¶22 and 23) by total expenditures	Quarterly, within 30 days
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 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
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 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

ANNEX:
Measures to Improve Performance of SOEs under Monitoring

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

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

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

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

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

- Reduce personnel by at least 1000 positions (compared with end-2010) by end-July
- Public service obligation will be reduced from 59 million train/km to 54 million train/km by end-July
- Finalize multi-annual plans for public procurement and investments by end-June
- Approve remaining standard costs for maintaining rolling stock by end-June, to be required on all new contracts

- Amendment of laws 36/2001 and 205/2002 to allow for tariff adjustments beyond inflation-indexing that are differentiated by train category (IC, IR, and R) by end-August
- Integration of 3 (of 4) subsidiaries by end-September

C.N. Căi Ferate CFR S.A.

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

S. C. Interventii Feroviare S.A.

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

S.C. Electrificare CFR S.A.

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

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

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

S.C. Metrorex S.A.

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

C.N. Tarom S.A.

- Elimination of all arrears by end-June

- Appointment of legal advisor for privatization of a maximum 20 percent stake via IPO or to strategic investor by mid-July, and an investment bank for privatization by end-September, with a view of concluding privatization by end-2011
- Appointment of private management by end-January 2012
- Continous efforts to reduce costs (such as renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, etc.) and increase revenues (such as alternative sales strategies and optimizing pricing policies)

C.N. Poşta Românã S.A.

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

S.C. Oltchim S.A.

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

S.C. Termoelectrica S.A.

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

S.C. Electrocentrale Bucuresti S.A.

- Negotiation on payment of outstanding invoices, outcome to be reported end-July
- Start of restructuring measures to prepare for privatization

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

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

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

- Preparation for privatization

S.C. Complexul Energetic Turceni S.A.

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

C.N. a Huilei S.A

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

SNa Lignitului Oltenia S.A.

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

INTERNATIONAL MONETARY FUND

ROMANIA

First 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 M. Thomsen and Aasim Husain

June 23, 2011

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on June 13, 2011**. The additional information does not change the thrust of the staff appraisal.

2. **Recent indicators confirm a growth recovery led by external demand, and an elevated inflation rate driven by supply shocks**. GDP growth reached 0.7 percent (qoq) in the first quarter, driven by strong export growth. High frequency indicators show that the growth momentum in exports and industrial production has retreated slightly from its peak in March, partly reflecting supply chain problems in the car industry. Consumer sentiment indicators are rising. Labor market indicators have shown some improvement as unemployment rate declined to 5.3 percent in April and employment stabilized. As expected, headline inflation in May rose to 8.4 percent (yoy) on the back of strong increases in the prices of food, fuel, tobacco, and administered prices.

3. **On June 10, the government successfully launched a three-year "euro medium term note" program.** After a gap of over a year, Romania issued a five-year fixed-rate Eurobond for €1½ billion which was oversubscribed nearly two times. Another issue is planned in the second half of the year to meet its financing needs. The success of this issue helps support the precautionary nature of the program.

4. **Nevertheless, market nervousness about contagion from the Greek banking crisis is becoming more pronounced.** Since June 1, the leu depreciated by about 2 percent and CDS spreads jumped by around 30 basis points as concerns mounted over the significant presence of Greek banks in Romania and the potential withdrawal of funds by the parent banks.

5. **The government has met all three prior actions.** The authorities have completed a stock-taking of arrears and unpaid bills as of end-December 2010 for the general government and SOEs. The government has also approved a decision on the restructuring of ANAF. In addition, they have approved an ordinance on separation of the household prices from non-residential prices for CUG gas prices, thereby allowing ANRE to issue an implementation order to increase the CUG price for non-households, effective July 1.

Tabel 1 (Revised Table 2 of the Staff Report). Romania: Performance for First Review and Proposed New Conditionality

Measure	Target Date	Comment
Prior actions		
1. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (¶19).	At least 5 working days before the Executive Board meeting	Met
2. Pass the government decision on ANAF restructuring (¶9).		Met
3 Approval of a government ordinance separating the CUG prices between households and non-residential customers and allowing ANRE full autonomy to adjust the CUG price to non-residential customers (¶22).		Met
Quantitative performance criteria		
1. Floor on general government overall balance	March 31, 2011	Met
2. Ceiling on general government guarantees	March 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	March 31, 2011	Met
4. Non-accumulation of external debt arrears	March 31, 2011	Met
5. Floor on net foreign assets	March 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	March 31, 2011	Met
2. Ceiling on local government domestic arrears	March 31, 2011	Met
3. Floor on the operating balance and ceiling on arrears of key loss-making SOEs	March 31, 2011	Met
Inflation consultation band		
Inner band	March 31, 2011	Met
Outer band	March 31, 2011	Met
Structural benchmarks		
1. Preparation of strategic action plans for key SOEs (as specified in TMU) (¶19).	April 30, 2011	Met
2. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs	April 30, 2011	Reset as prior action
3. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (¶9).	June 30, 2011	Reset to Dec. 31, 2011
4. Eliminate by government ordinance the legal basis of stimulente funds, effective January 1, 2012 (¶9).	June 30, 2011	Reset to Aug. 31, 2011
5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions (¶16).	July 31, 2011	Reset to Nov. 30, 2011
6. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan (¶11).	Sept. 30, 2011	
New structural benchmarks		
1. Undertake SOE reforms, including (i) appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz (¶21,¶23); (ii) Preparation of action plans for the remaining SOEs of the central government (¶19); (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears (¶7).	July 15, 2011	
2. Approve legislation to improve governance of SOEs (¶20).	Aug. 31, 2011	

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/257
FOR IMMEDIATE RELEASE
June 27, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Precautionary Stand-By Arrangement with Romania and Approves €481 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Romania's economic performance under a program supported by a 24-month precautionary Stand-By Arrangement (SBA). The completion of the review enables the immediate disbursement of SDR 430 million (about €481 million or about US$683 million). The authorities have decided to treat the arrangement as precautionary and informed the IMF that they do not intend to draw under the arrangement.

The SBA was approved on March 25, 2011 (Press Release No 11/101) in the amount of SDR 3,090.6 million (about €3.5 billion or about US$4.9 billion). The SBA came into effect on March 31, 2011.

Following the Executive Board's discussion on Romania, Mr. John Lipsky, Acting Managing Director and Acting Chair, stated:

"Romania has made a strong start under the new arrangement. All program targets were met, underscoring the authorities' commitment to continued reform. The difficult fiscal and structural reforms implemented in the past have helped restore confidence and stability, and the economy has started to rebound after the deep recession in 2009–10. Further efforts are now needed to implement deeper and challenging structural reforms in the state-owned enterprise sector in order to secure the economic gains from earlier reforms and enhance opportunities for investment and growth.

"The authorities are on track to meet their fiscal targets for 2011. However, additional efforts will be needed to ensure achievement of the deficit target of 3 percent of GDP in 2012. Important reforms are underway in the health care sector, but faster progress is required to improve capital expenditure and EU funds absorption, tackle arrears, and improve tax administration. Expeditious implementation of reform plans for key state-owned enterprises—including a greater private sector role, enhanced regulation, and improved market-oriented pricing—will be essential to improve economic efficiency and boost growth.

“Inflationary pressures have been stronger than anticipated due to global food and fuel price shocks. The authorities have appropriately announced a change in the monetary policy stance towards a tightening bias. Early policy action could be needed to ensure that inflationary expectations and second round effects are well contained.

“The banking system remains liquid and well-capitalized, and the authorities have been carefully monitoring risks from small- and medium-sized banks and subsidiaries of euro area periphery banks. Further strengthening of banking supervision and contingency planning should be a priority to protect against potential adverse spillovers from financial turbulence elsewhere in Europe.”

Statement by Mr. Age Bakker, Executive Director for Romania
and Mr. Mihai Tanasescu, Senior Advisor to the Executive Director
June 27, 2011

The previous program supported by the Fund, the European Union and the World Bank played a crucial role in stabilizing the Romanian economy, reversing imbalances, rebuilding confidence in international markets and setting the stage for sustainable economic growth. The new precautionary Stand-By Arrangement, approved in March 2011, aims at consolidating macroeconomic policies and financial stability, accelerating structural reforms and thus boosting economic growth.

Romania is on track with the implementation of the quantitative targets. All end-March 2011 quantitative performance criteria, indicative targets, and prior actions were observed. Moreover the preparation of strategic action plans for key state-owned enterprises has been completed.

Recent economic developments

Recent data suggest that the recovery has restarted and will gain momentum in 2011. First quarter GDP growth reached 0.7 percent (qoq) and 1.7 percent (yoy). The growth, driven by industrial output which grew by 10 percent, continued to be sustained by external demand, with net exports posting a significant positive contribution to GDP growth (exports grew by 24 percent while imports increased by 16 percent). Internal demand is still weak and construction output and services declined. GDP growth is expected to reach around 1.5 percent in 2011 and to further accelerate in 2012 reaching 3.7-4 percent. Gradually domestic demand will become the main engine of sustainable economic growth, supported by better absorption of EU funds.

The inflation rate will remain high in 2011, due to the first-round effects of last year's increase in the VAT rate, pressures from food and energy prices and envisaged adjustment in administered prices. Inflation was 0.2 percent in May and accelerated to 8.4 percent yoy, but will gradually decrease in the second half of the year.

The external position improved significantly, and the current account deficit reached 4.1 percent of GDP in 2010, and is projected to stabilize below 5 percent of GDP in 2011 and 2012.

Financial market stress has eased further in the last months, and the CDS spread for sovereign debt narrowed, leaving it well below several other EU member countries, including countries from the euro-area periphery. The authorities succeeded in issuing the first five year euro-denominated bond in the euro Medium-Term Notes program and raised 1.5 billion euro at a yield of 5.3 percent.

Despite the progress achieved, the recovery remains vulnerable to risks of adverse developments in international markets and a weaker than expected recovery in Western

Europe. Spillovers from the ongoing turbulence in the euro-area periphery could dampen exports and affect capital flows to Romania through the banking system. In these circumstances 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 remain committed to a cash fiscal deficit of 4.4 percent of GDP, and the recent data show that the May fiscal deficit target has been met. For 2012, renewed economic growth combined with prudent fiscal policy should bring the fiscal deficit to below 3 percent of GDP in ESA terms. However, significant challenges remain in achieving the 3 percent of GDP deficit target in 2012. This will require compliance with the fiscal responsibility law and continued expenditure restraint, including on the wage bill and subsidies.

On the expenditure side, the authorities will keep the wage bill within the agreed limit and take additional measures to secure the 2011 deficit target, including by continuing to rationalize public employment (which has declined by another 15,000 to 1.25 million in the first quarter of 2011). At the same time, the authorities will continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds. On the health care reforms, the authorities will take measures to safeguard fiscal consolidation by reforming the government-insured benefits package, reducing excess public sector hospital beds with a view to reaching the EU average by 2013, and introducing new health cards for all participants. At the same time, measures to reduce pharmaceutical costs are under way, and a new electronic prescription module will be introduced in 2012. The government will broaden the base for health contributions improving revenue collection, and new legislation introducing modest copayments for medical services will be approved by the Chamber of Deputies.

On the revenue side, tax policies will remain largely unchanged, including the VAT rate, which will remain at 24 percent. Under the current program improving tax administration and fighting tax evasion are crucial elements to increase revenue. Recently approved legislation relating to high net wealth individuals, and the government's decision to restructure the tax administration will allow increasing efficiency and better tax collection. The authorities will institute simplified taxation for smaller taxpayers requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to EUR 50,000.

Accelerated absorption of EU funds remains a focal objective of the government. The program focuses on strengthening the administrative capacity of units managing the funds, including the efficiency of the public procurement process by developing standard bidding documents. To better coordinate EU fund absorption, the government has moved the EU structural funds coordination unit from the Finance Ministry to the Prime Minister's office and will strengthen its authority and staffing. At the same time, the authorities will modernize and consolidate the legislative regulatory framework for public investment, including the PPP law to ensure that it conforms to EU procurement directives.

Monetary and financial sector policies

The monetary authorities responded well to the contraction in economic activity, and the Central Bank has taken important measures to bring down inflation levels. However, inflation in recent months was boosted by first-round effects of last July's VAT rate increase, and continued food and fuel price pressures. Moreover, further expected hikes in administered prices will make it difficult to meet the Central Bank's 2011 inflation target. We expect inflation to peak at 8.5 percent in mid-year, before gradually declining to slightly above 5 percent by the end of the year. The authorities will shift monetary policy to a tightening bias and take action as needed to ensure the 2012 inflation target is met. The Central Bank will continue to improve liquidity management, and will remain alert to potential risks of a return of significant capital inflows as the economy recovers.

The Romanian financial system so far has weathered well the impact of the economic downturn of the past two years. However, non-performing loans continued to rise, and lending to the private sector declined, as did deposits. On the positive side, the banking sector returned to profitability during the first quarter and remains well-capitalized, with an average solvency ratio of 14.7 percent, and with all banks posting a solvency ratio above 11 percent. A key role for keeping the financial sector in good health has been played by the European Bank Coordination Initiative which enabled the parent banks of the nine largest foreign-owned banks operating in Romania to keep their long-term capital exposure commitments to the country. At end-March 2011, the aggregate exposure of these banks stood at 97 percent of the level when the Initiative started. All subsidiaries of euro zone periphery banks, including the Greek banks, are better capitalized than the system average, their liquidity position is still strong, and there have been no indications of adverse movements in deposits. However, the Central Bank is still alert to the risks that could develop from the euro area periphery, and is prepared for the potential impact of any banking sector turbulence.

Progress continues to be made on the regulatory front, and the central bank agreed to retain key aspects of the current prudent and simple approach to provisioning under International Financial reporting Standards, which are to be introduced in 2012, and is developing new regulations to discourage un-hedged consumer borrowing in foreign currency. The authorities took significant measures to strengthen the financial safety net, and will develop operating procedures and contingency plans for deploying the new resolution tools, and will ensure that the Deposit Guarantee Fund (DGF) has ready access to liquidity to meet any potential shortfalls in funding and prepare joint procedures for deploying DGF funds in a bank resolution.

Structural reforms

Under the previous program, the authorities have made significant progress on the structural side. However, sustainable economic growth will require further structural reforms in key economic sectors, and the authorities, under the new program, committed to deep-rooted reform of the state-owned enterprises (SOEs), especially in the energy and transport sectors. Implementing a comprehensive strategy addressing the viability of key firms in these sectors and reforming their governance will be vital for further growth in Romania. In this context, the authorities finalized action plans for 18 firms, and are advancing in finalizing the action plans for the remaining state firms. They also approved that all SOEs subordinated to local governments submit quarterly key financial and operational indicators to the Ministry of Public Finance.

To improve the governance of SOEs the authorities decided to improve legislation requiring all SOEs to have regular independent external audits, to report and publish financial data quarterly, and to move the financial control of SOEs from line ministries to the Ministry of Public Finance. For the largest firms, the legislation will specify that all key management positions be filled only after an open international search process conducted by internationally recognized human resources firms. This management search will begin by end-August and private management teams will be selected by the end of the year to take office as soon as legally possible thereafter.

In the transport sector, both the railway and road companies will be restructured in line with their restructuring plans. These plans aim at better cost recovery, competitive tendering for public services and infrastructure maintenance, and a decrease in losses and arrears. In the railways system, the authorities have begun to extend the policy of standard costs, and developed a multi-annual plan for public procurement and investments. They also started the restructuring process at the railway Cargo Company by reducing staffing by some 3,000 workers, and a 20 percent stake will be offered by IPO or a strategic investor. In the railway Passenger Company, operating losses will be reduced by 25 percent by end-2011 through territorial restructuring, reducing staffing by 1,000 employees and reducing the number of trains where revenues are low. The authorities will pass legislation to establish a new metropolitan transit authority that will oversee the metro together with the above-ground public transport system in Bucharest, and will move further with tariff adjustments. On the air transport sector, the authorities will appoint a legal advisor to assist with the privatization of 20 percent of the Romanian air transport company (TAROM) via the stock exchange or to a strategic investor.

In the energy sector, the authorities will take the necessary steps to restore the energy regulator's operational and financial autonomy in accordance with EU legislation. New legislation will be approved to separate prices between households and non-residential customers to allow the regulator to have full autonomy in adjusting the price for non-residential customers. The regulator will also start to adjust prices for gas and electricity in June/July for non-residential customers and later in 2012 for households, thereby developing a new mechanism to protect the most vulnerable consumers. Much needed capital and managerial know-how will be brought to the energy sector through minority and/or strategic private investors into key energy firms, including Petrom, Transelectrica, Romgaz. In order to generate sizable additional investment in the energy strategy, the authorities will begin the process of offering minority stakes in the Hydropower Company and Nuclear power plant. The coal companies will continue to be downsized by forming separate legal entities and splitting viable and non-viable assets. The viable assets will later be privatized and non-viable assets will be liquidated in line with EU rules.

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 years, thereby setting the stage for strong and sustainable economic development while maintaining external and internal stability.