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

In the context of the Fifth Review Under the Stand-By Arrangement, the following documents have been released and are included in this package:

- The staff report for the Fifth Review Under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 8, 2012, 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 11, 2012. 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 18, 2012 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 22, 2012, discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Romania.

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

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

*Also included in Staff Report

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

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ROMANIA

Fifth Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of Performance Criterion, and Request for Modification of a Performance Criterion

Prepared by the European Department in Consultation with Other Departments

Approved by Poul M. Thomsen and Vivek Arora

June 11, 2012

Executive Summary

Stand-By Arrangement (SBA): A 24-month, SDR 3,090.6 million (€3.4 billion, US$5.0 billion, 300 percent of quota) Stand-By Arrangement was approved by the Executive Board on March 25, 2011, (Country Report No. 11/80) and became effective March 31, 2011. The sixth tranche of SDR 430 million (€509 million) will be made available upon completion of this review. The authorities are treating the arrangement as precautionary. Additional funds under the program are provided by the European Union and the World Bank (also on a precautionary basis).

Status of the current program: All but one end-March 2012 quantitative performance criteria were observed, but progress was mixed on the structural reform agenda. The performance criterion on central government arrears was missed by a small margin, as was the indicative target on local government arrears. All other indicative targets were met. Prior actions on approval of a road map for the deregulation of gas prices and measures to clear arrears of the state-owned rail infrastructure company are expected to be met. Modifications are proposed to the adjustors to the Net Foreign Assets (NFA) target and the ceiling on the general government balance. The new government has affirmed its commitment to the program and the policy agenda, but spending pressures need to be reined in to assure continued program compliance.

Key issues: Risks are high to economic growth and the banking sector from the ongoing euro crisis. The SBA review focused on these risks and on: (i) recalibrating the fiscal targets to incorporate a phased increase in public-sector salaries and reimbursement of social contributions on pensions; (ii) progress on health care and tax administration reforms; (iii) advances on the structural reform agenda, with a focus on State-owned Enterprise (SOE) reforms and price liberalization in the energy sector; and (iv) strengthening financial sector contingency planning and safety net mechanisms. The mission also conducted extensive outreach with parliamentarians, representatives of civil society, and the media.

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I. Introduction and Summary[1]

1. **Growth is likely to moderate in 2012, weighed down by the euro area slowdown.** Staff expects 2012 growth to be around 1½ percent compared to 2½ percent in 2011. While weather related disruptions weakened performance in the first quarter, domestic demand and increased EU funds absorption are expected to support growth in the rest of the year. However, there are significant downside risks from the external environment, as the euro area enters into recession and deleveraging pressures in European banks intensify. With slowing growth, inflation will likely remain within the central bank's target band for the year and the current account deficit is projected to be around 4¼ percent of GDP.

2. **Romania's overall track record under the program continues to be strong.** All performance criteria for the fifth program review were met except that on accumulation of central government arrears, which was missed by a small margin. The indicative target on local government arrears accumulation was also missed. Corrective actions are being taken (¶14). Progress was also made on the large and difficult structural agenda, although more action is needed. The structural benchmarks on SOE reforms and investment prioritization were completed. Draft legislation on the health care framework is also being prepared. To allow sufficient time for consultations with stakeholders, the authorities request that the target date for the benchmark on the legislation be reset from December 31, 2011, to June 30, 2012.

3. **The authorities are on track to achieve a significant additional fiscal adjustment this year, but further effort is needed to speed up structural reforms.** In light of the weak economic environment, the cash fiscal deficit target for 2012 was relaxed slightly (from 1.9 percent of GDP to 2.2 percent of GDP). This preserves a consolidation of some 2 percentage points of GDP in structural terms and allows the government to remain within the EU accrual target of 3 percent of GDP. Strict spending discipline will remain paramount to achieve the new target. The pace of reform of the energy and transport sectors needs to accelerate and prior commitments implemented, including those related to deregulation of the energy sector. Continued vigilance in the financial sector and maintenance of fiscal and banking liquidity buffers are required to provide protection against external shocks.

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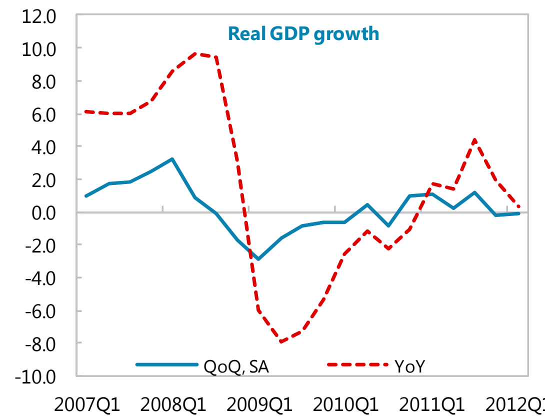
[1] Discussions were held in Bucharest, April 24–May 9, 2012. The mission met with President Basescu, Prime Minister Ponta, Finance Minister Georgescu, Central Bank Governor Isarescu, other senior officials, representatives of political parties, labor and business organizations, and financial institutions. The staff team comprised J. Franks (head), E. de Vrijer, J. Ralyea, C. Saborowski, and A. Tuladhar (all EUR); F. Salman (SPR); F. Eich (FAD); and M. Dobler and H. Hesse (MCM). T. Lybek (Resident Representative) assisted the mission. Discussions were held jointly with the EC, ECB, and World Bank staff.

II. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

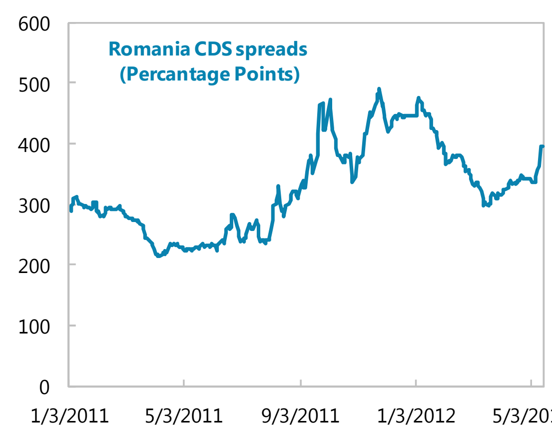
A. Recent Developments

4. **Romania's economic recovery remains fragile.** Real GDP grew by 2.5 percent in 2011 on the back of a very good harvest and a modest recovery in private demand. However, a slowdown in domestic demand and sluggish export growth, reflecting continued weakness in euro area markets, contributed to slight quarterly declines in 2011:Q4 (-0.2 percent) and 2012:Q1 (-0.1 percent), as severe weather reduced output. High frequency indicators in March and April have begun to show a rebound of economic activity. Headline inflation fell to a record low of 1.8 percent in April as a result of continued food price deflation, which offset growth in administrative and oil prices. Core inflation[2] stood at 2.1 percent.



Source: Haver.

5. **Conditions are volatile in debt and equity markets.** Romania's CDS spread widened by around 80 basis points in the first half of May on euro area concerns, reversing much of the improvement experienced earlier in the year. However, government bond yields have remained favorable, as the government took advantage of the earlier dip in spreads to prefinance on both the domestic and external markets. In the domestic market, the authorities have extended the yield curve out to 15 years and have improved the maturity profile. The equity market has given up earlier gains and now stands up slightly for the year. The central bank has intervened to partially offset exchange rate pressures, limiting leu depreciation to just over 3 percent since the end of 2011.

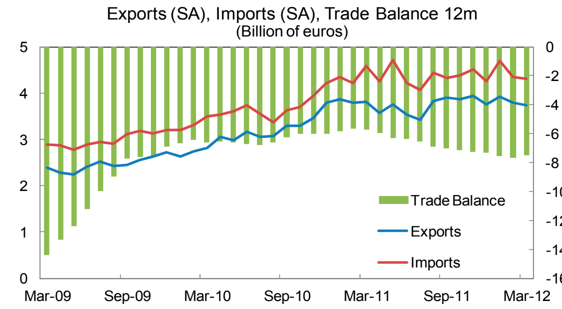


Source: Bloomberg.

6. **The current account improved in the first quarter of the year.** A continued recovery in imports was offset by strong official transfers. The successful Eurobond issue was the main source of deficit financing, as inflows from international financial institutions

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

inflows offset a decrease in rollover rates for private-sector debt.[3] Intercompany lending continued to be the major source of FDI, which has declined by 25 percent over the last 12 months. International reserves reached €38.5 billion at the end of April, fully covering short-term debt on a residual maturity basis.



Source: Romanian authorites and IMF staff calculations.

7. **Bank lending posted moderate growth in real terms, while nonperforming loans also rose in the first quarter.** Lending to the nonfinancial corporate sector increased 8.1 percent, while household credit grew only 2.1 percent.[4] Weak economic conditions have produced a general rise in nonperforming loans (NPL) over the past three years. This increase paused in the fourth quarter of 2011 (when the NPL ratio dropped to 14.3 percent), but it resumed in the first months of 2012, reaching 15.9 percent in March, due to continued weakness in economic activity and also to delayed recognition of NPLs (partly due to end-year effects). However, total prudential provisions at end-March were sufficient to cover 99 percent of NPLs and the new IFRS provisioning ratio stood at 68.4 percent, which together with the additional prudential filter is comfortable. Staff continues to closely monitor NPL developments.

8. **Political pressures will remain strong in the coming months.** The Ungureanu government lost a confidence vote in late April after only 78 days in power, and the opposition USL coalition of Liberals and Social Democrats took power under Prime Minister Victor Ponta on May 7. The new authorities have strongly affirmed their committed to the Fund-supported economic program. However, with local elections in June and parliamentary voting in November, pressures to relax fiscal consolidation and structural reforms will likely intensify.

B. Macroeconomic Outlook and Risks

9. **The euro area crisis continues to dampen the growth outlook, while inflation is expected to remain within the central bank's target band.**

- **Growth**. Euro area weakness will continue to be a drag on activity and growth is expected to slow to around 1½ percent in 2012. Private demand, buoyed by solid credit growth, is expected to rebound and contribute to growth along with stronger

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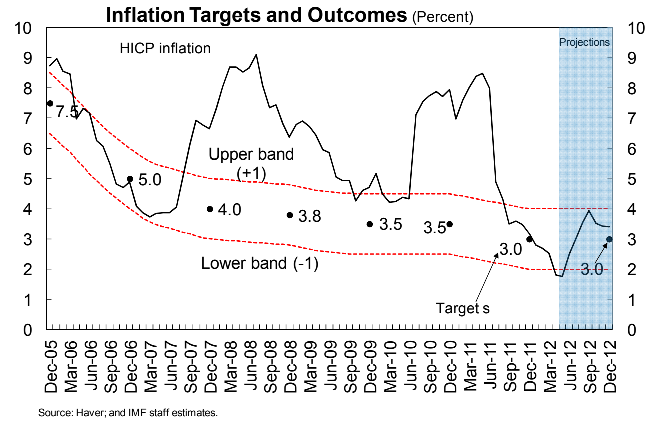
[3] Rollover rates in the first two months of the year for private-sector debt declined to around 70 percent from 80 percent in 2011:Q4 and were more skewed to the short-term

[4] The NBR has tightened the regulatory treatment of banks' foreign currency lending to households, including via differential loan to value limits for lending in domestic and foreign currency, on a hedged and unhedged basis (taking effect from 2012).

absorption of EU funds. Growth should accelerate to around 3 percent in 2013 and average 3½-4 percent through 2016.

- **Inflation**. Inflation is projected to stay within the central bank's target band of 3±1 percent for the year, although it is expected to move towards the upper end of the band later in the year as the full impact of higher oil prices is felt and the base effects on food prices from last year's exceptional harvest reverse (Box 1). Nevertheless, with expectations well anchored and a sizable output gap, core inflation will likely remain below 2.5 percent throughout the year. CPI growth in 2013 will also likely be within the central bank's 2.5±1 percent target.



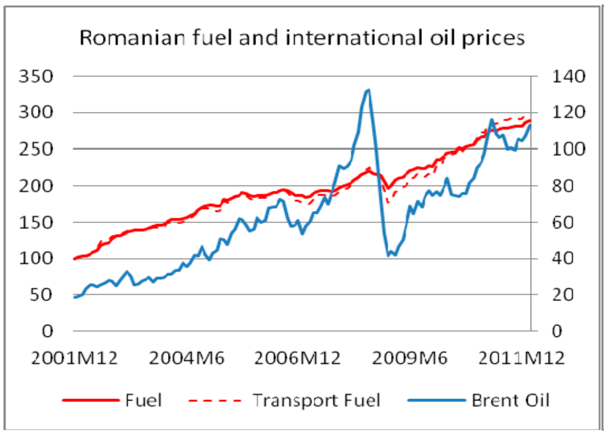
- The **current account** deficit is projected to remain around 4¼ percent of GDP in 2012, stabilizing at around 4½–5 percent of GDP thereafter. In 2012, net exports are expected to remain stable as the projected recession in the euro area dampens export growth[5] and modest domestic demand growth contains imports. Official transfers are projected to recover as EU funds absorption picks up. On the **financial account**, the government's medium-term external bond placements and multilateral financing are expected to be the main sources of financing. FDI inflows are expected to remain subdued amidst euro area weakness, but planned privatizations could generate some recovery. Under staff's baseline scenario, no financing gap is envisaged, consistent with the program's precautionary nature.

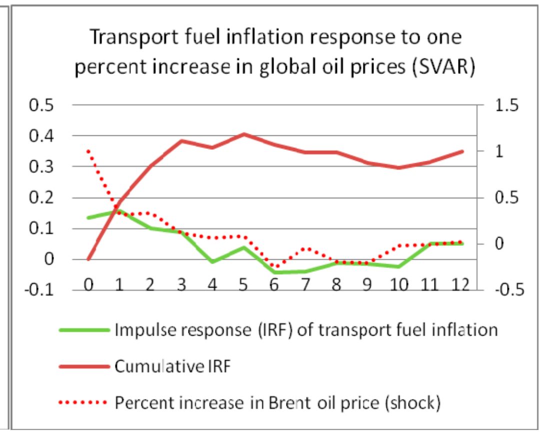
[5] Germany, Italy, and France account for about 40 percent of Romania's exports.

Box 1. Pass-Through from Oil Price Shocks to Romanian CPI

While oil prices have followed an upward trend since the turn of the millennium, their volatility constitutes an important challenge for policymakers. Whether surges represent transitory shocks or permanent shifts in prices determines the expected pass-through to domestic prices as well as the appropriate policy response.

Romanian retail fuel prices are less volatile than global oil prices although they follow a similar trend. This suggests that oil price changes are often perceived as partly transitory and are not fully passed on to consumers. The Romanian retail market for gasoline is dominated by a relatively small number of domestic and international suppliers, but it is otherwise free from price restrictions or subsidies. An estimated ARDL model suggests that the pass-through from an increase in global oil prices (expressed in local currency) is 45 percent for transport fuel prices, 33 percent for the fuel price index and 10 percent for overall CPI.[1] This compares to an average pass-through to domestic fuel prices of about 38 percent across emerging and advanced markets and about 34 percent in the EU27 according to the September 2011 World Economic Outlook (WEO).





Estimated structural vector autoregressions (SVAR), which allow controlling for the interaction of oil prices with exchange rate movements, predict a similar but slightly lower pass-through and suggest that the full impact on Romanian prices materializes after about two–three months.[2]

The 13 percent increase in international oil prices between October 2011 and February 2012 led to increases in Romanian fuel prices of about 4 percent (based on March inflation data). Everything else equal, this would imply that about 31 percent of the recent oil price shock fed through to Romanian prices, which is consistent with our results. The remainder may or may not show in subsequent months' data, as international prices have since March returned to lower levels. This most recent downward swing may also prevent second round effects on inflation in other CPI components.

1/ The model regresses monthly domestic fuel price inflation on current and 12 lags of global oil price inflation, controlling for 12 lags of domestic fuel prices.

2/ The model includes oil prices, domestic fuel prices and the exchange rate and is based on the identification assumption that oil prices are exogenous while the exchange rate is affected by fuel prices only with a lag.

10. **Risks to growth remain on the downside amid continued euro area weakness, while inflation risks are balanced.**

- **Growth**. Increased international financial market turbulence and euro area weakness could further depress growth through several channels: (i) lower external demand would dampen exports and consumer sentiment; (ii) financial market turbulence could raise risk premia and reduce capital inflows, increasing banks' funding costs and putting downward pressure on the exchange rate; and (iii) bank deleveraging may lead to further credit contraction and drag down the recovery.[6] Strong capital buffers, tight banking supervision, and healthy National Bank of Romania (NBR) reserves provide some protection against adverse banking scenarios. On the upside, faster absorption of EU-funded projects could boost growth further.

- **Inflation**. Higher than expected adjustments of administered prices in the context of structural reforms, further exchange rate pressures due to euro area turbulence, and an unanticipated jump in commodity prices could push inflation above the current forecast. On the downside, the still large output gap and the slow economic recovery could drive core inflation down further.

Romania: Macroeconomic Outlook

	2009	2010	2011	2012	2013
Real GDP growth	-6.6	-1.6	2.5	1.5	3.0
CPI inflation, average	5.6	6.1	5.8	2.9	3.1
CPI inflation, eop	4.9	8.0	3.1	3.4	3.0
Current account balance (% of GDP)	-4.2	-4.4	-4.4	-4.4	-4.8
Gross international reserves (bn euros)	30.9	36.0	37.3	37.4	37.6

III. Policy Developments

A. Fiscal Policy

11. **The authorities met the 2012:Q1 general government cash deficit target, which was adjusted for higher capital spending.** The deficit totaled RON 3.5 billion (0.6 percent of GDP), including the off-budget spending under the Program for National Infrastructure Development (PNDI). Revenues were broadly in line with projections. Higher-than-expected taxes were offset by shortfalls in nontax revenue and EU grants. Expenditures were above program due to substantially higher capital spending as the government frontloaded investment. Current spending was lower than expected, reflecting the continued decline in public employment and lower goods and services outlays. Arrears rose, however, reflecting

[6] Romania's largest foreign-owned banks are subsidiaries of Austrian, Greek, and French banks.

pressures in local and central government hospital budgets (and possibly higher pre-electoral spending), marginally breaching the program targets (see ¶14).

Fiscal Performance, 1st Quarter 2012

(billions, RON)

	Proj.	Act.	Difference
Total revenue	45.5	45.7	0.1
Current revenue	42.8	44.0	1.2
Tax revenue	38.7	40.1	1.4
Nontax revenue	4.1	3.8	-0.3
Capital revenue	0.4	0.2	-0.2
Grants	2.4	1.7	-0.7
Total expenditure	48.4	49.1	0.6
Current	46.6	45.4	-1.3
Personnel	9.9	9.6	-0.4
Goods and services	7.7	7.0	-0.7
Interest	2.7	2.7	0.0
Subsidies	1.3	1.4	0.1
Transfers	24.4	24.3	-0.1
Social assistance	17.1	16.8	-0.3
Transfers for public entities	0.4	0.2	-0.3
Other transfers	3.3	3.3	0.1
EU funds, post-accession	3.3	3.5	0.2
Other expenditure	0.4	0.6	0.2
Projects financed from external credits	0.5	0.3	-0.2
Capital	1.8	3.9	2.0
Net lending	-0.1	-0.2	-0.1
Deficit/Surplus	-2.9	-3.4	-0.5
Deficit/Surplus incl PNDI	-3.1	-3.5	-0.4
Deficit/Surplus with capital spending adjuster	-4.5	-3.5	1.1

12. **The authorities proposed relaxing the program's cash deficit target slightly, while keeping the accrual deficit below the 3 percent of GDP target established with the EU.** The cash deficit target would increase by 0.3 percent of GDP in 2012 and would translate into an accrual deficit of some 2.8 percent of GDP, still more than 2 percentage points lower than in 2011. The authorities intend to use the additional fiscal space to grant an 8 percent wage increase at midyear (partially restoring past temporary wage cuts)[7] and to compensate pensioners for social contribution payments ruled illegal by the constitutional court.[8] Despite the wage increase, personnel spending should remain at 6.7 percent of GDP in 2012 –unchanged from the previous year– reflecting the continued strong decline in public employment. More broadly, the slight relaxation of the cash deficit target has a negligible impact on debt sustainability.

13. **Even with a slightly higher cash deficit target, sustained expenditure restraint and strong tax collection efforts will be required**. The growth rate of domestically-financed capital outlays will need to be reduced considerably from the pace recorded in the first quarter to stay within the budget ceiling and avoid a further accumulation of arrears. To this end, the authorities have set aside an additional 0.1 percent of GDP to safeguard against capital spending overruns, while cancelling all un-contracted PNDI projects. Strict prioritization of investment projects with a focus on EU-funded ones will also be needed. Moreover, the continued implementation of the clawback tax should help contain costs and

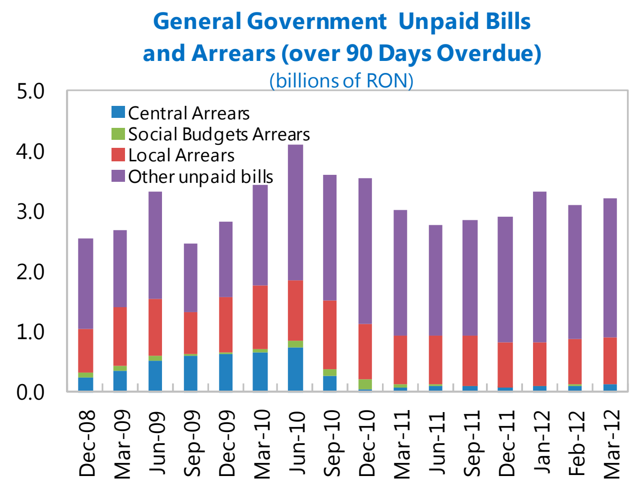
[7] The constitutional court required the eventual restoration of the 25 percent cut in public-sector wages implemented in 2010. The final portion of the wage restoration increase (7½ percent) will be paid out beginning in January 2013, if economic conditions allow.

[8] The formula applying the healthcare contribution rate on the full pension amount for pensioners earning above the exemption threshold of 740 lei was recently ruled illegal.

arrears in the pharmaceutical industry. On the revenue side, the authorities plan to implement measures to simplify the tax code and strengthen tax audit and enforcement efforts, based on technical assistance recommendations from the Fund, as specified in paragraphs 10 and 11 in the attached Memorandum of Economic and Financial Policies (MEFP).

14. **The arrears targets for central and local governments were missed.** After decreasing between mid-2010 and end-2011, central and local government arrears increased by RON 73 million in the first quarter to 0.2 percent of GDP.

- **Local government** arrears accumulation accounted for about half of the overall increase in arrears.[9] The increase may reflect the upcoming local government elections, which heighten the short-term risk of further arrears accumulation, and revealed shortcomings in the monitoring and enforcement of the 2010 local public finance law (LPGFL). The authorities will undertake a comprehensive analysis of local government arrears to determine their causes and the entities to which the arrears are owed, and will seek technical assistance to evaluate the implementation of the LPGFL and the financial arrangements for local governments. Line ministries are also in the process of concluding multi-year co-financing contracts for each of the local government projects in their portfolio to ensure that they are fully within the medium-term budgetary ceilings.



Source: Romanian authorities; IMF staff estimates.

- In the **health sector**, arrears in registered bills with the Health Insurance Fund have been eliminated but arrears in hospitals have been rising. Going forward, the recently introduced clawback tax will be fully used to pay down unregistered bills revealed during the stocktaking exercise and recorded at end-2011.

- **To avoid future arrears**, the authorities are in the process of integrating the accounting reporting system with the Treasury payment system, including the commitment control and reporting module for all levels of government. A structural

[9] This required the authorities to allocate additional transfers from the central government to reduce local government arrears.

benchmark is proposed on launching the tender for the software to integrate these systems by June 30, 2012. They are also stepping-up monitoring of independent hospitals, and dedicating revenues from the pharmaceutical clawback tax to paying down overdue bills before they become arrears.

- Outside of the general government, the indicative target on **arrears in SOEs** monitored under the program was met. These arrears are expected to decline further through swap operations to cancel tax arrears, payments from budget bankruptcy procedures, installment agreements, and other financial operations, including a bridge loan from the central government to clear arrears of the rail infrastructure company. Approval of an emergency ordinance to grant the bridge loan is a prior action. Together, these measures are expected to reduce SOE arrears by around 1 percent of GDP in the second half of 2012.

15. **The authorities continue work on a comprehensive health care reform.** The health system constitutes the single largest threat to medium-term fiscal sustainability, as it relies on government budget transfers of nearly ½ percent of GDP (on top of social contributions) and will undergo significant pressures from an aging population. In January, a draft framework law was withdrawn due to significant public objections. The authorities now aim to produce a new version by end-June, with public debate between July and September and parliamentary approval by end-October. The law will aim to address the persistent budgetary shortfalls in the healthcare system and to enhance service quality. A key element of the law will be to define a publicly provided basic healthcare package, with additional care provided through increased private sector involvement, such as through supplementary private insurance and private management of hospitals. To ensure that budget allocations to the health sector are consistent with realistic spending programs, the authorities also committed to implementing several short-term measures towards cost-containment as noted in the MEFP (¶9), including approving a revised list of reimbursable drugs and a legal framework for reducing hospitalization periods.

16. **Progress in absorbing EU structural funds has been inadequate.** The authorities remain committed to absorbing an additional €6 billion of EU funds during 2012: €3.5 billion from Structural and Cohesion Funds and another €2.5 billion from Agricultural, Rural Development and Fisheries Funds. However, the planned absorption in the first quarter was not realized, partly due to harsh winter conditions, but also reflecting continued poor management and execution of projects. Overall, certified funds absorption is only 7.4 percent of available funds.

17. **The government has built a sizeable fiscal buffer to hedge against external shocks.** The authorities have over-financed in the domestic market so far this year at declining yields and increased maturities. This, together with the euro bond issue in the first quarter, has significantly increased financing buffers. The authorities intend to continue to take advantage of favorable market conditions to extend maturities and accelerate the

building of fiscal buffers. Adding the planned DPL-DDO loan from the World Bank, which functions like a credit line, would boost the fiscal buffer well above the authorities' target of at least four months of gross financing needs.

B. Structural Reforms

18. **Comprehensive reform of the energy and transportation sectors is a key priority of the program.** Improvement of the regulatory and price framework of the energy market, and restructuring or privatization of state-owned enterprises (SOEs) in the energy and transport sectors should help boost Romania's long-run growth potential. While progress continues to be made, the reforms have generally advanced more slowly than originally envisaged. To accelerate implementation, the new government has now agreed on the timetables for gas and electricity price reforms, and will focus its efforts on privatizing and/or installing private management in key SOEs.

19. **In the energy sector, the authorities have agreed** to gradually shift electricity and gas from below market regulated prices and nontransparent bilateral contracts onto a competitive trading platform at international prices. Key steps include:

- In March, the authorities approved a roadmap for the gradual removal of regulated **electricity prices** for nonhouseholds by end-2013 and households by end-2017, beginning with a 5 percent across-the-board increase in June 2012. They also submitted legislation to parliament to transpose the portion of the EU third energy package related to the electricity market into Romanian law.

- In light of the recently launched EC investigation of **bilateral energy contracts** of SOEs for possible violation of state-aid rules, the authorities are undertaking another round of negotiations of contracts entered into by the hydro-power parastatal, with the aim of securing higher prices and lower volumes of electricity supplied under the contracts. Key elements of the contracts will be published.

- The authorities have developed a roadmap for the liberalization **gas prices.** Regulated gas prices for nonhouseholds will converge to average European prices by end-2014. For households, regulated gas prices will be liberalized gradually by end-2018. Government approval of the roadmap is a prior action under the program. The key parameters of the roadmap will be included in legislation to transpose the portion of the EU third energy package related to the gas market into Romanian law, which is to be approved by government ordinance by end-June 2012.

- In consultation with stakeholders, a draft package of **tax, royalty, and regulatory measures** will be developed to ensure a transparency and equitable framework future investments in the energy sector. The package should also assure that windfall profits generated by the increase in domestic gas prices will be shared between the government and gas producers. Funds raised will help finance measures to protect vulnerable consumers from the impact of the price adjustments.

- The authorities will continue to monitor the effectiveness of a law enacted late last year to deter the accumulation of new arrears for **district heating**. They will consider administrative or legal changes, if necessary.

20. **Progress on SOEs reforms remains uneven**. The end-March 2012 targets for both the operating balance and arrears for companies under monitoring were met. In addition, a financial directorate within the Ministry of Public Finance (MOPF) has been established to monitor the financial and restructuring performance of SOEs, though it is not yet fully functioning. The authorities also successfully sold a 15 percent stake in the electricity transmission company in March. However, the agreed timetables for privatization of other SOEs and the introduction of private management in SOEs were not met. To address the persistent delays, the authorities will concentrate their efforts on selling stakes in four key SOEs in the energy sector and two in the transport sector by the end of this year. Public offerings by mid-October in two of these will be a structural benchmark under the program. The authorities also committed to installing independent boards and private management in seven SOEs by end-2012, and in some cases, as early as end-June 2012 (MEFP ¶28).

21. **Reform of the transportation sector to improve service delivery and reduce costs continues, albeit slowly.** The authorities have stepped up their investment program to improve the rail and road network and facilitate the faster absorption of EU funds. Efforts to reduce costs, including the tendering or closure of underutilized rail lines, and to enhance revenue in the road and rail companies and the national airline also continue. Moreover, the government will approve a memorandum for the cancellation of penalties and gradual payment of principal on arrears owed to the state-owned energy supplier, in conjunction with the bridge loan noted in paragraph 14. The bridge loan will be replaced by a government-guaranteed loan to the rail firm by end-year. As a condition for this arrears clearance scheme, the rail infrastructure company will undertake measures to assure its financial viability in 2013 and beyond.

22. **The authorities continue to make progress in labor market and social assistance reforms.** The new Labor Code has improved the functioning of the labor market and already contributed to a modest recovery in employment with significant numbers of informal work arrangements being converted to newly registered contracts. Nearly one third of the 1.2 million new contracts since mid-2011 are fixed term. The Social Dialogue Code has come into force, although labor unions question its compatibility with core ILO conventions and are not ready to participate in sectoral wage negotiations. The new government plans to revisit the law to address these concerns. The new Pension Law has significantly reduced the number of early retirements and disability pensions. The authorities have also begun drafting secondary legislation for the new Social Assistance Law which was approved last year and aims to streamline and better target social benefits. The social assistance law is expected to

be fully effective by January 2013, before gas and electricity price liberalization commences for households.

C. Financial Sector Policies

23. **Romanian banks are well-capitalized and liquid but remain vulnerable to spillovers from the euro area.** The capitalization of the banking sector remained strong at 14.5 percent at end-March. Overall banking sector liquidity remains fragmented with conditions varying among banks and strong competition for deposits. With more than 80 percent of the banking system controlled by foreign banks (including several Greek-owned banks covering around 14 percent of assets), Romania is particularly vulnerable to spillovers from banking difficulties elsewhere in Europe. Some foreign bank deleveraging has materialized in recent months. The total exposure to Romania of the nine largest foreign banks that participated in the European Bank Coordination Initiative fell to 94.8 percent at end-April, compared to 101.3 percent at end-2011—a reduction of €2.1 billion. The banking sector remains vulnerable to parent funding losses, particularly from parents in the euro area periphery. The NBR will continue to intensively supervise the banking system and take necessary measures to ensure that banks have sufficient capital and liquidity from their shareholders. The NBR is also undertaking a crisis simulation exercise with World Bank support.

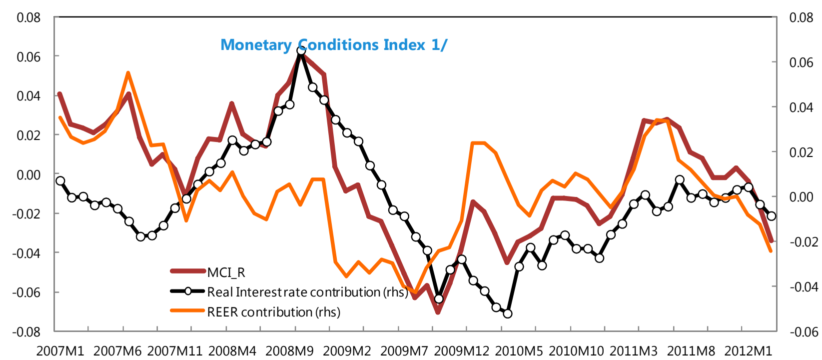
24. **The authorities continue to strengthen their crisis management arrangements and in-depth contingency planning to safeguard against any possible banking sector difficulties.** The NBR and the Deposit Guarantee Fund (DGF) signed a Memorandum of Understanding that ensures the DGF will be given information on potential problem institutions early enough to enable it to prepare to meet its obligations effectively. The NBR and the DFG will also agree on a set of relevant financial information to be shared, as well as the necessary internal arrangements to provide this information to the DGF. Moreover, the NBR, DGF, and MOPF are taking steps to coordinate the implementation of operational preparedness and the newly acquired bank resolution powers. The NBR has updated its liquidity stress tests with stringent assumptions and, following the introduction of the new IFRS provisioning regime in January 2012, is currently in the progress of updating its solvency stress tests. Problem institutions are being closely monitored, with plans in place for dealing with them if conditions worsen.

25. **The authorities' plan to deal aggressively with the worsening NPL situation.** MOPF is committed to ensure by end-June that the tax treatment of bank receivables sold to Romanian firms is neutral to facilitate better management of bank balance sheets. The NBR will continue to closely examine bank practices to mitigate the risk of 'evergreening' and to ensure that the loan-loss provisioning and assessment of credit risk of restructured loans remain prudent and in line with good international practices. In addition, the NBR will examine the experience of applying the prudential filter and seek industry input on

permanent prudential arrangements that would apply in 2013. Finally, an ongoing assessment by the World Bank of the arrangements for insolvency and creditor rights will be finalized.

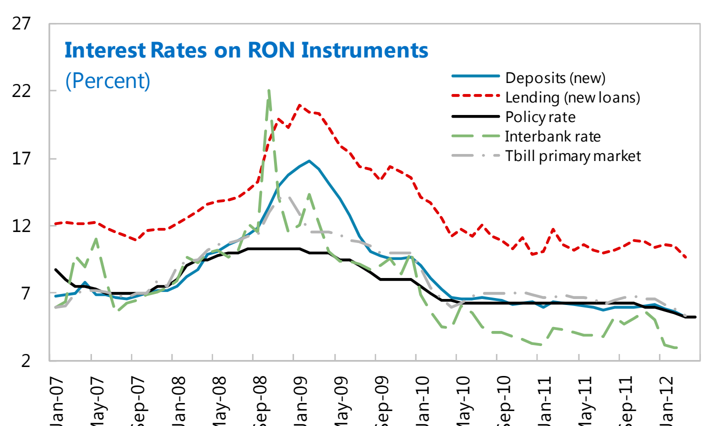
D. Monetary and Exchange Rate Policies

26. **The monetary stance has eased amid abating inflationary pressures.** The central bank gradually reduced the policy rate from 6.25 to 5.25 percent from November to April, but kept it unchanged following its May policy meeting in light of political and external uncertainties. The central bank has also added liquidity to the system through weekly repos with banks, which has led to a sharp fall in the overnight interbank rate.[10] Paired with a modest depreciation of the exchange rate since end-2011, these policy actions have led to a further relaxation of the monetary policy stance. Nonetheless, inflation continued to decline and is expected to remain within the NBR target band of 3±1 percent throughout the year, with core inflation likely to peak below 2.5 percent.



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

27. **The exchange rate remains in line with fundamentals and Romanian exports remain competitive.** The leu has depreciated about 8 percent against the euro over the last 12 months. The authorities have recently intervened to a moderate extent to support the currency or to mop up excess liquidity. In addition, external competitiveness is not a significant issue. The REER depreciated 11 percent in the 12 months to end-April 2012, and Romania continues to gain



Sources: NBR: and Haver.

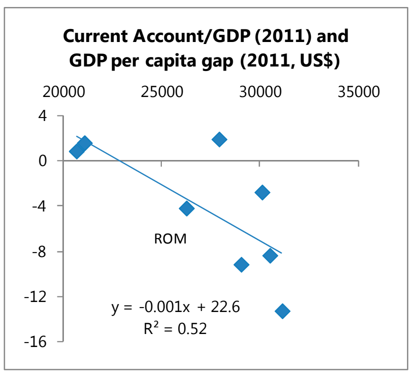
[10] Euro funding from parent banks also improved following LTRO operations in the euro area.

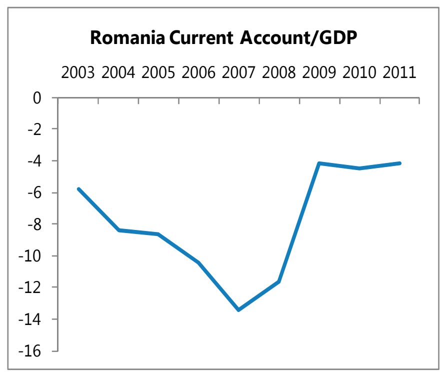
export market share in the EU. Staff's exchange rate assessment does not show a misalignment in the currency, and the forecast current account deficits suggest external sector sustainability (Box 2).

Box 2. Medium-Term External Sustainability

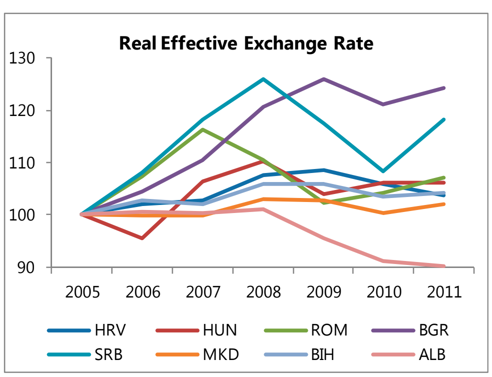
Romania's current account adjusted sharply during global crisis. The current account deficit narrowed by 10 percentage points of GDP from 2007 to 2009. Program financing protected against further adjustment. Over the medium–term, the current account is projected to record annual deficits of around 5 percent of GDP, consistent with the need for imports of external savings to facilitate real convergence over time. Countries with larger GDP per capita gaps[1/] to average EU income generally run higher current account deficits to catch up.

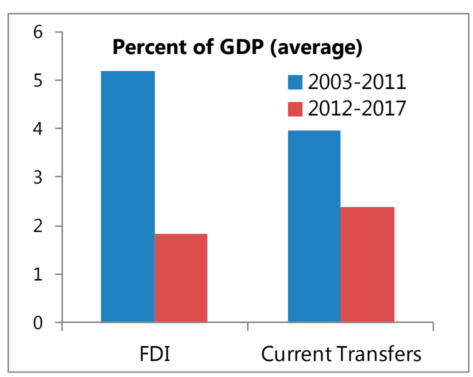
Staff's exchange rate assessment[2/] does not show a misalignment in the currency. The macro balance approach suggests a 9 percent overvaluation; however the equilibrium real exchange rate and external sustainability approaches suggest undervaluation by -7.7 and -1.7 percent, respectively. Moreover, external debt sustainability analysis indicates that the medium-term current account deficit is in line with a declining external debt–to-GDP ratio.





The medium-term balance of payments projections rely on conservative financing assumptions. Romania's post-crisis FDI and current transfer inflows are projected with a significant discount relative to prior flows.[3/] Projections of Romania's medium-term FDI inflows are consistent with crisis levels inflows, and do not include potential inflows from the ambitious privatization agenda. In addition, official current transfers are conservatively estimated as utilization of EU Funds allocated to Romania remains low. Thus, there is significant upside to FDI inflows and official transfers if global recovery is stronger, privatization efforts materialize, and Romania manages to absorb EU funds.





1/ Measured as the difference to the average EU per capita GDP.
2/ Vitek, F (2012) "Exchange Rate Assessment Tools for Advanced, Emerging, and Developing Economies."
3/ Romania's FDI and current transfers are not significantly different from the SEE countries.

IV. Program Modalities and Other Issues

28. **The attached Letter of Intent (LOI) and MEFP describe the authorities' progress in implementing their economic program and set out their commitments through mid-October 2012**. Some modifications to the program's conditionality are proposed (Tables 1–2):

- *Two prior actions and two new structural benchmarks are proposed* (Table 2). The prior actions are: (i) approve a roadmap for the deregulation of gas prices and (ii) issue a government memorandum to cancel penalties on arrears owed by the state-owned railway infrastructure company to the state-owned electricity company and grant a bridge loan to clear arrears owed by the railway infrastructure company to private electricity providers. The new structural benchmarks are: (i) launch a tender for software to integrate the accounting reporting and Treasury payment systems; and (ii) conduct initial public offerings of government shares in Romgaz and Hidrolelectrica. These measures are essential to foster much needed investment in the energy sector and prevent future arrears, thus improving fiscal sustainability.

- *Modifications in the end- June NFA target and the ceiling on the general government balance are proposed.* For the NFA target, the end quarter targets are unchanged; however the adjustor for end-June 2012 is revised due to the change in the MOPF external bond placement schedule. The remaining quarters of the year will retain the adjustor for the residual bond placement reflecting risks due to the deteriorating external environment. The ceiling on the general government balance for June 2012 has been lowered to accommodate the lower healthcare contributions from pensioners from May onwards. The general government balance targets in the subsequent quarters have also been lowered, in line with the higher annual deficit target, to allow increases in public wage spending and reduced health care contributions from pensioners. An adjustor has also been introduced to the general government balance for June and September 2012 to allow for a bridge loan to CFR Infrastructure for clearance of arrears. However, the adjustor is removed for the end-year target as the loan is expected to be repaid during the fourth quarter.

Program modalities: Romania is not expected to face actual balance of payments financing needs in 2012 under the baseline scenario, and the SBA as well as financing commitments from the European Union will continue to be treated as precautionary.

Program risks: Romania's capacity to repay the Fund is expected to remain strong. Fund credit outstanding is expected to decline from 38.4 percent of gross reserves in 2012. Peak payments would be in 2013–14 at a still manageable 13.7 and 13.2 percent of gross reserves and around 8.5 and 7.1 percent of exports of goods and services. While this exposure remains large, servicing risks are mitigated by the relatively low level of public debt. Public indebtedness (including guarantees) is expected to remain under 36 percent of GDP, with public external debt peaking at around 24 percent of GDP in 2012. Total external debt was 72.2 percent of GDP in 2011 and is projected to decline in the medium run. In addition, an update in 2011 of the 2009 safeguards assessment found a robust safeguards framework at the NBR, while recommending measures to sustain NFA reporting standards and effective audit oversight, and enhance accounting disclosures. However, completing structural reforms will continue to be challenging given external market uncertainties and domestic political pressures.

V. Staff Appraisal

29. **The ongoing euro area crisis and domestic political uncertainty surrounding upcoming elections underline the continued need for a cautious policy stance.** Staff anticipates that strengthening domestic demand and increasing EU funds absorption will spur modest economic growth in the final three quarters of 2012. However, downside risks predominate. Spillovers from the euro area crisis could negatively impact the banking sector, capital flows, and sovereign financing conditions, thus also impairing growth prospects. The authorities have wisely built up fiscal, foreign exchange, and bank capital buffers to help cope with these risks. Romania currently enjoys favorable access to capital markets, a well-capitalized banking system, and a relatively low public-sector debt burden. To maintain this desirable position and accelerate economic growth, continued implementation of prudent fiscal and monetary policies and faster implementation of structural reforms are needed. In this regard, the new government's strong affirmation of commitment to the program and policy agenda is welcome. Domestic political risks remain, and the authorities will have to firmly resist pressure for fiscal loosening or further delays in structural reforms.

30. **Continued fiscal discipline is essential to contain growing spending pressures and stay within the new cash deficit target.** While the first quarter deficit target was met, underlying spending pressures have intensified. For the first time in this successor arrangement, arrears for the central and local governments have increased and the targets have been breached. In addition, capital spending from the budget has exceeded programmed levels and pressures continue in healthcare spending. The new authorities will have to assiduously follow through on their program commitments to improve tax policy and administration, strengthen the budget commitment and reporting systems, reform the healthcare system, and prioritize investment spending to meet the slightly relaxed program deficit target.

31. **Efforts to restrain healthcare costs and improve service delivery are critical to the provision of adequate healthcare and fiscal viability.** The demands on Romania's healthcare system are much higher than the resources devoted to it, making its financial health very weak. The increase in hospital arrears is once again underscoring this fundamental imbalance. The authorities have implemented some urgent measures to curb spending, but more fundamental reforms are needed. The government must deliver a revised

healthcare reform proposal by June that makes a fundamental shift of the public health care provision and financing. It will be important to ensure that adequate public resources (both budgetary and social contributions) are devoted to financing the government's share.

32. **Better capital expenditure prioritization would facilitate better use of scarce public resources and faster absorption of EU funds.** The absorption of EU funds has increased, but the government is far short of its target, and the authorities admit the possibility of another temporary suspension of EU payments due to irregularities. Unless the pace of absorption picks up further, there is a serious risk that some of these funds could be decommitted next year. Even as EU funds remain unused, domestically financed capital spending has been accelerating, placing the tight budget targets at risk and wasting limited domestic resources. It is crucial that all projects are carefully evaluated to enable the projects with the highest impact to be prioritized. The cancellation of new spending under the PNDI is a welcome move in this regard.

33. **The growth in arrears needs to be reversed.** After a year of steady progress, central and local government arrears have started to rise again. The authorities need to contain pre-election capital spending pressures and monitor and audit hospital budgets to keep spending in check. Strong monitoring and enforcement of the local government finance law is also required to eliminate arrears at the local level, while prompt implementation of the merger of the accounting reporting system and treasury payment system will allow for better control on central government and health sector arrears. The authorities should also follow through on their commitment to dedicate all money raised under the new clawback tax to paying down overdue health sector bills.

34. **While considerable progress has been made in macroeconomic stabilization, structural reforms crucial for future growth have lagged.** The authorities have developed roadmaps for electricity and gas price liberalization and have made good progress in renegotiating bilateral electricity contracts that have benefitted certain groups at the expense of the public purse. However, the calendar for privatization of SOEs continues to slip and several tenders have failed for reasons that could have been prevented. In addition, the drive for private independent managers in SOEs has not progressed adequately. This sends a poor signal of Romania's commitment to structural reforms and undermines Romania's growth potential. In this context, staff supports the new government's plan to jump start the SOE reform agenda by focusing privatization efforts on six enterprises that have a significant macroeconomic impact and placing private management in seven SOEs by the end of the year. The new government will have to firmly resist pre-election political pressures from within its own coalition to achieve this objective.

35. **The banking system has solid liquidity and capital buffers, but risks are high.** While spillover in the form of euro area bank deleveraging has been limited in aggregate, firm action will be required to resolve subsidiaries of banks whose parents are judged not viable. The central bank must remain vigilant in its role as banking supervisor and stand

ready to protect the financial system as needed against potential spillover effects, including via tight monitoring and contingency planning for vulnerable banks. The authorities' steps to ensure adequate preparation and coordination among financial safety net participants are also welcome, but these measures need to be finalized to ensure that the safety net can be operationalized quickly. Furthermore, the authorities must continue to closely monitor NPLs, which rose again in the first quarter after stabilizing in late 2011, and remain aggressive in asking for additional provisions and capital when needed.

36. **Staff recommends caution in further monetary policy easing in light of upside inflation risks and of possible capital outflows or further pressure on the exchange rate**. Exchange rate flexibility and retaining international reserves buffers constitute an important cushion against external shocks. Intervention in the foreign exchange market to manage domestic liquidity should be avoided.

37. **The authorities have wisely built up financial buffers in the public treasury, the NBR, and the reserve and capital buffers of the banking system.** These, together with the precautionary arrangement with the IMF and the EU, soon to be supplemented by a similar arrangement with the World Bank, provide Romania with formidable insurance. With approaching elections and heightened political uncertainty, it is crucial that the authorities stay the course and continue implementing the reform agenda.

38. **On the basis of Romania's performance under the SBA and proposed corrective measures, staff supports the authorities' request for completion of the fifth review under the arrangement and for a waiver for the nonobservance of the performance criterion on arrears accumulation.** Staff also recommends approval of the modification of the program conditionality, as proposed in the attached MEFP.

Box 3. The Stand-By Arrangement

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

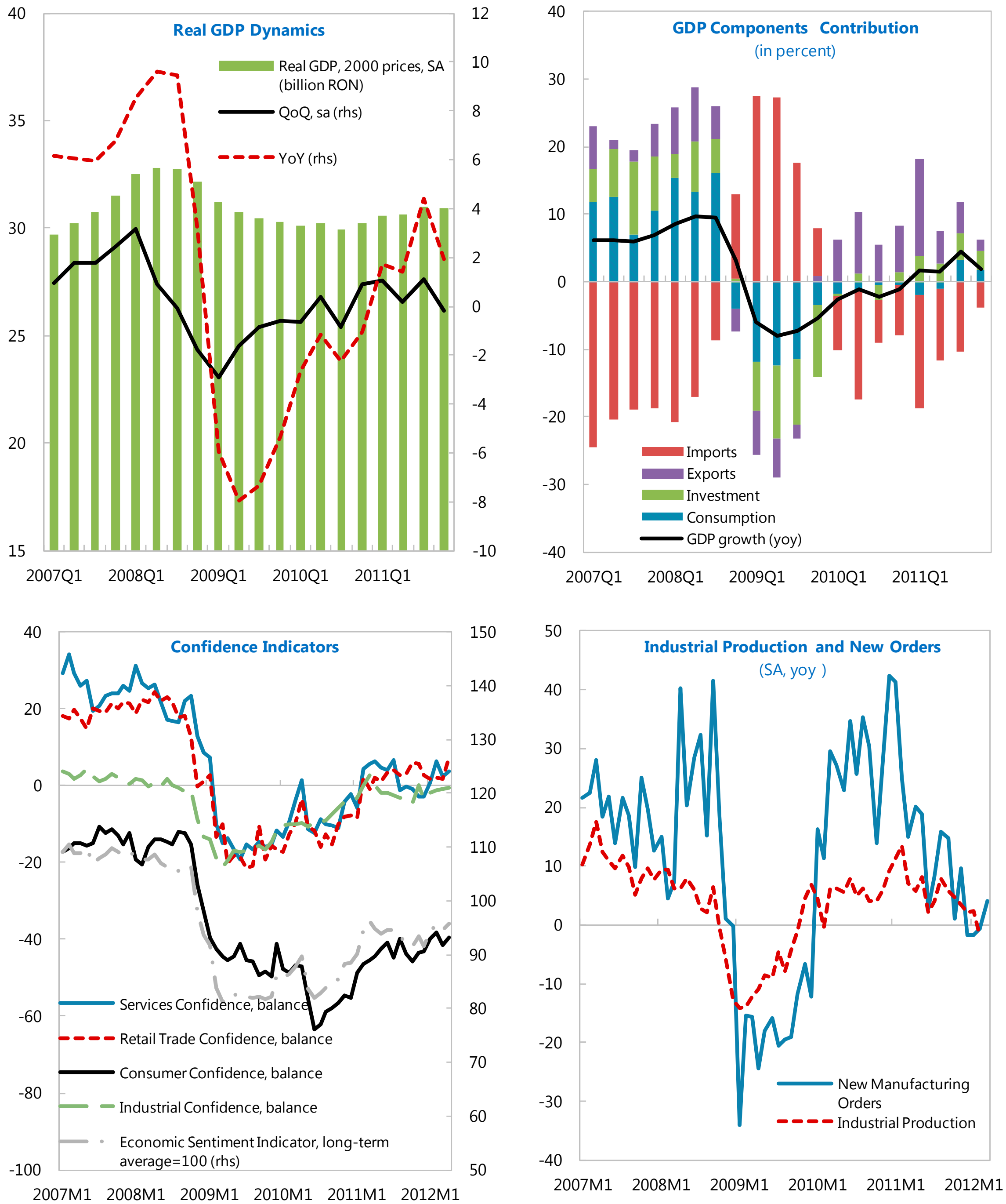
Length: 24 months.

Phasing: SDR 60 million was made available upon effectiveness of the newly approved arrangement, which was approved on March 25, 2011, and became effective on March 31, 2011. The subsequent four disbursements amounting to SDR 1.72 billion became available during June 2011–March 2012 with the completion of the first through fourth reviews. SDR 430 million will be made available subject to the completion of this review. Three subsequent disbursements, totally SDR 880.6 million, are contingent upon completion of the sixth, seventh, and eighth reviews.

Conditionality

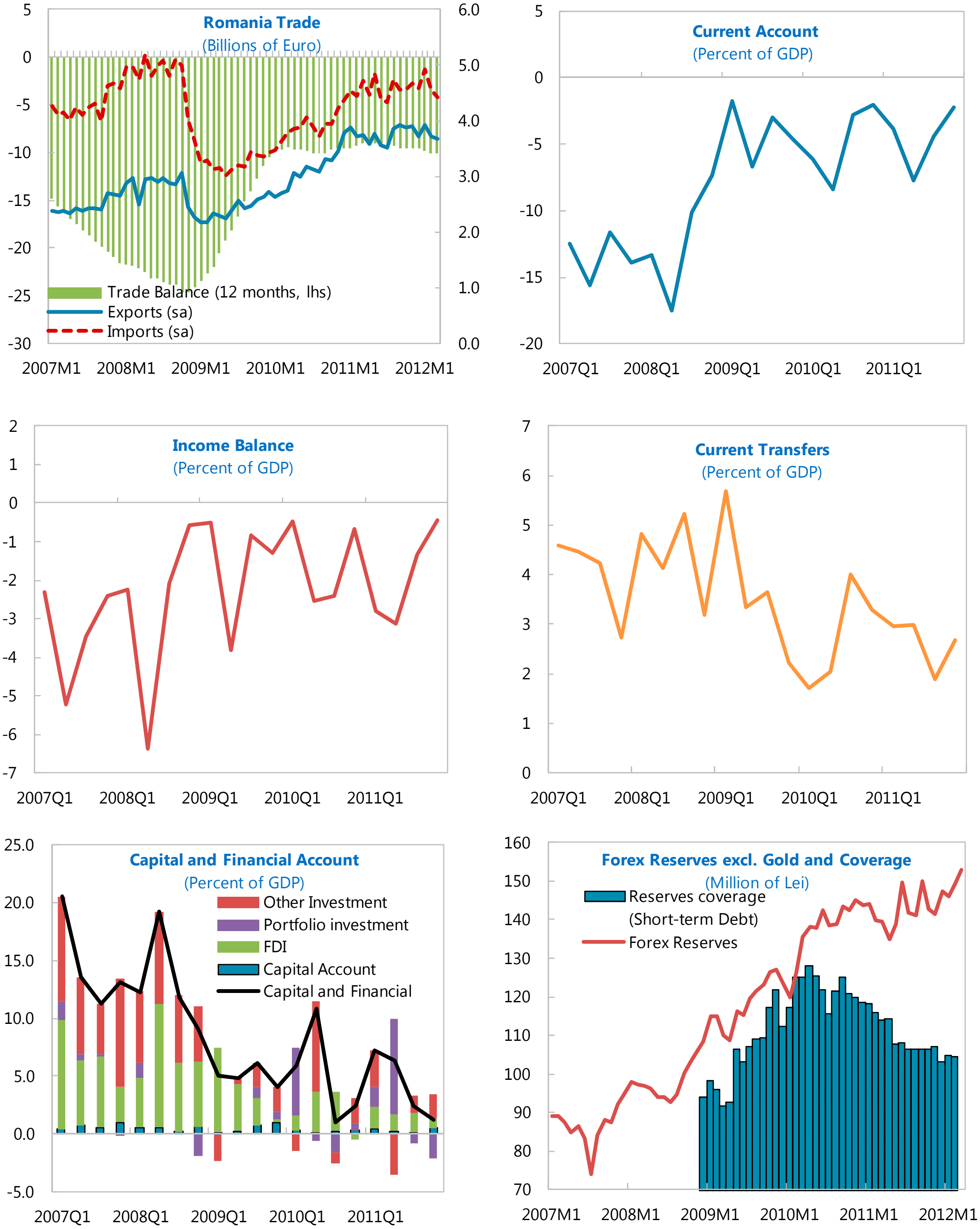
- ***Quantitative Performance Criteria***
  - A floor on the change in net foreign assets
  - A ceiling on central government and social security domestic arrears
  - A floor on the overall general government cash balance
  - A ceiling on general government guarantees
  - Nonaccumulation of external debt arrears
- ***Quantitative Indicative Targets***
  - A ceiling on general government current primary spending
  - A ceiling on local government domestic arrears
  - A floor on the operating balance and a ceiling on arrears of the key loss-making SOEs
  - A ceiling on the execution of the PNDI program
- **A consultation band around the 12-month rate of inflation of consumer prices**
- ***Prior Actions***
  - Approve a roadmap for the deregulation of gas prices as specified in the MEFP.
  - Implement measures to clear the arrears of the state-owned railway to electricity providers as specified in the MEFP.
- ***Structural Benchmarks***
  - An increase of 5 percent in the electricity price for both residential and nonresidential consumers. June 30, 2012 (proposed)
  - Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. (Reset from December 31, 2011, to June 30, 2012 (proposed)).
  - Launch tender for providing software to integrate the accounting reporting system with the Treasury payments system. June 30, 2012 (proposed).
  - Hold IPOs of government shares in Romgaz and Hidroelectrica. October 15, 2012 (proposed).

Figure 1. Romania: Real Sector, 2007–12



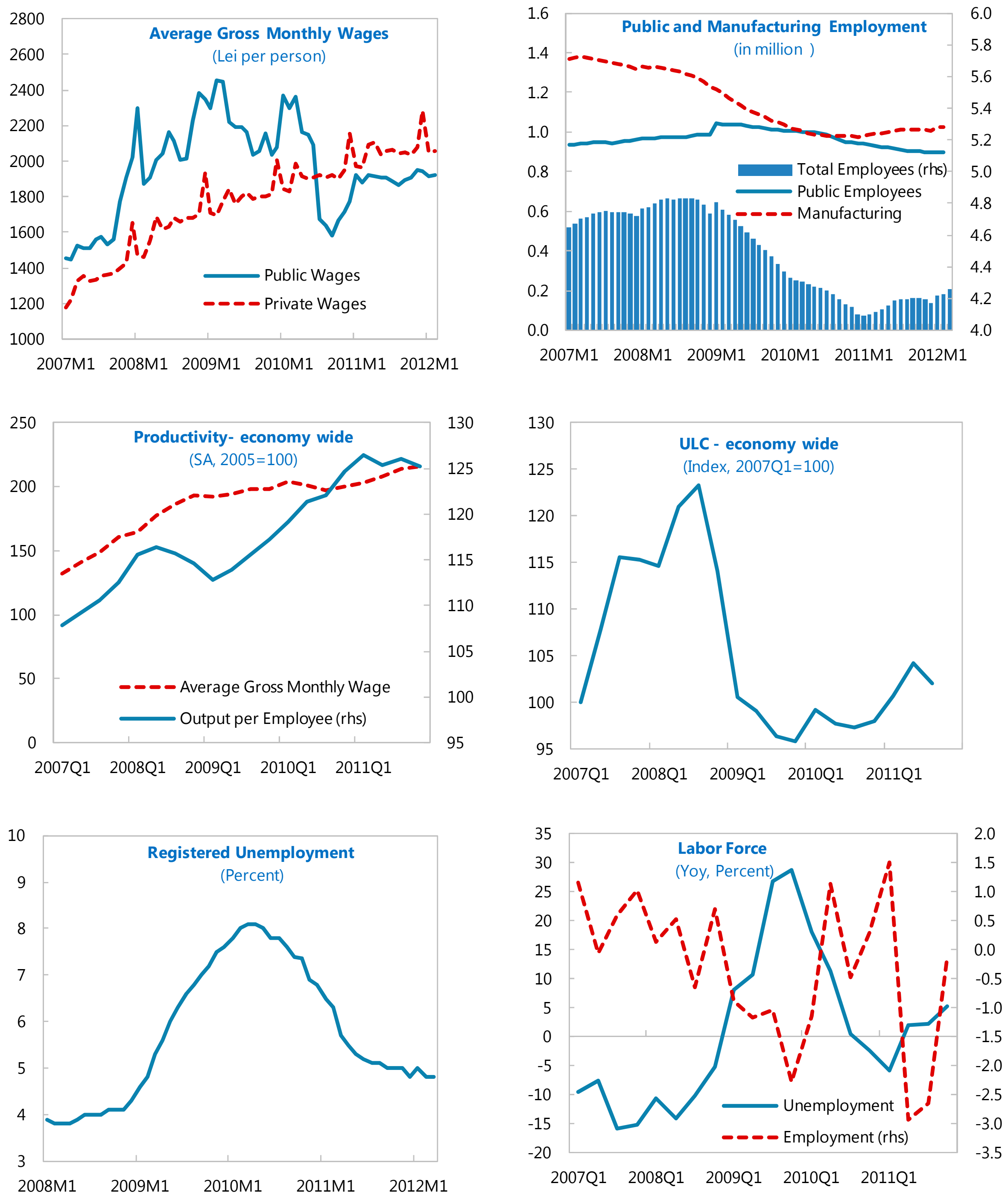
Source: Haver.

Figure 2. Romania: External Sector, 2007–11



Sources: Haver; and National Bank of Romania.

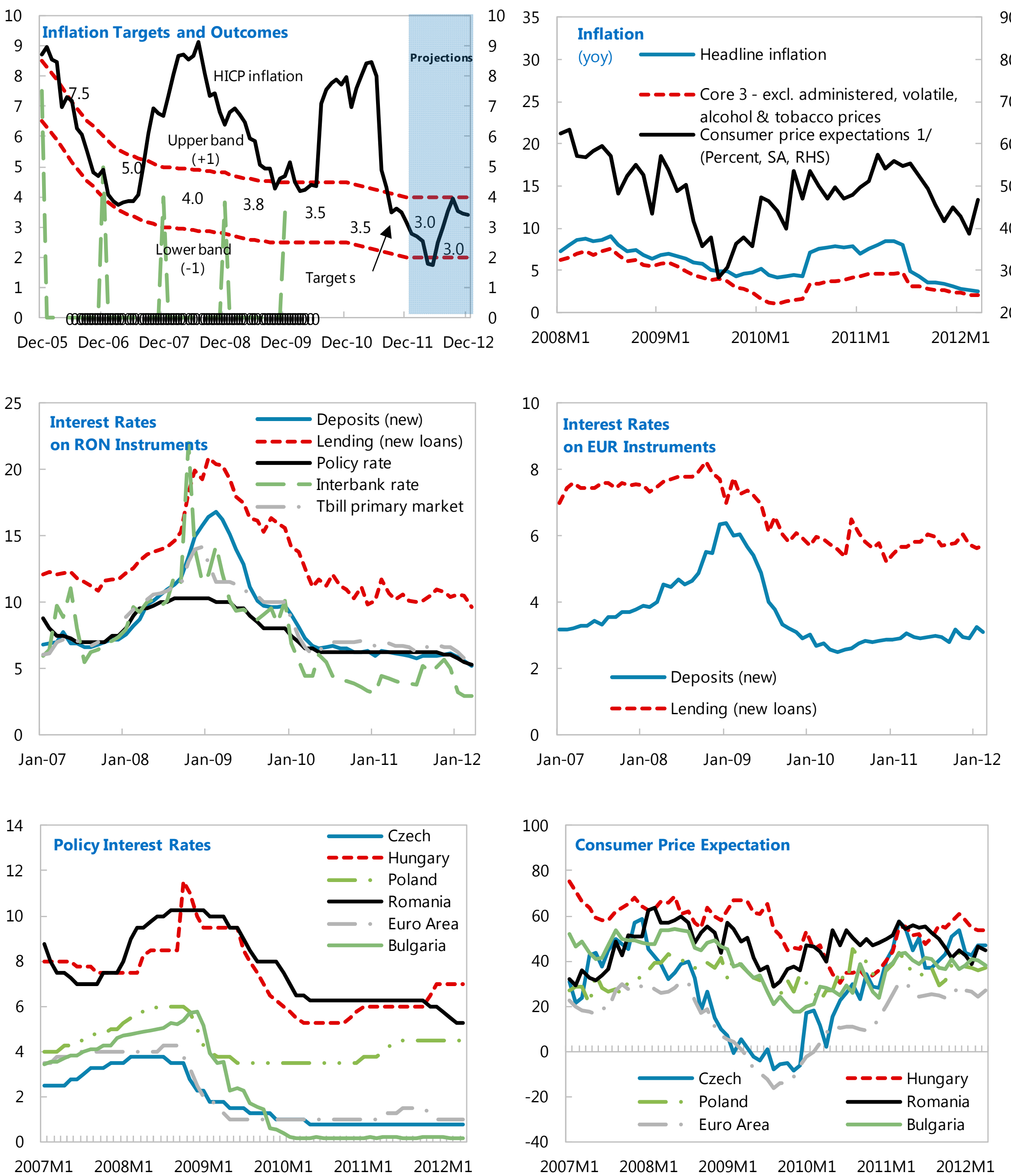
Figure 3. Romania: Labor Sector, 2007–11



Source: Haver.

Figure 4. Romania: Monetary Sector, 2005–12

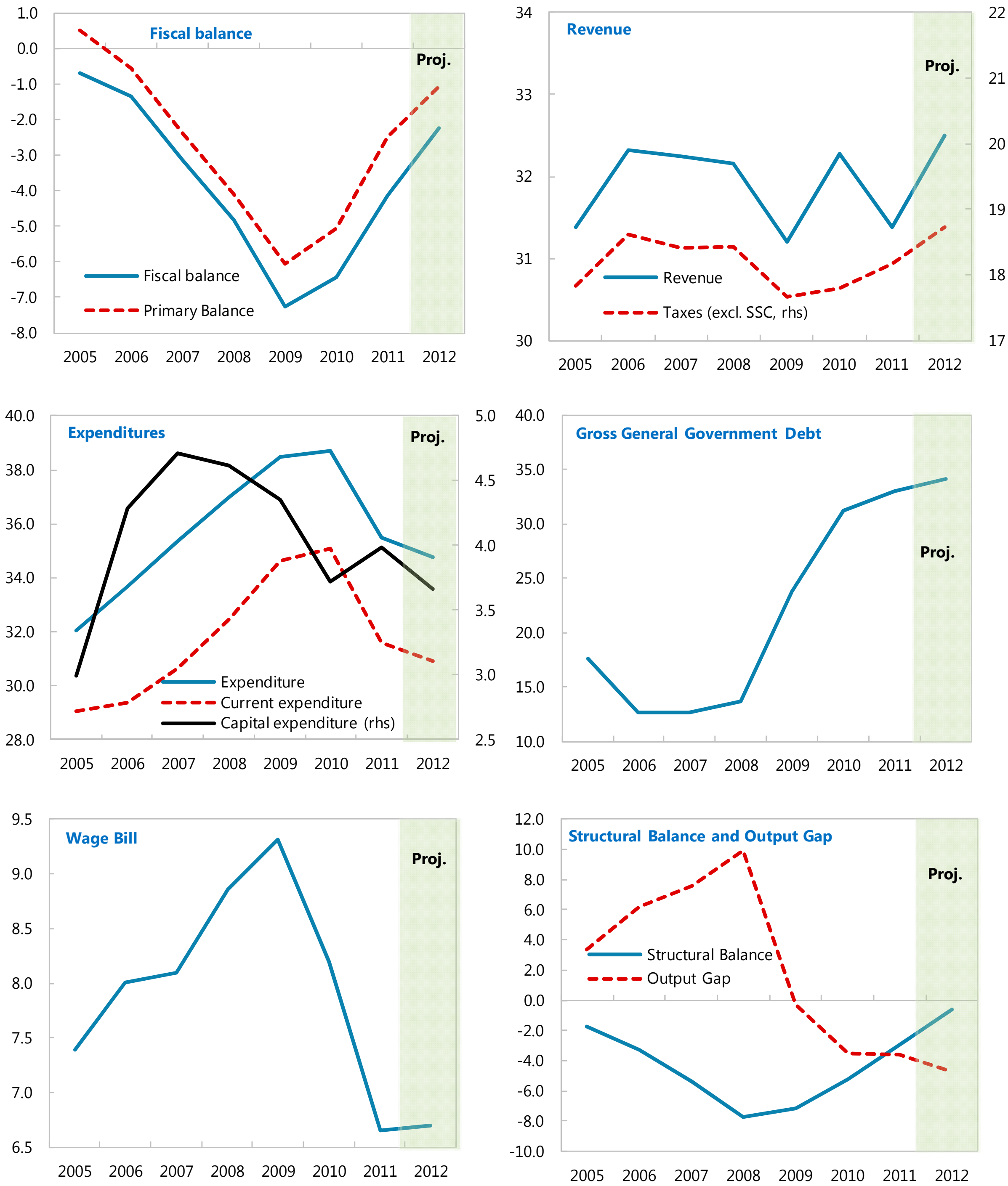
(Percent)



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

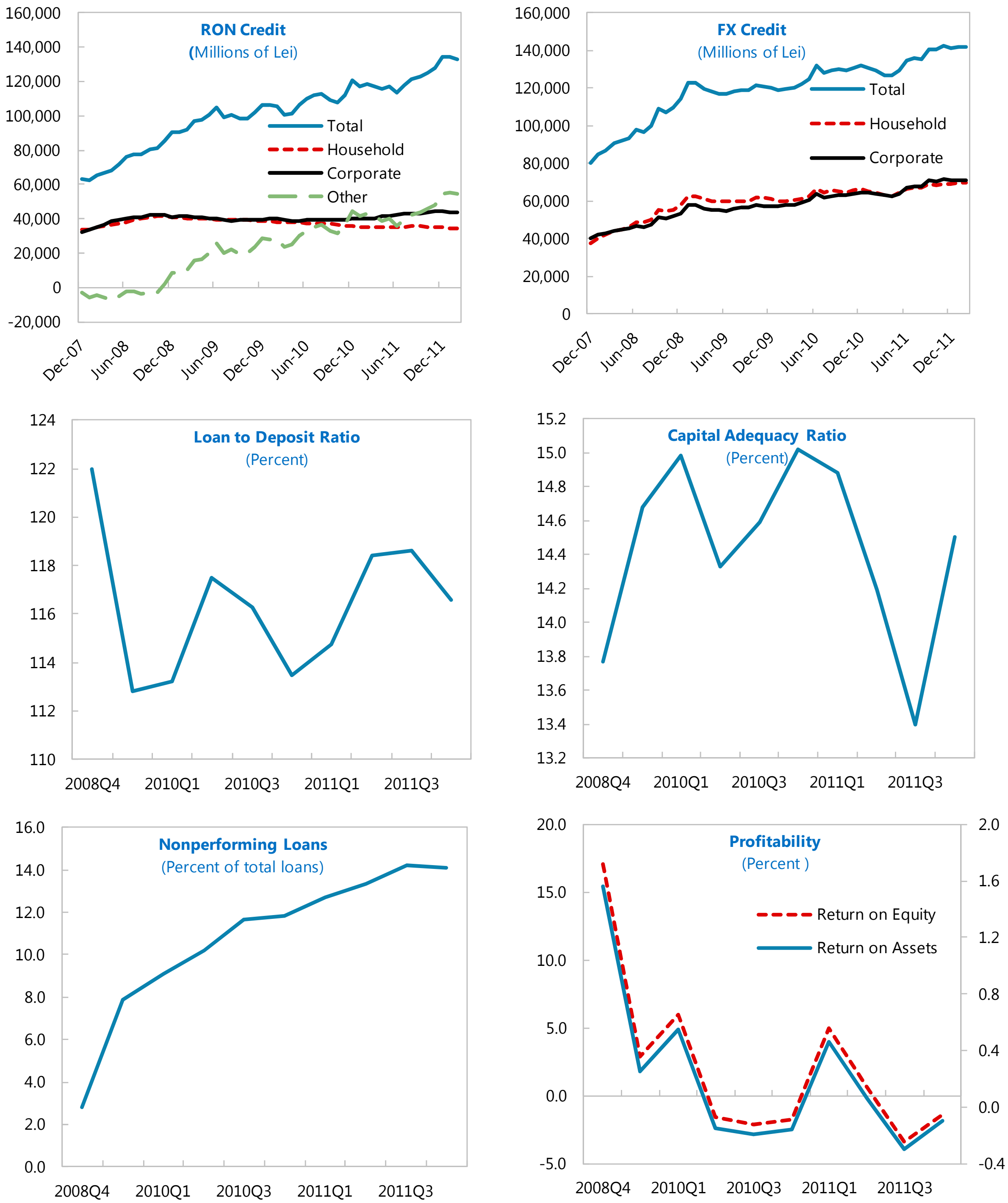
Figure 5. Romania: Fiscal Operations, 2005–12

(Percent of GDP)



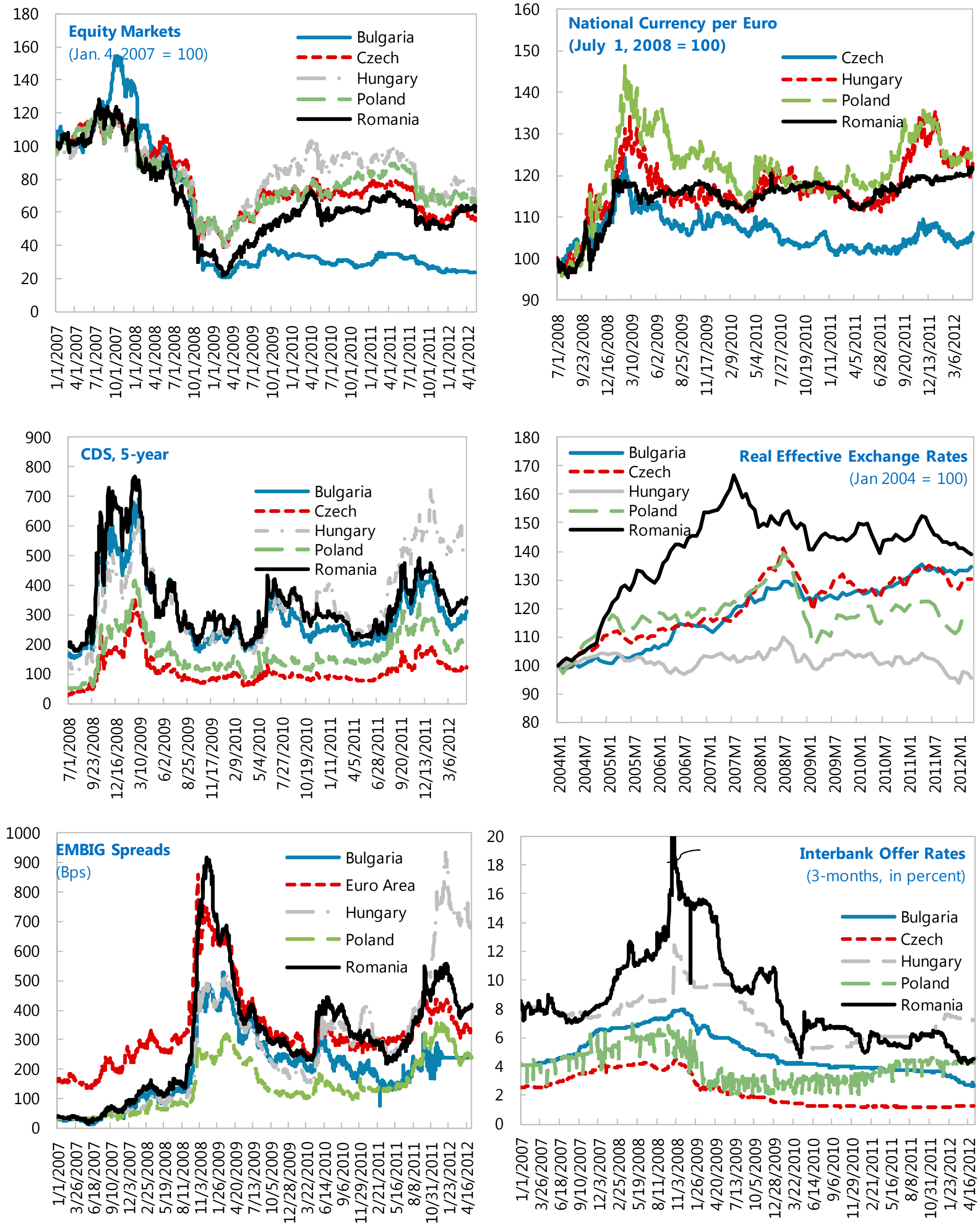
Source: Romania National Authorities; and IMF staff estimates.

Figure 6. Romania: Financial Sector, 2007–12



Sources: Dxtime; and National Bank of Romania.

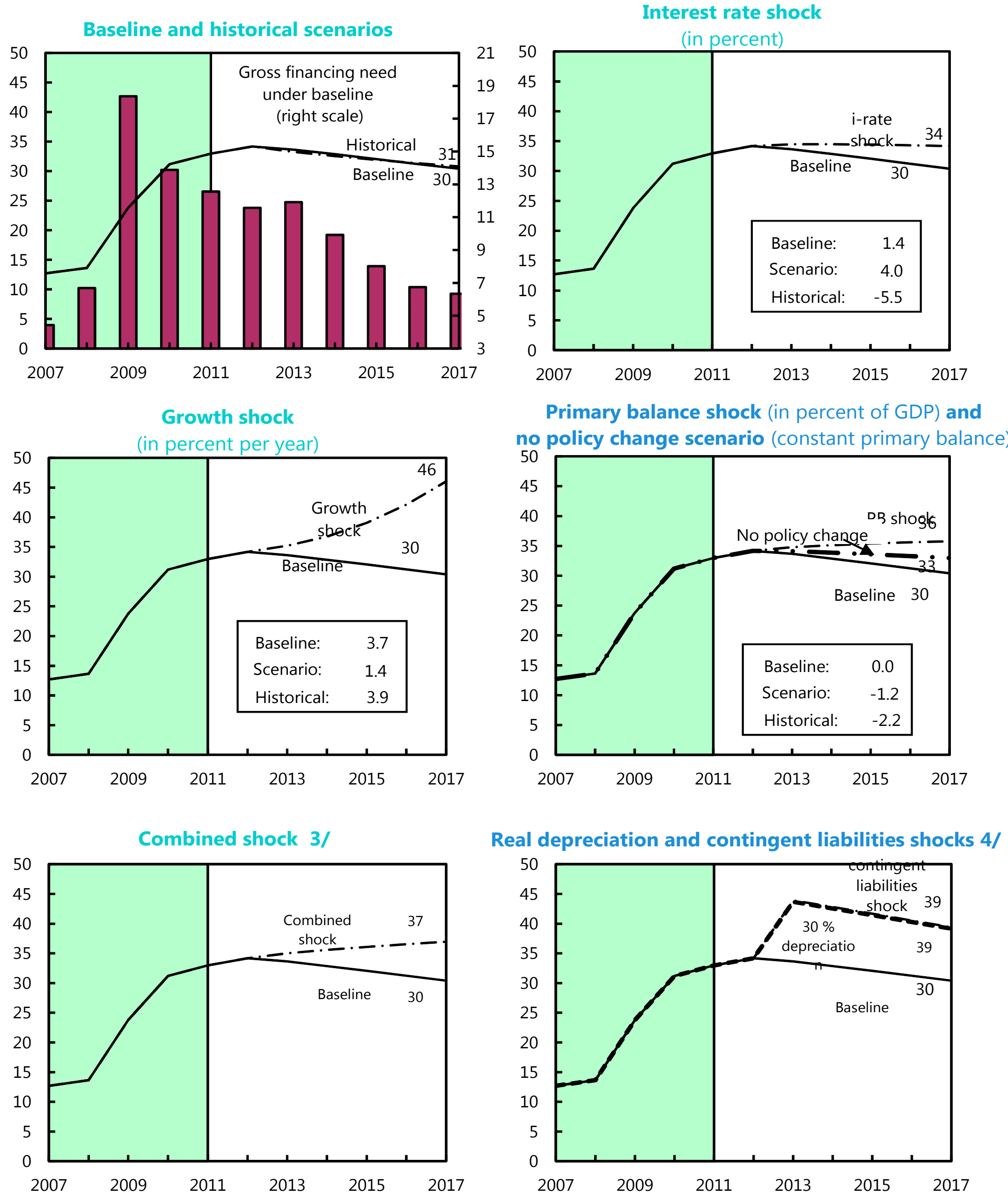
Figure 7. Romania: Financial Developments



Sources: Bloomberg; and Haver.

Figure 8. Romania: Public Debt Sustainability: Bound Tests 1/ 2/

(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.

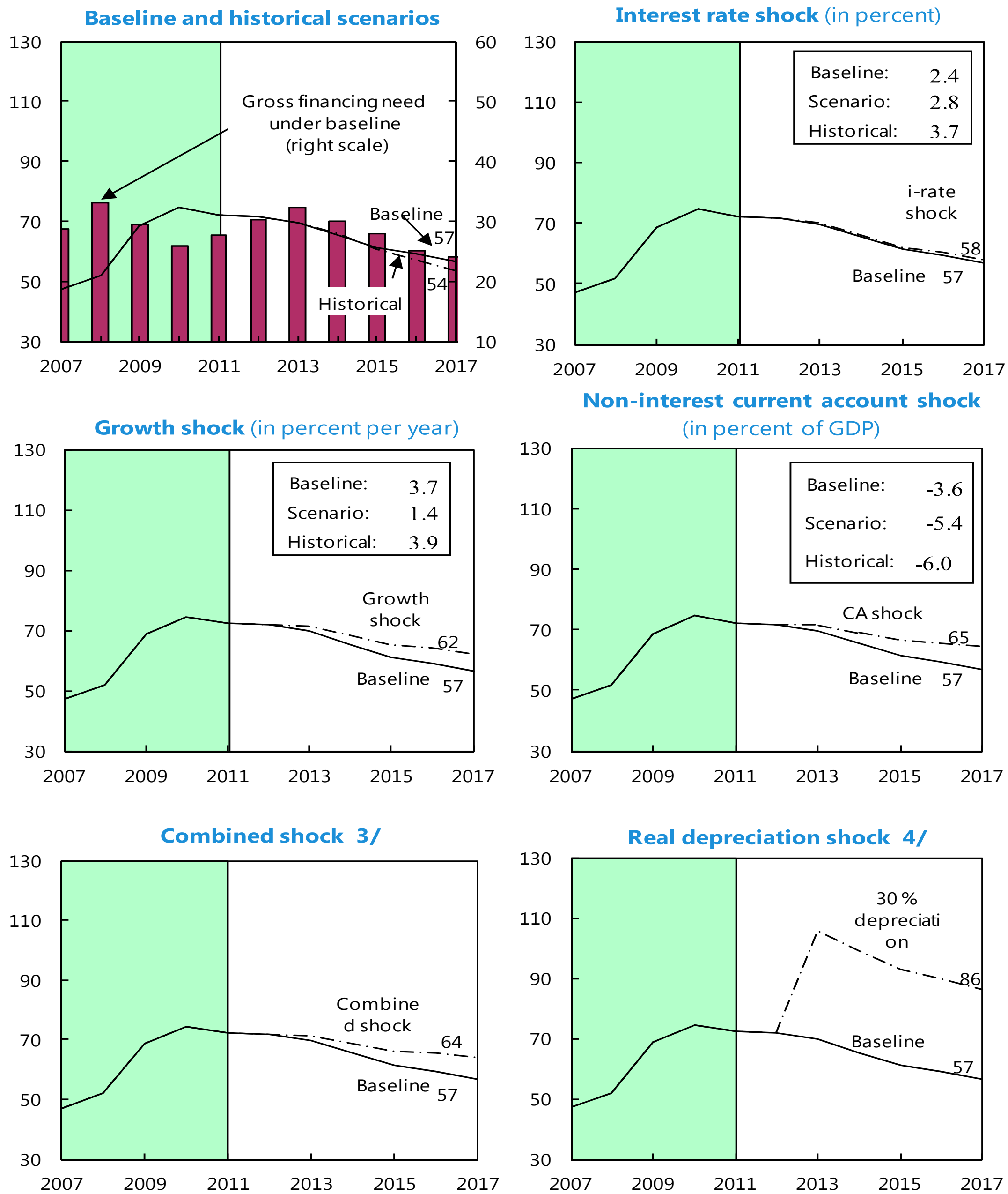
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 9. Romania: External Debt Sustainability: Bound Tests 1/ 2/

(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2013.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012				
	Dec	March	June	Sept	Dec	March		June	Sept	Dec
	Actual	Actual	Actual	Actual	Actual	Prog.	Prelim	Prog.	Prog.	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	533	1696	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,837	-4,550	-3,454	-7000	-9700	-14660
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.08	0.12	0.06	0.04	0.02
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	14.0	7.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	...	...	...	...	...	4.1		4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	...	3.1		3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	3.1	*2.1*	2.4	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	...	1.1		1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	...	0.1		0.4	1.9	1.2
IV. Indicative Target										
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei)	131,938	30,670	62,578	94,133	128,317	32,000	30,910	64,800	99,000	133,700
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs. 4/ (as defined in TMU (bn. lei))	-6.8	-0.7	-1.8	-2.4	-2.0	-1.5	-0.4	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei))	17.9	19.2	19.7	18.5	14.9	17.0	16.2	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.70	0.79	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 4/	...	...	...	...	...	200	66	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ March 2012 target is adjusted up by 533 million Euros to reflect more than projected Eurobond placement of the MoPF
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011). March 2012 target is adjusted by RON 1450 million to RON 4550 for capital spending.
4/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Fifth Review

Measure	Target Date	Comment
Prior Action		
1. Approve a roadmap for the deregulation of gas prices as specified in the MEFP.		
2. The government will approve a memorandum for the cancellation of penalties on railroad company arrears to Electrica and an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers.		
Quantitative performance criteria		
1. Floor on net foreign assets	Mar. 31, 2012	Met
2. Floor on general government overall balance	Mar. 31, 2012	Met
3. Ceiling on central government and social security domestic arrears	Mar. 31, 2012	Not Met
4. Ceiling on general government guarantees	Mar. 31, 2012	Met
5. Non-accumulation of external debt arrears	Mar. 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Mar. 31, 2012	Met
2. Floor on operating balance of key SOEs	Mar. 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	Mar. 31, 2012	Met
4. Ceiling on stock of local government arrears	Mar. 31, 2012	Not Met
Inflation consultation band		
Inner band	Mar. 31, 2012	Met
Outer band	Mar. 31, 2012	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Met
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 1/	Dec. 31, 2011	Reset to June 30, 2012
4. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	Met
5. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	
New structural benchmarks		
1. Launch tender for providing software to integrate the accounting reporting system with the Treasury payment system.	June 30, 2012	
2. Hold IPOs of government shares in Romgaz and Hidroelectrica.	October 15, 2012	

1/ The health care legislation is being revised to better address lack of financial controls and adequacy of funding needs in the health sector. The provisions on private insurance for basic medical benefits are also being reassessed.

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

	2008	2009	2010	2011	2012		2013
				Est.	4th Rev.	Proj.	Proj.
Output and prices	(Annual percentage change)						
Real GDP	7.3	-6.6	-1.6	2.5	1.5	1.5	3.0
Contributions to GDP growth							
Domestic demand	8.3	-13.5	-1.6	3.2	1.7	1.9	3.4
Net exports	-1.0	7.0	0.0	-0.8	-0.3	-0.4	-0.4
Consumer price index (CPI, average)	7.8	5.6	6.1	5.8	2.7	2.9	3.1
Consumer price index (CPI, end of period)	6.4	4.9	8.0	3.1	3.3	3.4	3.0
Producer price index (end of period)	15.3	1.9	6.3	8.9	...	...	...
Unemployment rate (average)	5.8	6.9	7.3	7.4	7.2	7.2	7.0
Nominal wages	23.7	8.5	2.4	4.9	3.2	5.0	5.0
Saving and Investment	(In percent of GDP)						
Gross domestic investment	31.3	25.4	24.8	28.8	28.0	30.2	31.3
Gross national savings	19.7	21.2	20.4	24.4	23.6	25.7	26.5
General government finances							
Revenue	32.2	31.2	32.3	31.4	32.9	32.5	32.7
Expenditure	37.0	38.5	38.7	35.5	34.8	34.7	34.5
Fiscal balance	-4.8	-7.3	-6.4	-4.1	-1.9	-2.2	-1.8
External financing	0.4	2.6	2.8	2.5	1.9	1.9	0.8
Domestic financing	4.4	4.6	3.6	1.6	0.0	0.4	0.8
Privatization proceeds 1/	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Fiscal balance (including PNDI)	-4.8	-7.3	-6.4	-4.1	-2.1	-2.4	-2.0
Structural fiscal balance 2/	-8.5	-7.2	-5.1	-2.8	-0.2	-0.6	-0.2
Gross public debt (direct debt only)	11.8	21.7	28.2	30.2	32.3	31.6	31.2
Gross public debt (including guarantees)	13.6	23.8	31.2	33.0	35.0	34.2	33.7
Money and credit	(Annual percentage change)						
Broad money (M3)	17.5	9.0	6.9	6.6	6.6	6.7	7.3
Credit to private sector	33.7	0.9	4.7	6.6	3.2	4.0	6.4
Interest rates, eop	(In percent)						
Euribor, six-months	3.5	4.5	1.2	1.6	...	...	...
NBR policy rate	10.3	8.0	6.3	6.0	...	...	...
NBR lending rate (Lombard)	14.3	12.0	10.3	10.0	...	...	...
Interbank offer rate (1 week)	12.7	10.7	3.6	6.0	...	...	...
Balance of payments	(In percent of GDP)						
Current account balance	-11.6	-4.2	-4.4	-4.4	-4.4	-4.4	-4.8
Merchandise trade balance	-13.7	-5.8	-6.1	-5.5	-5.9	-5.5	-5.6
Capital and financial account balance	12.7	-2.5	1.0	1.3	4.6	4.7	8.0
Foreign direct investment balance	6.7	3.0	1.8	1.4	1.9	1.9	1.9
International investment position	-49.4	-62.3	-62.8	-60.3	-65.2	-63.5	-65.7
Gross official reserves	20.2	26.1	29.0	27.3	27.6	27.0	25.2
Gross external debt	51.8	68.6	74.5	72.2	73.7	71.7	69.5
Exchange rates							
Lei per euro (end of period)	4.0	4.2	4.3	4.3	...	...	...
Lei per euro (average)	3.7	4.2	4.2	4.2	...	...	...
Real effective exchange rate							
CPI based (percentage change)	-5.0	-7.5	1.9	2.8	...	...	...
GDP deflator based (percentage change)	1.5	-8.7	1.9	2.6	...	...	...
Memorandum Items:							
Nominal GDP (in bn RON)	514.7	501.1	522.6	578.6	593.6	607.5	649.0

Social and Other Indicators

GDP per capita (current US$, 2011): $8665; **GDP per capita, PPP** (current international $, 2009): $14,198

Poverty rate: 5.7% (2008)

Sources: Romanian authorities; Fund staff estimates and projections; and World Development Indicators database.

1/ Excludes receipts from planned privatizations under the program.

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

Table 4. Romania Macroeconomic Framework, Current Policies, 2008–17

	2008	2009	2010	2011	2012		2013	2014	2015	2016	2017
				Est.	4th Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)											
Real GDP	7.3	-6.6	-1.6	2.5	1.5	1.5	3.0	3.7	4.0	4.0	4.0
Real domestic demand	7.3	-12.0	-1.5	3.1	1.7	1.8	3.3	3.8	4.2	4.2	4.2
Consumption	8.7	-7.4	-1.3	0.3	0.9	0.6	2.2	3.8	4.4	4.5	4.4
Investment	15.6	-28.1	-2.1	6.3	6.1	8.3	6.1	4.5	4.0	4.2	4.4
Exports	8.3	-6.4	14.0	9.9	5.2	5.2	7.2	8.0	8.2	8.2	8.2
Imports	7.9	-20.5	11.9	10.5	5.3	5.6	7.3	7.8	8.1	8.1	8.3
Consumer price index (CPI, average)	7.8	5.6	6.1	5.8	2.7	2.9	3.1	2.5	2.5	2.5	2.5
Consumer price index (CPI, end of period)	6.4	4.9	8.0	3.1	3.3	3.4	3.0	2.5	2.5	2.5	2.5
Saving and investment (in percent of GDP)											
Gross national saving	19.7	21.2	20.4	24.4	23.6	25.7	26.5	26.8	27.2	27.4	27.7
Government	1.5	-2.0	0.8	3.3	4.8	4.8	5.7	6.6	6.9	7.2	7.5
Private	18.2	23.2	19.6	21.1	18.8	20.9	20.8	20.2	20.3	20.2	20.2
Gross domestic investment	31.3	25.4	24.8	28.8	28.0	30.2	31.3	31.9	32.2	32.4	32.7
Government	6.3	5.2	7.3	7.4	6.7	6.7	6.9	7.7	8.0	8.2	8.6
Private	25.0	20.1	17.6	21.4	21.3	23.5	24.4	24.2	24.2	24.2	24.1
General government (in percent of GDP)											
Revenue	32.2	31.2	32.3	31.4	32.9	32.5	32.7	33.4	33.5	33.6	33.7
Tax revenue	27.9	27.2	26.5	26.9	27.2	27.2	27.4	27.5	27.5	27.6	27.7
Non-Tax revenue	3.1	2.9	3.8	3.1	3.2	2.9	2.9	2.9	3.0	3.0	3.1
Grants	0.9	1.0	1.8	1.2	2.3	2.2	2.2	2.8	2.8	2.8	2.8
Expenditure	37.0	38.5	38.7	35.5	34.8	34.7	34.5	35.1	35.1	35.2	35.4
Fiscal balance	-4.8	-7.3	-6.4	-4.1	-1.9	-2.2	-1.8	-1.7	-1.7	-1.6	-1.6
Fiscal balance (including PNDI)	-4.8	-7.3	-6.4	-4.1	-2.1	-2.4	-2.0	-1.9	-1.8	-1.8	-1.6
Structural fiscal balance 1/	-8.5	-7.2	-5.1	-2.8	-0.2	-0.6	-0.2	-0.3	-0.4	-0.6	-0.7
Gross public debt (direct debt only)	11.8	21.7	28.2	30.2	32.3	31.6	31.2	30.6	30.0	29.3	28.6
Gross public debt (including guarantees)	13.6	23.8	31.2	33.0	35.0	34.2	33.7	32.9	32.1	31.2	30.4
Monetary aggregates (annual percent change)											
Broad money (M3)	17.5	9.0	6.9	6.6	6.6	6.7	7.3	8.6	7.4	8.4	8.5
Credit to private sector	33.7	0.9	4.7	6.6	3.2	4.0	6.4	7.7	9.1	8.3	9.4
Balance of payments (in percent of GDP)											
Current account	-11.6	-4.2	-4.4	-4.4	-4.4	-4.4	-4.8	-5.0	-5.0	-5.0	-5.0
Trade balance	-13.7	-5.8	-6.1	-5.5	-5.9	-5.5	-5.6	-5.7	-5.8	-5.6	-5.6
Services balance	0.5	-0.2	0.3	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Income balance	-2.7	-1.6	-1.5	-1.7	-1.6	-1.7	-1.8	-1.9	-2.0	-2.0	-2.0
Transfers balance	4.3	3.5	2.9	2.6	3.1	2.7	2.6	2.5	2.7	2.5	2.5
Capital and financial account balance	12.7	-2.5	1.0	1.3	4.6	4.5	8.0	7.0	4.6	5.4	4.8
Foreign direct investment, balance	6.7	3.0	1.8	1.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Memorandum items:											
Gross international reserves (in billions of euros)	28.3	30.9	36.0	37.3	37.5	37.7	37.8	36.2	34.0	34.7	34.4
Gross international reserves (in months of next year's imports)	7.8	7.2	7.2	7.0	6.5	6.5	5.9	5.1	4.3	4.3	4.3
International investment position (in percent of GDP)	-49.4	-62.3	-62.8	-60.3	-65.2	-63.5	-65.7	-64.7	-60.7	-57.0	-53.7
Real effective exchange rate, CPI based	-5.0	-7.5	1.9	2.8	-4.2	-2.5	2.0	2.7	2.5	2.3	2.0
External debt (in percent of GDP)	51.8	68.6	74.5	72.2	73.7	71.7	69.5	65.3	61.3	59.2	56.9
Short-term external debt (in percent of GDP)	14.7	13.0	15.8	16.8	17.2	16.8	16.4	15.7	15.1	14.6	14.1
Terms of trade (merchandise, percent change)	3.1	1.2	2.6	6.8	-0.3	-0.8	0.1	0.6	1.6	1.4	1.2
Nominal GDP (in millions of lei)	514,700	501,139	522,561	578,552	593,623	607,541	649,000	701,122	757,769	821,656	892,042
Nominal GDP (in millions of Euros)	139,766	118,269	124,130	136,518	135,647	139,489	150,056	164,809	181,279	199,744	220,016
Output Gap	10.0	-0.3	-3.6	-3.6	-4.7	-4.8	-4.6	-4.1	-3.5	-3.0	-2.5

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

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

Table 5. Romania: Balance of Payments, 2009–17

(In billions of euros, unless otherwise indicated)

	2009	2010	2011	2012		2013	2014	2015	2016	2017
	Act	Act	Act	Prog	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.9	-5.5	-6.0	-6.0	-6.2	-7.2	-8.3	-9.1	-10.0	-10.9
Merchandise trade balance	-6.9	-7.6	-7.5	-8.0	-7.7	-8.4	-9.4	-10.5	-11.2	-12.3
Exports (f.o.b.)	29.1	37.4	45.0	48.2	48.4	52.9	58.5	65.1	72.4	80.3
Imports (f.o.b.)	36.0	45.0	52.6	56.3	56.1	61.3	67.9	75.6	83.6	92.6
Services balance	-0.3	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.3
Exports of non-factor services	7.1	6.6	7.4	7.7	7.7	8.4	9.3	10.4	11.6	12.8
Imports of non-factor services	7.4	6.2	7.0	7.6	7.6	8.3	9.2	10.2	11.3	12.5
Income balance	-1.9	-1.9	-2.4	-2.2	-2.3	-2.7	-3.2	-3.6	-4.0	-4.4
Receipts	1.2	0.9	1.3	1.0	1.0	1.0	1.0	1.1	1.1	1.2
Payments	3.1	2.8	3.6	3.2	3.3	3.7	4.2	4.7	5.1	5.6
Current transfer balance	4.1	3.6	3.5	4.2	3.7	3.8	4.1	4.9	4.9	5.5
Capital and financial account balance	-2.9	1.2	1.8	6.2	6.6	12.1	11.5	8.4	10.8	10.6
Capital account balance	0.6	0.2	0.4	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Foreign direct investment balance	3.6	2.2	1.9	2.6	2.6	2.8	3.1	3.4	3.7	4.1
Portfolio investment balance	0.5	0.7	0.5	1.8	1.8	3.7	2.6	0.0	0.0	0.0
Other investment balance	-7.6	-1.9	-1.0	1.2	1.4	5.0	5.2	4.4	6.4	5.9
General government	-0.5	0.3	-1.7	-0.4	-0.1	0.0	-0.2	-1.5	0.0	-1.2
Domestic banks	-5.5	0.6	-0.1	0.8	0.8	0.8	0.9	1.0	1.1	1.2
Other private sector	-1.6	-2.7	-0.9	0.8	0.8	4.1	4.4	4.9	5.4	5.9
Errors and omissions	-1.0	-0.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral financing	2.1	3.7	3.5	1.6	1.6	...	...	...	...	...
European Commission	1.5	2.2	1.4	0.0	0.0	...	...	...	...	...
World Bank	0.3	0.0	0.7	0.0	0.0	...	...	...	...	...
EIB/EBRD/IFC	0.3	1.5	1.4	1.6	1.6	...	...	...	...	...
Overall balance	-6.7	-0.8	0.0	1.8	2.0	4.9	3.1	-0.7	0.8	-0.3
Financing	6.7	0.8	0.0	-1.8	-2.0	-4.9	-3.1	0.7	-0.8	0.3
Gross international reserves (increase: -)	-1.1	-3.5	-0.9	-0.2	-0.5	-0.1	1.7	2.2	-0.8	0.3
Use of Fund credit, net	6.8	4.3	0.9	-1.6	-1.5	-4.8	-4.8	-1.5	0.0	0.0
Purchases 1/	6.8	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	-1.6	-1.5	-4.8	-4.8	-1.5	0.0	0.0
Other liabilities, net	1.0	0.0	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	-4.2	-4.4	-4.4	-4.4	-4.4	-4.8	-5.0	-5.0	-5.0	-5.0
Foreign direct investment balance	3.0	1.8	1.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Merchandise trade balance	-5.8	-6.1	-5.5	-5.9	-5.5	-5.6	-5.7	-5.8	-5.6	-5.6
Exports	24.6	30.1	33.0	35.5	34.7	35.3	35.4	35.9	36.3	36.6
Imports	30.4	36.2	38.5	41.5	40.2	40.9	41.1	41.7	41.9	42.2
Gross external financing requirement	29.5	25.9	27.7	31.0	30.3	32.3	30.0	28.0	25.1	24.0
				(Annual percentage change)						
Terms of trade (merchandise)	1.2	2.5	6.8	-0.3	-0.8	0.1	0.6	1.6	1.4	1.2
Export volume	-6.4	14.0	9.9	5.2	5.2	7.2	8.0	8.2	8.2	8.2
Import volume	-20.5	11.9	10.5	5.3	5.6	7.3	7.8	8.1	8.1	8.3
Export prices	4.7	6.1	8.8	1.6	1.1	2.0	2.3	2.8	2.6	2.5
Import prices	3.3	3.5	7.2	1.9	1.1	2.1	2.9	3.2	2.5	2.5
				(In billions of euros)						
Gross international reserves 2/	30.9	36.0	37.3	37.5	37.7	37.8	36.2	34.0	34.7	34.4
GDP	118.3	124.1	136.5	135.6	139.4	150.1	165.0	181.4	199.4	219.1

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

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

2/ Operational definition. 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	Year	Q1	Q2	Q3	Q4	Year	2011-12
	Act	Act	Act	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**38.2**	**39.2**	**11.2**	**9.2**	**9.8**	**9.7**	**39.9**	**79.1**
I.A. Current account deficit	5.5	6.0	0.5	1.9	1.9	1.9	6.2	12.2
I.B. Short-term debt	21.0	21.9	8.1	5.4	6.4	5.2	25.1	47.0
Public sector	4.6	5.9	3.1	1.0	1.2	0.6	5.8	11.7
Banks	11.2	11.9	3.9	2.9	3.7	3.2	13.7	25.6
Corporates	5.2	4.1	1.1	1.5	1.5	1.4	5.5	9.7
I.C. Maturing medium- and long-term debt	11.3	11.1	2.3	2.5	1.9	3.0	9.6	20.8
Public sector	1.7	1.8	0.4	0.9	0.2	0.4	2.0	3.8
Banks	3.2	3.6	1.3	0.6	0.6	0.5	3.0	6.6
Corporates	6.4	5.7	0.6	0.9	1.1	2.0	4.6	10.3
I.D. Other net capital outflows 1/	0.4	0.2	0.3	-0.5	-0.4	-0.4	-1.0	-0.8
II. Total financing sources	**33.9**	**35.0**	**12.1**	**8.2**	**10.4**	**9.0**	**39.6**	**74.5**
II.A. Foreign direct investment, net	2.2	1.9	0.4	0.7	0.7	0.7	2.6	4.5
II.B. Capital account inflows	0.2	0.4	0.4	0.2	0.2	0.2	0.7	1.1
II.C. Short-term debt	23.2	24.6	8.0	5.8	7.0	5.3	26.1	50.7
Public sector	5.4	6.3	3.3	1.0	1.2	0.6	6.1	12.4
Banks	12.5	12.3	3.7	3.2	4.1	3.2	14.2	26.5
Corporates	5.3	5.9	1.0	1.5	1.8	1.5	5.8	11.8
II.D. Medium- and long-term debt	8.2	8.1	3.2	1.6	2.5	2.9	10.1	18.2
Public sector	2.3	2.7	2.1	0.2	0.9	0.3	3.5	6.2
Banks	2.3	3.0	0.8	0.5	0.6	0.5	2.5	5.5
Corporates	3.7	2.4	0.3	0.8	1.1	2.0	4.2	6.6
Errors and Omissions	-0.2	0.8	0.8	0.0	0.0	0.0	0.8	1.3
III. Increase in gross reserves	3.5	0.8	1.8	-0.6	0.4	-1.1	0.5	1.4
IV. Financing Gap	**8.0**	**4.4**	**0.1**	**0.5**	**-0.1**	**-0.4**	**0.1**	**4.4**
V. Program financing	**8.0**	**4.4**	**0.1**	**0.5**	**-0.1**	**-0.4**	**0.1**	**4.4**
IMF 2/	4.3	0.9	0.0	0.0	-0.6	-0.9	-1.5	-0.7
Purchases	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Repurchases	0.0	0.0	0.0	0.0	-0.6	-0.9	-1.5	-1.5
Others	3.7	3.5	0.1	0.5	0.5	0.5	1.6	5.1
European Commission	2.2	1.4	0.0	0.0	0.0	0.0	0.0	1.4
World Bank	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.7
EIB/EBRD/IFC	1.5	1.4	0.1	0.5	0.5	0.5	1.6	3.0
Memorandum items:								
Rollover rates for amortizing debt ST (in percent)								
Public sector	118	108	107	100	100	100	104	106
Banks	112	104	96	110	110	100	104	104
Corporates	101	143	93	105	115	105	105	122
Rollover rates for amortizing debt MLT (in percent)								
Public sector	135	149	549	21	360	67	171	161
Banks	71	84	67	90	100	100	83	84
Corporates	58	42	55	90	100	100	91	64
Gross international reserves 3/	36.0	37.3	…	…	…	…	37.7	…
Coverage of gross international reserves								
- Months of imports of GFNS (next year)	7.2	7.0	…	…	…	…	6.5	…
- Short-term external debt (in percent)	118.6	103.2	…	…	…	…	91.1	…

Source: Romanian authorities and IMF staff estimates.

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

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

3/ Operational Definition.

Table 7. Romania: General Government Operations, 2007–13
(In percent of GDP)

	2007	2008	2009	2010	2011 Act. 7/	2012 4th Rev. 8/	2012 Proj. 8/	2013 Proj
Revenue	32.3	32.2	31.2	32.3	31.4	32.9	32.5	32.7
Taxes	27.9	27.9	27.2	26.5	26.9	27.2	27.2	27.4
Corporate income tax	2.9	2.8	2.7	2.1	1.9	2.0	2.0	2.0
Personal income tax	3.5	3.6	3.7	3.4	3.4	3.4	3.5	3.6
VAT	7.5	7.9	6.8	7.5	8.3	8.5	8.4	8.4
Excises	3.0	2.7	3.1	3.3	3.3	3.4	3.4	3.3
Customs duties	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	9.5	9.5	9.5	8.7	8.8	8.6	8.5	8.7
Other taxes	1.4	1.2	1.2	1.3	1.2	1.2	1.3	1.3
Nontax revenue	3.4	3.1	2.9	3.8	3.1	3.2	2.9	2.9
Capital revenue	0.2	0.2	0.1	0.1	0.1	0.3	0.2	0.2
Grants, including EU disbursements	0.8	0.9	1.0	1.8	1.2	2.3	2.2	2.2
Expenditure	35.4	37.0	38.5	38.7	35.5	34.8	34.7	34.5
Current expenditure	30.7	32.5	34.6	35.1	31.6	31.2	30.9	30.9
Compensation of employees	8.1	8.9	9.3	8.2	6.7	6.7	6.7	7.1
Goods and services	6.1	6.2	5.6	5.7	5.5	5.4	5.4	5.2
Interest	0.7	0.7	1.2	1.4	1.5	1.7	1.7	1.7
Subsidies	1.7	1.5	1.4	1.3	1.1	0.9	0.9	0.8
Transfers	14.1	15.1	16.6	18.2	16.4	16.2	15.8	15.8
Pensions	5.4	6.4	8.0	8.1	8.2	8.1	7.9	7.7
Other social transfers	3.9	4.1	4.8	5.1	3.6	3.3	3.2	3.1
Other transfers 1/	4.0	3.4	3.4	4.5	4.2	4.4	4.2	4.6
Other spending	0.7	1.2	0.5	0.6	0.5	0.4	0.4	0.4
Proj. with ext. credits	0.0	0.0	0.4	0.3	0.4	0.3	0.4	0.3
Capital expenditure 2/	4.7	4.6	4.4	3.7	4.0	3.5	3.7	3.6
Reserve fund	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Net lending and expense refunds	0.0	-0.1	-0.5	-0.1	-0.1	0.0	0.0	0.0
Fiscal balance	-3.1	-4.8	-7.3	-6.4	-4.1	-1.9	-2.2	-1.8
Primary balance	-2.4	-4.1	-6.1	-5.0	-2.6	-0.2	-0.6	-0.1
Fiscal balance including PNDI			-7.3	-6.4	-4.1	-2.1	-2.4	-2.0
Financing	3.1	4.8	7.3	6.4	4.1	1.9	2.2	1.8
External borrowing (net)	0.0	0.4	2.6	2.8	2.5	1.9	1.9	0.8
Domestic borrowing (net)	2.3	2.9	5.8	4.0	2.3	0.9	1.3	1.0
Use of deposits	0.7	1.4	-1.2	-0.4	-0.7	-1.0	-1.0	0.0
Privatization proceeds	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financial liabilities								
Gross public debt 3/	12.7	13.6	23.8	31.2	33.0	35.0	34.6	34.2
Gross public debt excl. guarantees	10.4	11.8	21.7	28.2	30.2	32.3	32.0	31.8
External	7.0	6.9	10.0	13.0	14.2	15.8	15.5	15.3
Domestic	3.4	4.9	11.7	15.2	16.0	16.5	16.5	16.5
Memorandum items:								
Total capital spending (excluding PNDI)	...	6.3	5.2	7.3	7.4	6.7	6.8	6.9
Fiscal balance (ESA95 basis) 4/	-2.9	-5.7	-9.0	-6.8	-5.2	...	-2.8	-2.2
Gross public debt (ESA95 basis) 4/	12.8	13.4	23.6	30.5	31.2	...	...	...
Output gap 5/	7.6	10.0	-0.3	-3.6	-3.6	-4.7	-4.8	-4.6
Conventional structural fiscal balance	-5.8	-8.5	-7.2	-5.1	-2.8	-0.2	-0.6	-0.2
Gross public debt (authorities definition) 6/	19.8	21.3	29.4	37.2	38.5	...	...	...
Nominal GDP (in billions of RON)	416.0	514.7	501.1	522.6	578.6	593.6	607.5	649.0

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

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

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

4/ Preliminary for fiscal balance and gross public debt on ESA95 basis.

5/ Percentage deviation of actual from potential GDP.

6/ Includes guarantees and intra-governmental debt.

7/ Includes arrears reduction plans in VAT (1131m), SSC (1089m), CIT (82m), excises (74m), transfers (804m), capex (738m), subsidies (729m), goods and services (127m).

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

Table 7. Romania: General Government Operations, 2007–13 (concluded)

(In millions of RON)

	2007	2008	2009	2010	2011 Act 5/	2012 4th Rev. 6/	2012 Proj 6/	2013 Proj
Revenue	134,173	165,549	156,373	168,635	181,567	195,351	197,441	212,011
Taxes	116,066	143,855	136,350	138,667	155,710	161,508	165,279	177,797
Corporate income tax	11,917	14,426	13,466	10,969	11,030	11,590	11,883	12,694
Personal income tax	14,402	18,523	18,551	17,957	19,461	20,077	21,509	23,425
VAT	31,243	40,874	34,322	39,246	47,917	50,664	51,320	54,715
Excises	12,552	13,646	15,646	17,312	19,105	20,378	20,390	21,556
Customs duties	856	962	656	574	674	725	750	800
Social security contributions	39,443	49,008	47,829	45,704	50,637	51,105	51,505	56,374
Other taxes	5,653	6,416	5,879	6,905	6,885	6,968	7,923	8,232
Nontax revenue	13,991	15,892	14,487	19,796	18,217	18,786	17,632	18,835
Interest Revenue	780	545	864	595	544	570	571	610
Capital revenue	963	1,076	546	685	766	1,554	1,017	1,087
Grants	3,154	4,702	5,057	9,494	6,874	13,504	13,512	14,292
o/w EU pre-accession funds	...	...	2,959	4,054	765	972	980	250
Financial operations and other	0	25	-67	-6	0	0	0	0
Expenditure	147,141	190,407	192,782	202,256	205,404	206,561	211,101	223,687
Current expenditure	127,513	167,095	173,445	183,243	182,836	185,414	187,911	200,318
Compensation of employees	33,696	45,608	46,676	42,839	38,496	39,680	40,723	46,179
Goods and services	25,187	32,012	28,028	29,541	31,770	32,118	32,968	33,991
Interest	3,096	3,776	6,063	7,275	8,883	10,228	10,215	10,954
Subsidies	6,875	7,899	7,215	6,735	6,407	5,465	5,465	4,983
Transfers	58,660	77,800	83,407	95,060	95,172	96,017	96,148	102,376
Pensions	22,664	33,187	39,851	42,107	47,469	47,879	47,979	49,719
Other social transfers	16,186	20,973	24,101	26,505	20,539	19,698	19,741	20,276
Other transfers 1/	16,769	17,646	16,931	23,514	24,049	26,179	25,806	29,612
Other spending	3,041	5,993	2,523	2,933	3,115	2,261	2,623	2,770
Proj. with ext. credits	0	0	2,056	1,794	2,108	1,907	2,393	1,836
Capital expenditure 2/	19,607	23,779	21,828	19,441	23,056	20,920	22,249	23,162
Reserve fund	0	0	0	0	0	227	941	207
Net lending and expense refunds	21	-467	-2,490	-428	-488	0	0	0
Fiscal balance	-12,968	-24,858	-36,409	-33,621	-23,837	-11,210	-13,660	-11,676
Primary balance	-9,872	-21,082	-30,346	-26,346	-14,954	-982	-3,445	-722
Fiscal balance including PNDI	-12,968	-24,858	-36,409	-33,621	-23,837	-12,210	-14,660	-12,676
Financing	12,968	24,858	36,409	33,621	23,837	11,210	13,660	11,676
External borrowing (net)	151	2,282	13,144	14,807	14,629	11,423	11,789	5,130
Domestic borrowing (net)	9,448	14,889	29,129	20,841	13,022	5,535	7,876	6,713
Use of deposits	2,733	7,316	-6,129	-2,161	-3,952	-5,751	-6,010	-217
Privatization proceeds	636	371	291	289	0	5	5	50
Financial liabilities								
Gross public debt 3/	52,917	70,200	119,195	163,023	190,674	207,631	210,339	222,181
Gross public debt excl. guarantees	43,339	60,878	108,528	147,262	174,913	191,870	194,578	206,420
External	29,315	35,770	49,993	67,717	82,346	93,769	94,135	99,265
Domestic	14,024	25,108	58,535	79,545	92,567	98,101	100,443	107,156
Memorandum item:								
Gross public debt (authorities definition) 4/	82,324	109,795	147,329	194,459				

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

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

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

4/ Includes guarantees and intra-governmental debt.

5/ Includes arrears reduction plans in VAT (1131m), SSC (1089m), CIT (82m), excises (74m), transfers (804m), capex (738m), subsidies (729m),

6/ Includes arrears reduction plans in VAT (1562m) and transfers (1562m).

Table 8. Romania: Monetary Survey, 2009–12

(In millions of lei (RON), unless otherwise indicated; end of period)

	Dec-08	Dec-09	Dec-10	Dec-11	2012				Dec-13
					Q1	Q2 Proj.	Q3 Proj.	Q4 Proj.	Proj.
				I. Banking System					
Net foreign assets	**13,138**	**17,684**	**19,086**	**15,877**	**23,473**	**29,934**	**30,527**	**23,801**	**44,691**
In million euros	3,297	4,182	4,454	3,676	5,360	6,846	6,948	5,400	10,291
o/w commercial banks	-24,388	-19,708	-21,086	-21,814	-21,214	-20,831	-20,448	-20,281	-15,529
Net domestic assets	**160,890**	**171,946**	**183,687**	**200,331**	**192,597**	**187,772**	**192,165**	**206,790**	**202,797**
Public sector credit (Net)	6,923	26,748	43,140	52,596	44,492	44,492	48,492	58,131	58,256
Private sector credit	198,056	199,887	209,294	223,034	224,306	226,681	228,574	231,908	246,789
Other	-44,089	-54,688	-68,747	-75,299	-76,201	-83,401	-84,901	-83,249	-102,249
Broad Money (M3)	**174,028**	**189,630**	**202,773**	**216,208**	**216,070**	**217,706**	**222,692**	**230,591**	**247,488**
Money market instruments	399	1,617	3,201	4,149	1,992	2,988	3,586	5,808	6,970
Intermediate money (M2)	173,629	188,013	199,572	212,059	214,078	214,718	219,106	224,783	240,518
Narrow money (M1)	92,549	79,361	81,592	85,835	84,963	87,618	91,064	92,175	98,774
Currency in circulation	25,287	23,968	26,794	30,609	30,879	31,989	32,728	32,869	35,223
Overnight deposits	67,262	55,394	54,799	55,226	54,084	55,629	58,336	59,305	63,552
				II. National Bank of Romania					
Net foreign assets	**110,323**	**101,015**	**109,433**	**110,106**	**116,372**	**121,020**	**120,367**	**113,194**	**112,125**
In million euros	27,683	23,891	25,540	25,489	26,574	27,676	27,396	25,681	25,820
Net domestic assets	**-59,855**	**-49,354**	**-54,330**	**-48,541**	**-62,920**	**-63,754**	**-60,848**	**-47,081**	**-41,279**
Public sector credit, net	-1,428	-13,626	-12,795	-13,564	-30,496	-30,496	-30,496	-16,064	-18,064
Credit to banks, net	-51,126	-23,848	-26,148	-19,529	-18,927	-20,927	-22,927	-21,529	-29,529
Other	-7,301	-11,880	-15,387	-15,448	-13,497	-12,330	-7,424	-9,488	6,314
Reserve money	**50,468**	**51,662**	**55,103**	**61,565**	**53,451**	**57,267**	**59,519**	**66,113**	**70,846**
				(Annual percentage change)					
Broad money (M3)	17.5	9.0	6.9	6.6	10.1	8.9	6.5	6.7	7.3
NFA contribution	-10.8	2.6	0.7	-1.6	5.7	3.1	2.3	3.7	9.1
NDA contribution	28.3	6.4	6.2	8.2	4.4	5.8	4.2	3.0	-1.7
Reserve money	3.3	2.4	6.7	11.7	7.2	9.5	7.0	7.4	7.2
NFA contribution	28.4	-18.4	16.3	1.2	32.2	8.1	1.0	5.0	-1.6
NDA contribution	-25.1	20.8	-9.6	10.5	-25.1	1.4	6.0	2.4	8.8
Domestic credit, real	34.2	5.4	3.1	5.9	7.5	6.8	1.2	1.7	2.1
Private sector, real	25.6	-3.8	-3.1	3.4	7.3	3.5	-0.6	0.5	3.3
Public sector, real	68.9	159.5	21.4	12.1	26.8	17.9	22.1	4.2	-2.8
Broad money (M3), in real terms	10.4	3.9	-1.0	3.4	7.3	6.2	2.5	3.1	4.2
Private deposits, at constant e/r	13.3	8.1	5.0	4.9	7.8	8.1	6.6	5.2	7.1
Private credit, nominal	33.7	0.9	4.7	6.6	10.0	6.1	3.2	4.0	6.4
Memorandum items									
CPI inflation, eop	6.4	4.7	8.0	3.1	2.5	2.5	3.9	3.4	3.0
Inflation target	2.8 - 4.8	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	1.5 - 3.5
Interest rates (percent):									
Policy interest rate	10.25	8.00	6.25	6.0	5.25	…	…	… …	
Interbank offer rate, 1 week	12.7	10.7	3.6	6.0	3.4	…	…	…	
Corporate loans 1/	19.5	15.4	9.4	9.7	…	…	…	… …	
Household time deposits 1/	15.27	9.9	7.6	6.6	…	…	…	… …	
Share of foreign currency private deposits	34.8	38.8	36.1	33.6	33.0	…	…	… …	
Share of foreign currency private loans	57.8	60.1	63.0	63.4	63.7	…	…	… …	
M2 velocity	2.96	2.67	2.62	2.73	2.17	2.64	2.65	2.70	2.7
Money multiplier (M3/reserve money)	3.45	3.67	3.68	3.51	4.04	3.80	3.74	3.49	3.5

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

Table 9. Romania: Financial Soundness Indicators, 2008–12

(In percent)

	2008 Dec.	2009 Dec.	2010 Mar.	2010 Jun.	2010 Sep.	2010 Dec.	2011 Mar.	2011 June	2011 Sep.	2011 Dec.	2012 Mar.
Core indicators											
Capital adequacy											
Capital to risk-weighted assets	13.8	14.7	15.0	14.3	14.6	15.0	14.9	14.2	13.4	14.5	14.6
Tier 1 capital to risk-weighted assets	11.8	13.4	14.2	13.4	13.8	14.2	14.5	13.6	12.9	13.9	13.8
Asset quality											
Nonperforming loans (1/) to total gross loans	2.8	7.9	9.1	10.2	11.7	11.9	12.7	13.4	14.2	14.3	15.9
Earnings and profitability											
Return on assets	1.6	0.2	0.5	-0.1	-0.2	-0.2	0.5	0.1	-0.3	-0.1	0.1
Return on equity(2/)	17.0	2.9	6.0	-1.6	-2.1	-1.7	5.0	0.6	-3.4	-1.4	1.3
Net interest income to operating income	44.8	44.1	55.7	58.2	58.7	60.6	59.8	63.7	62.3	61.9	63.0
Noninterest expense to operating income (cost to income)	55.7	63.9	56.5	59.2	58.6	64.9	65.6	67.5	66.1	68.2	55.7
Personnel expense to operating income	23.4	20.3	20.7	21.6	21.2	21.0	22.8	23.3	22.4	22.1	25.1
Liquidity											
Liquid assets (3/)to total assets	47.1	57.4	58.6	59.1	59.3	60.0	58.8	58.7	60.7	58.6	57.4
Liquid assets (3/) to short-term liabilities (4/)	230.5	132.0	150.0	146.7	148.7	142.2	151.8	143.5	143.6	138.8	152.4
Liquid assets (3/) to total attracted and borrowed sources	116.2	79.4	81.2	79.8	82.1	80.9	80.5	80.4	81.6	79.7	75.6
Foreign exchange risk											
Net open position in foreign exchange, in percent of capital	1.6	2.3	1.6	-3.2	1.4	-1.4	-2.9	-3.4	-4.2	-4.8	-3.9
Lending in foreign exchange, in percent of non-gov. credit	57.8	60.1	60.4	62.8	62.5	63.0	62.2	62.9	63.6	63.4	63.7
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.8	43.6	44.7	44.1	43.5	43.8	43.2	43.6	43.1	44.4
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	38.8	37	38	37.4	36.0	35.6	34.6	34.0	33.5	32.9
Encouraged indicators											
Deposit-taking institutions											
Leverage ratio (5/)	8.1	7.6	8.1	7.9	7.9	8.1	8.0	7.8	7.5	7.9	8.6
Personnel expenses to noninterest expenses	41.9	31.8	36.6	36.4	36.1	32.3	34.7	34.5	33.9	32.3	45.0
Customer deposits to total (non-interbank) loans	81.9	88.7	88.3	85.1	86.0	84.8	84.0	81.6	81.7	84.0	84.6

Source: Romanian National Bank.

1/ The NPLs represent un-adjusted exposures of loans and related interests overdue for more than 90 days and/or for which legal proceedings were initiated.

2/ Return on equity is calculated as Net profit/loss to average own capital.

3/ Liquid assets = balance sheet assets and off balance sheets items with residual maturity of up to 3 months.

4/ Short term liabilities =balance sheet liabilities and off balance sheet items with residual maturity of up to 3 months.

5/ Tier 1 Capital to average assets.

Table 10. Romania: Schedule of Reviews and Purchases

Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
March 25, 2011	60.0	5.82	Approval of arrangement
June 27, 2011	430.0	41.74	First review and end-March 2011 performance criteria
September 29, 2011	430.0	41.74	Second review and end-June 2011 performance criteria
December 19, 2011	430.0	41.74	Third review and end-September 2011 performance criteria
March 21, 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, 2012–17 1/

(In millions of SDR)

	2012	2013	2014	2015	2016	2017
Existing Fund Credit						
Stock 2/	9,262	5,210	1,329	96	0	0
Obligations 3/	1,398	4,146	3,924	1,242	97	1
Repurchase	1307	4052	3881	1233	96	0
Charges	90	94	43	10	1	1
Prospective Fund Credit under Stand-By Arrangement						
Disbursement	3,070	21	0	0	0	0
Stock 2/	3,070	3,091	3,091	2,484	942	3
Obligations 3/	26	35	36	641	1,567	946
Repurchase	0	0	0	606	1,543	939
Charges	26	35	36	35	24	7
Stock of existing and prospective Fund credit						
In millions of SDR	12,332	8,301	4,419	2,580	942	3
In percent of quota	1,197	806	429	250	91	0
In percent of GDP	10.4	6.5	3.2	1.7	0.6	0
In percent of exports of goods and services	25.8	15.9	7.7	4.0	1.3	0
In percent of gross reserves	38.4	25.7	14.4	9.0	3.2	0
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	1,574	4,421	4,069	1,905	1,664	947
In percent of quota	152.8	429.2	395.0	184.9	161.5	91.9
In percent of GDP	1.3	3.5	2.9	1.2	1.0	0.5
In percent of exports of goods and services	3.3	8.5	7.1	3.0	2.4	1.2
In percent of gross reserves	4.9	13.7	13.2	6.6	5.7	3.3

Source: IMF staff estimates.

1/ Using IMF actual disbursements, SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of January 12, 2012.

2/ End of period.

3/ Repayment schedule based on repurchase obligations.

Table 12. Romania: Public Sector Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	12.7	13.6	23.8	31.2	33.0	**34.6**	**34.2**	**33.4**	**32.6**	**31.7**	**30.8**	**-1.0**
o/w foreign-currency denominated	9.3	8.6	15.3	20.0	19.8	20.3	18.6	17.3	16.4	15.4	14.4	
Change in public sector debt	0.1	0.9	10.1	7.4	1.8	1.7	-0.4	-0.8	-0.8	-0.9	-0.9	
Identified debt-creating flows (4+7+12)	0.7	3.7	8.0	6.9	1.9	0.7	-0.4	-0.8	-0.8	-0.9	-0.9	
Primary deficit	2.4	4.1	6.1	5.0	2.6	0.6	0.1	0.0	0.0	0.0	0.0	
Revenue and grants	32.3	32.2	31.2	32.3	31.4	32.5	32.7	33.4	33.5	33.6	33.7	
Primary (noninterest) expenditure	34.6	36.3	37.3	37.3	34.0	33.1	32.8	33.4	33.5	33.6	33.7	
Automatic debt dynamics 2/	-1.8	-0.5	1.9	1.8	-0.7	0.1	-0.5	-0.8	-0.8	-0.9	-0.8	
Contribution from interest rate/growth differential 3/	-1.4	-1.7	1.6	0.4	-1.5	0.1	-0.5	-0.8	-0.8	-0.9	-0.8	
Of which contribution from real interest rate	-0.8	-0.9	0.7	0.0	-0.8	0.6	0.5	0.3	0.4	0.3	0.3	
Of which contribution from real GDP growth	-0.7	-0.8	0.9	0.4	-0.7	-0.5	-1.0	-1.2	-1.2	-1.2	-1.2	
Contribution from exchange rate depreciation 4/	-0.4	1.2	0.3	1.4	0.8	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.2	0.1	0.1	0.1	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/	-0.6	-2.8	2.1	0.5	-0.1	1.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	39.4	42.4	76.2	96.7	105.0	106.5	104.8	100.1	97.2	94.3	91.5	
Gross financing need 6/	4.4	6.7	18.4	13.9	12.6	10.9	10.6	9.9	8.0	6.7	6.3	
in billions of U.S. dollars	7.5	13.6	30.2	22.8	23.8	20.1	20.9	21.5	19.1	17.7	18.3	
Scenario with key variables at their historical averages 7/						**34.6**	**33.8**	**33.1**	**32.4**	**31.8**	**31.2**	**-2.9**
Scenario with no policy change (constant primary balance) in 2012-2017						**34.6**	**34.7**	**34.4**	**34.1**	**33.8**	**33.4**	**-1.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.3	7.3	-6.6	-1.6	2.5	1.5	3.0	3.7	4.0	4.0	4.0	
Average nominal interest rate on public debt (in percent) 8/	7.1	7.1	8.6	6.1	5.4	5.4	5.2	5.4	5.4	5.6	5.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percei	-6.4	-8.1	4.4	0.1	-2.6	1.9	1.5	1.2	1.5	1.3	1.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	4.5	-13.3	-3.5	-8.4	-4.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	13.5	15.2	4.2	6.0	8.1	3.5	3.7	4.2	3.9	4.2	4.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	12.0	12.4	-4.0	-1.5	-6.7	-1.2	2.1	5.6	4.3	4.3	4.4	
Primary deficit	2.4	4.1	6.1	5.0	2.6	0.6	0.1	0.0	0.0	0.0	0.0	

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

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

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

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

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

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

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

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

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

Table 13. Country: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing non-interest current account 6**
Baseline: External debt	47.0	51.8	68.6	74.5	72.2	**71.7**	**69.5**	**65.3**	**61.3**	**59.1**	**56.6**	**-6.0**
Change in external debt	4.9	4.7	16.9	5.9	-2.3	-0.5	-2.2	-4.2	-4.0	-2.1	-2.5	
Identified external debt-creating flows (4+8+9)	-1.5	0.4	10.2	-1.2	-4.1	0.2	-1.6	-0.8	0.8	0.9	1.0	
Current account deficit, excluding interest payments	12.2	10.1	2.4	2.9	2.8	2.7	3.0	3.5	3.6	3.8	3.8	
Deficit in balance of goods and services	14.0	13.2	6.1	5.8	5.2	5.5	5.5	5.6	5.7	5.5	5.5	
Exports	29.2	30.4	30.6	35.4	38.4	40.2	40.9	41.1	41.6	42.0	42.3	
Imports	43.2	43.6	36.6	41.2	43.6	45.7	46.4	46.7	47.3	47.5	47.8	
Net non-debt creating capital inflows (negative)	-5.8	-6.0	-3.4	-2.4	-1.7	-3.2	-4.3	-3.5	-1.9	-1.9	-1.9	
Automatic debt dynamics 1/	-7.9	-3.6	11.2	-1.7	-5.2	0.7	-0.3	-0.9	-1.0	-1.0	-1.0	
Contribution from nominal interest rate	1.2	1.5	1.8	1.6	1.6	1.8	1.7	1.6	1.4	1.3	1.1	
Contribution from real GDP growth	-2.1	-3.1	4.0	1.1	-1.7	-1.0	-2.0	-2.4	-2.3	-2.2	-2.1	
Contribution from price and exchange rate changes 2/	-7.0	-2.0	5.4	-4.3	-5.1	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.4	4.3	6.7	7.0	1.8	-0.7	-0.7	-3.4	-4.8	-3.1	-3.5	
External debt-to-exports ratio (in percent)	160.9	170.3	224.5	210.2	188.2	178.4	170.0	158.9	147.3	140.7	133.9	
Gross external financing need (in billions of Euros) 4/	35.9	46.2	34.9	32.1	37.8	42.3	48.5	49.4	50.9	50.1	52.7	
in percent of GDP	28.8	33.1	29.5	25.9	27.7	30.3	32.3	30.0	28.0	25.1	24.0	
Scenario with key variables at their historical averages 5/						**71.7**	**69.6**	**65.7**	**60.5**	**57.1**	**53.6**	**-9.2**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.3	7.3	-6.6	-1.6	2.5	1.5	3.0	3.9	3.9	4.0	4.0	
GDP deflator in Euros (change in percent)	19.9	4.4	-9.4	6.7	7.3	0.6	4.5	5.9	5.7	5.9	5.9	
Nominal external interest rate (in percent)	3.7	3.6	2.9	2.4	2.3	2.5	2.6	2.5	2.3	2.3	2.1	
Growth of exports (Euro terms, in percent)	15.9	16.6	-14.9	21.7	19.1	7.0	9.4	10.5	11.3	11.3	10.9	
Growth of imports (Euro terms, in percent)	24.7	13.2	-28.9	18.2	16.3	7.0	9.4	10.7	11.3	10.6	10.7	
Current account balance, excluding interest payments	-12.2	-10.1	-2.4	-2.9	-2.8	-2.7	-3.0	-3.5	-3.6	-3.8	-3.8	
Net non-debt creating capital inflows	5.8	6.0	3.4	2.4	1.7	3.2	4.3	3.5	1.9	1.9	1.9	

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

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

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

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

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

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

Annex. Romania: Letter of Intent

Bucharest, June 8, 2012

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

Dear Mme. Lagarde:

1. The Romanian authorities reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). The track record to date continues to be strong. We have met all but one performance criteria for the fifth program review and continued to advance on a large and difficult structural agenda. While further progress is needed in some areas, we are committed to the additional actions described in the attached Memorandum of Economic and Financial Policies (MEFP). Despite the turmoil in the euro area, our achievements in economic stabilization and reform are bearing fruit, as economic growth returned in 2011 and is projected to continue in 2012. The recovery remains vulnerable to difficulties in international financial markets, which require continued firm policy implementation and maintenance of fiscal, monetary, and financial sector buffers to safeguard against risks.

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

Quantitative performance criteria and indicative targets. All but one end-March 2012 quantitative performance criteria were observed. The performance criterion (PC) on central government arrears was missed by a small margin. All indicative targets, except the ceiling on the stock of local government arrears, were met. Corrective actions are being taken to reduce arrears as described in the attached MEFP (¶5). Inflation remained within the inner band of the inflation consultation mechanism.

Structural benchmarks. We have made progress on achieving the program's structural benchmarks, but additional effort is needed in several areas. We completed the actions under the structural benchmark from July 15, 2011, by signing a contract with a legal and transaction advisor for the privatization of CFR Marfă in mid-June 2012. We also completed the benchmark on a comprehensive review of the investment portfolio (from September 30, 2011), by including local government projects co-financed by the state budget in the portfolio. The February 15, 2012 benchmark on the appointment of transaction and legal advisors for state-owned enterprise (SOE) privatizations was also completed. To allow for greater public consultation in the preparation of a comprehensive healthcare reform, we request that the target date for the benchmark on preparing the draft legislation be reset from December 31, 2011 to June 30, 2012, to allow sufficient time for consultations with stakeholders.

3. In the attached MEFP, we set out our plans to further advance towards meeting the objectives of our macroeconomic program. In view of our strong performance under the program supported by the IMF and the EU, the Government of Romania and the National Bank of Romania (NBR) request a waiver on the missed performance criterion and completion of the fifth review. We intend to continue to treat the arrangement as precautionary.

4. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. We propose modifications of the June 30, 2012 quantitative performance criteria and the establishment of such criteria for September 30, 2012, as set out in the attached MEFP. Modifications consist of a change to the adjustor on the performance criterion on Net Foreign Assets and to the ceiling on the general government overall balance (as described in the Technical Memorandum of Understanding, TMU). As detailed in the MEFP, we propose two new structural benchmarks and two prior actions against which to measure progress under the program (MEFP, Table 2). The TMU explains how program targets are measured.

5. We believe that the policies set forth in the letters of March 10, 2011, June 9, 2011, September 14, 2011, December 2, 2011, February 28, 2012, and in this Letter are adequate to achieve the objectives of our economic program. We stand ready to take additional measures as appropriate to ensure achievement of these objectives. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached MEFP or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the EC with the necessary information for program monitoring.

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

Sincerely,

/s/
Florin Georgescu
Deputy Prime Minister
and Minister of Public Finance

/s/
Mugur Isarescu
Governor of the National Bank of Romania

Attachment I. Romania: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Romania's economic recovery continues, but a slight dip in activity in the last quarter of 2011 confirmed earlier signs of a slowdown. Real GDP grew by 2.5 percent in 2011 on the back of a very good harvest and a modest recovery in private demand. However, GDP declined by 0.2 percent in the fourth quarter (q/q) as domestic demand growth turned negative and export growth slowed. Preliminary data indicate that first quarter 2012 GDP growth was slightly negative. Adverse weather conditions and continued uncertainty in external markets weighed on economic activity, but retail sales and private credit held up relatively well. Headline inflation has fallen to a record low of 1.8 percent in April as a result of continued food price deflation from the high level of a year ago.

2. We expect growth of around 1½ percent for 2012 as a whole, although euro area weakness will continue to be a drag on activity. Growth will be driven by a recovery in domestic demand and better absorption of EU funds. Inflation is projected to stay within the central bank's target band, although it will temporarily increase towards the upper end of the band in the third quarter due to base effects. The current account deficit is expected to come in at around 4½ percent of GDP for 2012, reflecting slightly worse trade performance than expected during the first months of the year. Risks to economic activity continue to be on the downside, particularly from developments in international financial markets. Prudent policy implementation will thus be crucial in building confidence and securing policy buffers.

Fiscal Policy

3. In the first quarter of 2012, we met our fiscal deficit target, adjusted for higher capital spending. Tax revenues overperformed, reflecting a gradual recovery in the labor market, enhanced tax collection efforts, and the introduction of a pharmaceutical clawback tax as well as some one-off measures advancing the payment schedule for corporate income taxes. Nontax revenues lagged, however, as dividends from state-owned enterprises (SOEs) declined. On the expenditure side, we reduced public employment by another 7,000 positions which contributed to a lower wage bill. These resources were reallocated to higher capital spending and co-financing for EU-funded projects. Consequently, although execution of National Development and Infrastructure Program (PNDI) projects was below plans, total capital spending was higher than programmed. Unfortunately, the arrears targets for the central government and local governments were missed owing primarily to spending pressures in hospitals and local governments. We will take compensatory measures as described in paragraph 7.

4. For 2012, we remain committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP. Nevertheless, there are risks, and sustained tax collection efforts and expenditure restraint will be required. In particular, domestically financed capital outlays will

need to slow down considerably in order to stay within the budget ceiling and avoid accumulation of arrears. We will set aside an additional 0.1 percent of GDP to safeguard against these capital spending pressures. We will enhance monitoring of the capital budget to ensure that low-performing projects are eliminated and that top-up amounts from EU-funded projects are used towards acceleration of the implementation of EU funded projects. Continued implementation of the clawback tax will help ensure nonaccumulation of arrears to the pharmaceutical industry.

5. Fiscal consolidation will continue in 2012, with the deficit falling by some 2 percentage points of GDP in structural terms as compared to 2011. However, in light of weak economic conditions, we have decided to ease the consolidation slightly compared to our previous plans. The cash deficit will increase from 1.9 percent of GDP to 2.2 percent of GDP, while the ESA deficit will remain below 3 percent of GDP, in compliance with our commitments under the EU Excessive Deficit Procedure. We will also take the necessary measures to ensure a further structural adjustment of at least 0.5 percent of GDP in 2013, in ESA terms.

6. Using the additional space under the new cash deficit target, we will implement an 8 percent wage increase beginning in June, with the remainder of the restoration of the 2010 cuts to be implemented in December if budget conditions permit. Given continued public employment reductions, the public sector wage bill will remain at 6.7 percent of GDP in 2012, as in 2011. We will use the remaining resources to gradually compensate pensioners for past mandatory health insurance contributions recently deemed unconstitutional.

7. After a year of declining arrears and unpaid bills in the general government (excluding SOEs), arrears increased in early 2012, causing program targets to be missed for both the central government and local governments. Arrears increased by RON 73 million and now stand at around 0.2 percent of GDP (concentrated mostly in local governments). In SOEs monitored under the program, arrears in the first quarter of 2012 stood at 2.7 percent of GDP, below the indicative program ceiling.

- In the ***health sector***, arrears in registered bills have now been eliminated. The clawback tax introduced during the first quarter of 2012 has yielded RON 282 million which will be fully used to pay down unregistered bills revealed during the stocktaking exercise and recorded at end-2011. We will also seek to limit overdue bills to hospitals from the Health House to prevent arrears in hospitals. We will seek to improve the design of the clawback tax as needed to facilitate its implementation.

- At the ***local government level***, arrears have started to increase again, concentrated in smaller local government administration units and to energy utilities. These developments reflect serious shortcomings in the monitoring and enforcement of the Local Public Finance Law (LPGFL). We have allocated additional transfers from the central government to help reduce these arrears. We shall undertake a comprehensive analysis of local government arrears to determine their causes and the entities to which the arrears are owed. We will seek technical assistance to evaluate the implementation of the LPGFL and the financial arrangements for local governments, including with regard to equalization formula for distributing resources across the different local government entities, tax sharing systems, insolvency procedures, and provisions for sanctions in order to prevent accumulation of arrears. In this connection, several line ministries have concluded multi-year co-financing contracts for each of the local government projects in their portfolio. We expect to complete this by end-June 2012, within the ceilings approved by the state budget law and the Fiscal Strategy 2012–14. Simultaneously, line ministries will carry out prioritization of the respective projects and upload relevant data in a capital investment database.

- For ***SOEs***, we are making progress in reducing arrears in monitored companies through swap operations, payments, and other financial operations. We anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 5 to 6 billion (1 percent of GDP) in the second half of 2012.

- We are making progress in the integration of the accounting reporting system with the ***Treasury payment system***, including the commitment control and reporting module for all levels of government. We have formed a working group to finalize the design of the system and we will launch the tender for the software provider by end-June 2012 (structural benchmark). This system will help control spending commitments to avoid future arrears.

- Over the next two years the ***period for paying bills*** submitted to the central government and social security system will be gradually reduced. EU Directive 2011/7/EU in this area will be transposed into Romanian law on a timely basis, with a draft sent to parliament by end-2012. Towards this end, we will seek to use revenues from the clawback tax to begin shortening the period for paying bills submitted for pharmaceuticals by end-June. Moreover, we will provide the financing necessary to gradually reduce the payment delays in the health sector from 210 days to 60 days as required by EU Directive 2011/7/EU in the Fiscal Strategy 2013–15.

- To prevent future arrears due to unfunded contracts, we will ensure that commitments made at the central government level for multiannual ***capital projects*** are fully reflected in the medium term budgetary framework. We will ensure that contracting for multiannual investment projects will be undertaken consistent with these multiannual commitment allocations. We have also decided to cancel all uncontracted PNDI investment projects to ensure that all investment is brought onto the budget in the future.

8. We continue our efforts to prepare and implement comprehensive ***reforms of the healthcare system***. We aim to produce a new draft framework law by end-June (structural

benchmark), with public debate between July and September and parliamentary approval by end-October. The reform will address the persistent budgetary shortfalls in the healthcare system and enhance service quality. Over the medium term, given that public healthcare spending in Romania as a share of GDP is among the lowest in the EU, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy, while factoring in the costs of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services and to raise additional resources.

9. To address health sector financial imbalances in 2012–13, we are committed to implementing key measures even before the comprehensive framework legislation is enacted:

- In light of the design problems introduced into the ***copayment law*** approved by Parliament in early 2012, we will revise the copayment formula, basing it on a modest fixed amount independent of income and with an annual maximum ceiling. The revised law shall be prepared by mid-July, 2012 and adopted by end-August 2012 for implementation shortly thereafter.

- To control expenditures and ensure efficiency gains in the short term, we have approved Government Decision No. 359/18.04.2012, to introduce a ***negative list of health services and drugs***, based on the recommendations of the technical assistance carried out by the U.K. National Institute for Health and Clinical Excellence (NICE). We have approved the common Order of the Ministry of Health (MoH) and the National Health Insurance House no 423/118/2012 (to go into effect by May 15, 2012) that includes revised therapeutical protocols needed to implement the negative list. Also, in line with the NICE report, we plan to include in the framework contract with health service providers, provisions to reduce hospitalization periods. The implementation of the national hospital bed plan which established the number of hospital beds that can be contracted in 2012 with health insurance houses in every county was already done through MoH Order No 1577/2011. We have also created the legal framework for the Health Technology Assessment. We will not introduce any new drugs or indications in the list of compensated drugs without an interim health technology assessment. These actions should help contain costs and avoid new arrears in hospitals. We will continue to encourage generics where possible in the list of compensated and free drugs.

- We will monitor aggregate ***public hospital budgets*** to ensure that they are consistent with the expenditure programmed in the general government budget. Moreover, we will update the entire chapter about hospitals in the current Health Law. This new chapter will:

(i) establish mandatory financial audits of all public hospitals (under national or local governments and foundations) and financial audits of the use of public funds;

(ii) make mandatory the public dissemination (via web pages) of budgets, incomes and expenditures of all public hospitals;

(iii) introduce sanctions for hospital managers overspending their available budgets; and

(iv) create the legal framework for converting some traditional public hospitals into (nonprofit) public foundations.

- We will continue implementation of a ***new healthcare IT system***. We have initiated the auditing of patient registries, which will be completed by end-2012. The contract for production of patient cards and for the IT system is signed and we will begin distributing electronic health cards to one million participants in August. This will help control fraud and abuse in the system while enabling better monitoring of spending commitments. All health system participants should be covered by end-2013. A new electronic prescription module for the National Health Information System is expected to be operational by June 2012. Efforts are ongoing under an EU-funded project to build a central health data base with electronic health records which is expected to be in place by mid-2013.

10. We have developed measures to streamline the tax system, building on recommendations of IMF technical assistance. These measures, to be enacted by July 2012, aim to: (i) simplify the declaration and payment of taxes on capital gains by changing to a system based on withholding of advance payments made by intermediaries (brokers) and a single statement filed by the taxpayer at the end of the year; and (ii) provide a neutral tax treatment for the cessation of bad debts in the banking sector. In addition, by end-September, we will approve measures to: (i) simplify the depreciation schedules for fixed assets; (ii) review the base for property taxes, which will vary depending on use of the property and not on the taxpayer; and (iii) simplify the deduction mechanism for personal income taxation by establishing a single deduction ceiling, revising or eliminating personal deductions. These measures will be effective from January 2013. We will also prepare a strategy to enlarge the tax base and undertake an impact assessment based on a review of taxes on agriculture and of social contributions of the self-employed. By mid-June 2012, we will submit a plan for adjusting excise tax rates to preserve real value, while coordinating measures to improve collections, particularly by reducing evasion of excise duties on alcohol.

11. We are making progress on a comprehensive reform of the tax administration (ANAF). Among the key developments are the following:

- The administrative measures designed to reduce ***the number of small taxpayers registered for VAT*** purposes are expected to produce the desired results starting with July. We maintain the commitment to reduce by 20 percent in the number of these taxpayers.[1] Following the revised provisions of the Fiscal Code to facilitate the cancellation of firms' registration for VAT purposes, 11,000 small taxpayers have been removed or have voluntarily deregistered from VAT system since end-2011.

- To further streamline the tax rolls, the new government has decided to reactivate plans to introduce a mandatory ***simplified tax regime for small taxpayers***. With help from the IMF and EC, we will prepare draft legislation in this area, by end-October 2012. We have already received approval from the EU Council of Ministers for increasing the VAT mandatory threshold to €65,000. The simplified regime needs to be discussed with business representatives in Romania and confirmed by the EU VAT Committee before entering into force, on January 1, 2013.

- With regard to ***High Net Wealth Individuals*** (HNWI), we have identified 300 individual taxpayers who will be included in our dedicated compliance program, based on available public information and on the analysis of tax records. By May 10, 2012, we will issue letters to encourage voluntary compliance as a first step to increased enforcement. We have agreed on the provision of training courses on indirect audit methods provided by tax administration specialists from other European countries and are currently seeking financing for acquiring an IT tool to be used in risk analysis.

- We will proceed with ***ANAF restructuring*** and modernization to increase the capacity and efficiency of the administration, including with the technical assistance from the IMF. We aim to consolidate to eight regional directorates by mid 2013 and 47 local tax offices, down from current 221, by the beginning of 2015. We will approve (by end-2012) a multiannual project with the World Bank to support the modernization.

- We are strengthening ***tax enforcement efforts*** by increasing our capacity for risk analysis and audit, and by improving the inter-operability with the Customs Authority and the Financial Guard. We have intensified audit actions, and redesigned the monitoring system for intra-community acquisitions (Traffic Control system). We

[1] Taking into account the methodological difficulties of evaluating the turnover during the fiscal year, the assessment of this objective will be made based on the level of December 2012 compared to December 2011.

will improve the procedure for transmitting the referrals for tax crimes and we will enhance the cooperation between ANAF, the Police and the Prosecutor's Office. By July 1, we will create a central unit for fighting intra-community fraud, with a focus on high-risk areas. We will also implement the centralized transmission of the garnishments within the enforcement proceeding and the introduction of an electronic system for monitoring of the enforcement results.

- We are undertaking a further expansion of ***e-filing*** and improvement of the one-stop shop for tax declarations. In March, almost 90 percent of the main tax returns filed to ANAF by companies were using the new e-filing facilities.

- ANAF will take over the collection of ***social contributions from self-employed individuals*** starting July 2012. By December 2012, we will adopt the necessary regulations to complete the integration of these categories of social contributions within the tax collection processes of ANAF and to allow the individual taxpayers to submit a single declaration for income tax and social contributions as of January 2013.

12. We continue to make progress in the implementation of the action plans based on the recommendations of the functional reviews of government ministries and agencies conducted last year. As a number of the initial deadlines were not met, a new monitoring procedure will be put in place, and line ministries will suggest corrective actions, progress indicators, and new realistic deadlines in their progress reports due by mid-July 2012. We will develop a staffing plan for the line ministries within the parameters of the wage bill allocation in the budget by end-September 2012, based on the functional reviews of these ministries where possible. Separately, we consider improvement of the efficiency and transparency of public procurement procedures as a top priority. We will incorporate by end of June 2012 in the national public procurement system, the recommendations of the evaluation carried out by the European Commission, with a view towards implementation in line with the agreed timetable until end-December 2012.

13. Although we have made some progress in absorbing EU funds, further efforts are still required to meet our goal of absorbing an additional €6 billion during 2012: €3.5 billion from Structural and Cohesion Funds and another €2.5 billion from Agricultural, Rural Development and Fisheries Funds. Although, due to harsh winter conditions at the beginning of the year, our planned absorption for 2012:Q1 was not realized, we maintain the target for the full year. We will step up our efforts to boost absorption and are closely working with the EC to simplify the procedure that will help with quicker absorption up to the beneficiaries' level.

14. We have compiled an investment portfolio of all government projects to ensure proper monitoring and prioritization. This portfolio will be used to focus on those projects where funding can be fully secured within a medium-term horizon (3–5 years), and to

discontinue low priority and non-performing projects that cannot be fully financed within this horizon. We have improved the investment portfolio database to include state-budget co-financed projects at the local government level. The Ministry of Regional Development and Tourism and the Ministry of Environment and Forests are committed to ensure that execution spending under the PNDI does not exceed RON 1 billion in 2012 and RON 1 billion in 2013, and no new PNDI projects will be signed.

15. Local market conditions for public debt financing have been positive so far this year, and we took advantage of this to front load our financing for the year and to further build our buffers, which represent an essential protection against economic shocks. We have also continued to build the lei yield curve and to extend the maturity of our domestic debt with the issuance of new 4, 7, and 15-year bonds. On the external side, we successfully issued US$2.25 billion in 10-year dollar-denominated bonds in January and February at a favorable rate. We intend to return to the external market again in the second half of this year, if market conditions permit, to build a constant presence in international markets. In accordance with our debt management strategy, we have stepped up our outreach efforts to the international investment community and we have established an ongoing dialogue with primary dealers and institutional investors through monthly meetings. We will soon finish the amendment of primary dealer criteria aimed at ensuring efficient issuance and distribution of domestic public debt. We have also supported efforts to centralize domestic bond trading on electronic trading platforms. We will continue efforts towards consolidating the fiscal buffers (including World Bank DPL-DDO financing), and maintain our objective of four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on these buffers represents a necessary cost for insurance against shocks. We will undertake a project financed with European funds and implemented with support of the World Bank to strengthen the debt management division.

Financial Sector

16. The Romanian banking sector is well-capitalized and liquid but continues to be vulnerable to spillovers from the euro area. Private sector credit has grown, with lending (y-o-y) to the nonfinancial corporate sector up 9.8 percent and to households up by 4 percent in real terms at-end March. However, the nonperforming loan (NPL) ratio rose to 15.9 percent in March compared to 14.3 percent at end-2011. Total prudential provisions at end-March were sufficient to cover 99 percent of NPLs while the new IFRS provisioning ratio stood at a comfortable 68.4 percent. Banks' delayed NPL recognition and tighter supervisory enforcement could be reasons for the increase. As a result, bank profitability remains weak but has returned to positive territory in the first quarter of 2012. The capitalization of the banking sector remained strong at 14.5 percent at end-March. Overall banking sector liquidity has improved in the first quarter relative to the second half of 2011.

17. To continue to strengthen our ability to respond to any potential difficulties in the banking system, the NBR, Deposit Guarantee Fund (DGF), and Ministry of Public Finance

(MOPF) will coordinate the implementation for operational preparedness plans and the arrangements for the newly acquired bank resolution powers. The details of the contingency planning framework will be shared with and agreed with the IMF and EC staff by end-June along with detailed plans for potentially vulnerable banks. Based on the Memorandum of Understanding, the NBR and the DFG will agree by end-May on the set of relevant financial information as well as the necessary internal arrangements to provide this information to the DGF. The NBR will continue to examine closely bank practices, for example in applying the new IFRS, so as to ensure that the loan-loss provisioning and assessment of credit risk of restructured loans remain prudent and in line with good international practices. Analysis of the experience of applying the prudential filter and the proposals for the permanent prudential arrangements that will apply in 2013 will be released for consultation with the industry by end-July. We will continue to share information on a timely basis with IMF and EC staff.

18. We will ensure that the tax treatment of bank receivables sold to Romanian firms is neutral, in order for banks to be able to mitigate the rise in impaired loans and improve their balance sheet management (by end-June). We will amend the Government Ordinance 10/2004 on the winding up of credit institutions by end-October, to ensure that the treatment of subordinated debt in the table of creditors is determined by contractual terms and not by capital thresholds. We will continue to consult with IMF and EC staff before introducing or amending the regulatory framework and avoid adopting legislative initiatives which could undermine debtor discipline. The law amending the Law 503/2004 on the bankruptcy of insurance undertakings will be enacted by end-October 2012.

Monetary Policy

19. Headline annual inflation fell to a record low of 1.8 percent in April as a result of food price deflation following an exceptional harvest, and declining nonfuel commodity prices. The decline came in spite of bad weather during the first two months of the year as well as higher-than-expected oil prices. Core inflation continued to decline, reaching a low of 2 percent in March. In the third quarter, headline inflation is expected to temporarily rebound towards the upper end of the target band as the full impact of higher oil prices is felt and deflationary base effects on food prices are reversed. Nonetheless, inflation should remain within the NBR target band of 3±1 percent throughout the year. Upside risks remain, however, including from exchange rate volatility as a result of continued uncertainty in international markets and higher-than-projected adjustments in administrative prices.

20. In view of the favorable inflation outlook, we have lowered the policy rate by 100 basis points in four steps since November with little negative impact on the exchange rate, while inflation expectations have fallen. However, the ongoing instability in international financial markets and the attendant risks of excessive volatility in capital flows and the exchange rate, together with other inflation risks, require a continued prudent monetary policy stance, supported by a consistent macroeconomic policy mix. We will keep

banks' reserve requirement ratios unchanged in the coming months and will act judiciously on the monetary policy rate. We will also continue regular repurchase operations as needed to ensure adequate liquidity in the banking system.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

21. Comprehensive reform of the transport and energy sectors is critical to enhance growth in Romania. In the ***transport sector***, we are developing a new general transport master plan, which will balance increasing demand and available fiscal means, ensure complementarities between different transport modes, and define priorities for medium- and long-term investment. We will continue to seek additional measures to raise revenues and reduce costs (including through the application of standard costs) to further improve the financial position of SOEs in the transport sector. As a prior action, the government will approve an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers and issue a government memorandum for elimination of penalties and gradual payment of principal on arrears owed to Electrica. This bridge loan will be replaced by a government-guaranteed loan to the rail firm by end-year. As a condition for this arrears clearance scheme, CFR Cai Ferate will present and begin executing the necessary cost reduction and revenue enhancement measures to assure its financial viability in 2013 and beyond. In addition, we will merge the subsidiaries of the railway companies CFR Cai Ferate, CFR Marfa, and CFR Calatori into their parent companies once current legal challenges are resolved. Moreover, we will sign contracts with consultancy firms by end-June 2012 to identify qualified candidates for reconstituting the boards of directors and putting in place private management in CFR Cai Ferate and CFR Calatori as required by the Corporate Governance Law of November 2011. Finally, we plan to reach our goal of bringing the total railway network under management of CFR down to 15,500 line kilometers by leasing or closure of approximately 550 line kilometers in the second quarter of 2012.

22. For the ***energy sector***, we plan to enhance the pricing and regulatory framework by undertaking the following steps:[2]

- We have submitted to Parliament legislation to transpose the **EU Third Energy Package** into Romanian legislation. The draft electricity law provides for an appropriate unbundling regime, the definition of vulnerable consumers, and financial and operational independence of the energy regulator (ANRE). We expect

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

Parliamentary approval by mid-June. For gas, we will approve our draft legislation by end-June.

- We will publish the approved ***electricity*** roadmap by June 30 and start phasing out regulated electricity prices in September 2012. Meanwhile, we will implement the agreed 5 percent adjustment in regulated prices to nonresidential and residential customers by June 30. ANRE will progressively increase the share of electricity sourced from the deregulated market by the electricity supply companies for their nonresidential customers, reaching 100 percent by end-2013. Regulated prices to nonresidential consumers will be eliminated from January 1, 2014. The pass-through mechanism for electricity purchases by the distribution companies provided for in the electricity supply regulation will be applied to strengthen investment in this sector in line with the regulatory framework. For households, ANRE will gradually increase the share of electricity sourced from deregulated market by electricity supply companies starting July 1, 2013, reaching 100 percent by end 2017 according to the approved electricity roadmap in March 2012.

- In the ***gas sector***, we have prepared and submitted to the IMF, the EC and the WB, a draft roadmap for the phasing out of regulated gas prices. This roadmap will be approved by government memorandum as a prior action for this review and will subsequently be published. Regulated gas prices for nonhouseholds will be increased starting in December 2012 and will converge to average European prices by end-2014 in a broadly linear fashion. Prices will be fully liberalized beginning in January 2015, unless a large gap remains between the average European price and the import price (which could endanger market stability), in which case adjustment would continue until end-2015. For households, regulated gas prices will be increased starting in July 2013 and converge to international gas prices no later than December 2018. The key parameters of the roadmap will be included in the gas legislation, to be approved by government ordinance

- We have also established an inter-ministerial committee to prepare (in consultation with the oil and gas industry) a draft package of **tax, royalty and regulatory measures** for the oil and gas sector. The package will cover two parts: (a) a windfall levy to capture part of the extraordinary revenue to firms resulting from the liberalization of gas prices, as specified in the roadmap. Funds raised will help finance measures to protect vulnerable consumers from the impact of the price adjustments; and (b) a new oil and gas regulatory and taxation regime for the period 2015–24, to be prepared, with professional advice, by end-2012. In parallel, we will accelerate the ongoing negotiations on the Inter-Governmental Agreement (IGA) with Russia and will also strive to take steps to diversify our gas supply. We will take the necessary steps to lift existing export restrictions, and take measures to implement reverse flows on the gas interconnectors. Finally, we will actively seek to avoid a parliamentary override of the presidential veto of the gas export ban law, as it could lead to the suspension of the EU program because it contravenes basic principles of the EU single market.

- We are committed to developing a ***gas trading platform***. Towards this end, we named the electricity trading exchange (OPCOM) as the operator and requested OPCOM to develop the platform, with the aim of beginning operations on January 1, 2013. Once the platform is operational, we will offer shares of OPCOM (by sale or capital increase) to electricity and gas market participants and potentially other European energy exchanges, with the objective of achieving a wide participation of market participants in OPCOM's ownership as a basis for strong corporate governance.

- The process to terminate or renegotiate ***bilateral energy contracts*** of SOEs concluded outside of OPCOM has advanced in recent months. Three bilateral contracts expired or were terminated in late 2011. Those contracts that could not be legally terminated were renegotiated to increase prices, shorten contract durations, lower volumes, and make contract terms more transparent and public. Nine of 10 companies agreed in the negotiations that concluded on April 23, 2012. We have scheduled another round of negotiations in May in view of the EC announcement on April 25, 2012 of in-depth investigations to assess if Hidroelectrica sold electricity at preferential tariffs in breach of EU state aid rules. We will keep the IMF, EC and WB regularly informed of the progress of the renegotiations. Key elements of the contracts, including average price, duration and volume, will be published within 30 days after finalization. All new bilateral contracts of SOEs will be made transparently and nondiscriminatorily through OPCOM (electricity) and other competitive procedures (gas), and terms of the contracts will be published. As soon as the new gas trading platform is operational, all bilateral gas contracts will be traded through it.

- The Ministry of Administration and Interior, together with the MOPF, will ensure prompt application of Emergency Ordinance 69/2011 on subsidies for ***district heating***. While municipalities have allowed for some increase in end-consumer prices in 2011, large subsidy needs remain which municipalities only paid partially. To date, only one operator filed a complaint under the provisions of the Emergency Ordinance, though the harsh winter conditions in the first quarter of 2012 likely led to the accumulation of further unpaid bills to thermal energy operators. We will continue to monitor, and report to the IMF, EC, and WB on a quarterly basis, the financial situation of the district heating system and ensure prompt application of the provisions of the emergency ordinance.

State-Owned Enterprises

23. The first quarter indicative targets on the operating balance and arrears in key companies were met. We have established a fully functioning directorate of financial control

within the MOPF to improve the monitoring of the financial and restructuring performance of SOEs. While we have achieved major improvements in some companies, overall progress has been slower than anticipated and substantial measures remain to be taken. Restructuring plans for the central government SOEs have been submitted and quantifiable targets for those SOEs have been established. We will monitor performance against those targets on a quarterly basis. Line ministries will submit the remaining revised plans by end-June 2012, in accordance with staff guidance concerning aim and content of these plans for all entities with more than 20 employees or a turnover of more than RON 1 million in 2010.

24. With the notable exception of the sale of a 15 percent stake in Transelectrica in March, the privatization agenda continues to experience significant delays. After selecting a winning bidder for the full privatization of Cuprumin, the signing of the purchase agreement within the required time frame failed. The sale of the remaining public shares in Oltchim has been postponed until September 2012 due to technical problems. Our performance on hiring transaction and legal advisors has been mixed:

- We selected legal and transaction advisor for majority privatizations of CFR Marfă, the legal advisors for the majority privatization of Electrica Serv, and Electrica Furnizare, and for Nuclearelectrica (IPO of at least 10 percent via capital increase). We will sign the contract with the legal and transaction advisor to CFR Marfă by mid-June.

- We hired transaction advisors for Romgaz (IPO of a 15 percent stake), Hidroelectrica (IPO of 10 percent to increase capital), but we still need to hire the legal and transaction advisors for Posta Romana (minority stake).

25. To accelerate these reforms, we have decided to concentrate our efforts in 2012 on the sale of shares in Hidroelectrica, Nuclearelectrica, Romgaz, and Transgaz (for companies in the Ministry of Economy's portfolio). We now plan to conduct the public offerings of Transgaz by end-June 2012, Romgaz by mid-September 2012, and Hidroelectrica by mid-October 2012, and we will expedite preparations for the sale of Nuclearelectrica shares by end-2012. The public offerings of shares in Romgaz and Hidroelectrica will be a structural benchmark to be completed by mid-October 2012. The privatization of Tarom (IPO of 20 percent) and CFR Marfă (majority privatization) this year remains a priority for the Ministry of Transportation.

26. In addition, we will continue our privatization efforts in the following companies with a goal of public tenders by early 2013: (i) We now plan majority privatization of Electrica (including Electrica Furnizare and the three distribution companies) and the sale of Electrica's remaining shares in the already-privatized electricity distribution and supply companies; (ii) the new energy producer Hunedoara, to be created by July 2012 by merging the power plants in Paroşeni and Mintia and the four viable mines of CNH (majority privatization); (iii) the new energy producer Oltenia to be created by mid-May 2012 by

merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni (majority privatization);and (iv) Elcen Bucuresti (majority privatization). Efforts on other companies will also continue. We place the highest priority on the privatization of the Oltenia Energy Complex, in view of its large investment needs and critical role in Romania's energy security. We will continue our dialogue with the City of Bucharest in order to find a mutually acceptable solution to the closely linked companies Elcen Bucuresti and Radet. For all privatized companies, the government will closely monitor implementation of investment commitments.

27. We continue our actions to resolve the financial situation of Termoelectrica. We took Electrocentrale Bucharesti, Electrocentrale Mintia, and Electrocentrale Paroseni out of Termoelectrica and placed them directly under the Ministry of Economy. However, other valuable assets remain to be extracted, which we intend to place into a new entity, Electrocentrale Group. The remaining part of the company will be placed into voluntary liquidation by early September. We will submit to the trade register a legal proposal signed by the Termoelectrica's Board, based on an instruction from the Ministry of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012.

28. We have begun to implement the requirements of our new corporate governance law, which marked a significant improvement in the framework for SOE corporate governance in Romania. We have received bids for a firm to assist in the process of selecting private management for key SOEs that remain under majority government ownership. New management teams and board members were to be selected by end-April 2012 to take office as soon as legally possible thereafter; however, we have experienced major delays in most companies except for Oltenia Energy Complex. In Oltenia, however, there are serious concerns about the suitability of the candidates selected for the board. We will reevaluate the process in Oltenia and will use only credible and independent firms for the search and only fully qualified candidates will be appointed as board members. We recognize that doing otherwise would undermine the credibility of our reform program for the public and prospective investors. We will make board and CEO appointments for Oltchim, Hidroelectrica and Electrica Furnizare by end-June; board appointments for Nuclearelectrica, Romgaz, and Oltenia Energy Complex by end-September; CEO appointments at the latest by end-October 2012; and board and CEO appointment for Transgaz by end-2012. All appointments will be published for full transparency. For SOEs under the Ministry of Transport and Infrastructure we have started a corresponding board selection process for CFR Calatori and CFR Cai Ferate.

Other Structural Reforms

29. We continue to make progress in implementing new labor market and social assistance legislation. We have improved the functioning of the labor market by implementing the new Labor Code which has already contributed to a modest employment

recovery and led to large numbers of informal work arrangements being converted to newly registered contracts. Nearly one third of these new contracts are fixed term. We will monitor implementation of the Social Dialogue Code and continue cooperation with the International Labor Organization (ILO) to ensure that the new legislation respects core ILO Conventions. The new Pension Law has significantly reduced the number of early retirements and disability pensions, and the retirement age continues to increase. We have also begun drafting secondary legislation for the Social Assistance Law which was approved last year to streamline and better target social benefits. We are committed to integrating different categories of social benefits in an efficient manner, including by ensuring that the most vulnerable households are protected from the planned gas and electricity price increases over the coming years.

30. We are committed to easing entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. There was a delay in the elimination of barriers to establishing large surface retail stores, originally expected in February 2012. We will now approve the corresponding legislative amendment by emergency ordinance by early June 2012. We are undertaking with the World Bank a Report on Observance of Standards and Codes (ROSC) on corporate insolvency systems and creditor rights. We expect the report from the World Bank in the coming months and will draft an insolvency code thereafter.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012				
	Dec	March	June	Sept	Dec	March		June	Sept	Dec
	Actual	Actual	Actual	Actual	Actual	Prog.	Prelim	Prog.	Prog.	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	533	1696	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,837	-4,550	-3,454	-7000	-9700	-14660
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.08	0.12	0.06	0.04	0.02
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	14.0	7.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	...	...	...	...	...	4.1		4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	...	3.1		3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	3.1	*2.1*	2.4	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	...	1.1		1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	...	0.1		0.4	1.9	1.2
IV. Indicative Target										
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei)	131,938	30,670	62,578	94,133	128,317	32,000	30,910	64,800	99,000	133,700
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs. 4/ (as defined in TMU (bn. lei))	-6.8	-0.7	-1.8	-2.4	-2.0	-1.5	-0.4	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei))	17.9	19.2	19.7	18.5	14.9	17.0	16.2	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.70	0.79	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 4/	...	...	...	...	...	200	66	400	700	1000

1/ The end-December 2010 figure is a stock.

2/ March 2012 target is adjusted up by 533 million Euros to reflect more than projected Eurobond placement of the MoPF

3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011). March 2012 target is adjusted by RON 1450 million to RON 4550 for capital spending.

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

Table 2. Romania: Performance for Fifth Review

Measure	Target Date	Comment
Prior Action		
1. Approve a roadmap for the deregulation of gas prices as specified in the MEFP.		
2. The government will approve a memorandum for the cancellation of penalties on railroad company arrears to Electrica and an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers.		
Quantitative performance criteria		
1. Floor on net foreign assets	Mar. 31, 2012	Met
2. Floor on general government overall balance	Mar. 31, 2012	Met
3. Ceiling on central government and social security domestic arrears	Mar. 31, 2012	Not Met
4. Ceiling on general government guarantees	Mar. 31, 2012	Met
5. Non-accumulation of external debt arrears	Mar. 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Mar. 31, 2012	Met
2. Floor on operating balance of key SOEs	Mar. 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	Mar. 31, 2012	Met
4. Ceiling on stock of local government arrears	Mar. 31, 2012	Not Met
Inflation consultation band		
Inner band	Mar. 31, 2012	Met
Outer band	Mar. 31, 2012	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Met
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 1/	Dec. 31, 2011	Reset to June 30, 2012
4. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	Met
5. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	
New structural benchmarks		
1. Launch tender for providing software to integrate the accounting reporting system with the Treasury payment system.	June 30, 2012	
2. Hold IPOs of government shares in Romgaz and Hidroelectrica.	October 15, 2012	

1/ The health care legislation is being revised to better address lack of financial controls and adequacy of funding needs in the health sector. The provisions on private insurance for basic medical benefits are also being reassessed.

Attachment II. Romania: Technical Memorandum of Understanding

June 8, 2012

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

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

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the 2012 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 MEFP [¶3] and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat and successful implementation of the monitoring system being undertaken by the Ministry of Public Finance (MOPF).

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

A. Floor on the Change in Net Foreign Assets

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

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

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

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

Floor on Cumulative Change in NFA from the Beginning of 2011 and 2012 (in mln. euros)[1]

	2010	2011					2012			
	Dec. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. actual	Jun. PC	Sep. PC	Dec. indicat.
Cumulative change in NFA	20,026	119[2]	1,896	293	-457[3]	19,569	1,696[4]	250	250	450
Memorandum Item: Gross Foreign Assets	32,432	996	2,793	1206	464	32,897	1,662	250	-350	-1050

[1]PC = performance criterion; data for end-month. Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012). Current year stocks are obtained by adding the flows to the previous end-year stock.
[2] PC met with an adjustment for the WB disbursement of €300 million.
[3] PC met with an adjustment for the Eurobond issue of €1000 million.
[4] PC met with an upward adjustment by €533 million due to the more than projected Eurobond issue of MoPF.

8. The NFA targets will be adjusted upward (downward) by the full amount of the surplus (shortfall) relative to the baseline of external bond placement by the MOPF. NFA targets will also be adjusted (i) upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection (Program disbursements are defined as external disbursements from official creditors (WB and the EC) that are usable for the financing of the overall central government budget) and (ii) upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December 2011 (€6,037 million), measured at program exchange rates.

External Program and MOPF Disbursements—Baseline Projections (in mln. euros)[1]

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative change under external program	1,200	1,650	2,050	2,050	0	0	0	0
Cumulative change in external MOPF bond placement				1,000	1,150	2500	2500	2500

1 Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

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

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

Inflation Consultation Band

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

C. Performance Criterion on General Government Balance

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

Cumulative Floor on General Government Balance[1]

	(In millions of lei)
End-December 2010 (actual)	-33,621
End-March 2011 (actual)	-5,254
End-June 2011 (actual)	-11,260
End-September 2011 (actual)	-13,685
End-December 2011 (actual)	-23,837
End-March 2012 (actual)[2]	-3,454
End-June 2012 (performance criterion)[3]	-7,000
End-September 2012 (performance criterion)	-9,700
End-December 2012 (indicative)	-14,660

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).
[2] Target for 2012:Q1 is adjusted by RON 1450 million to RON 4550 for capital spending.
[3] Excluding the bridge loan granted by the Ministry of Finance to CN Cai Ferate CFR SA

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

12. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government, which will include the following SOEs: C.N. de Autostrãzi si Drumuri Nationale din România SA, Fondul Proprietatea SA,[1] Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui Ploiesti SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, SC Termoelectrica SA, Societatea Nationala Aeroportul International Mihail Kogalniceanu, SC Electrificare SA, CN Administratia Canalelor Navigabile Constanţa SA , SC CN Romarm, Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, Societatea de Transport Maritim si de Coasta CFR Ferryboat SA, SC Avioane Craiova SA, SC Petromin SA, SC Constructii Aeronautice SA, SC Sanevit 2003 SA, SC Uzina AutoMecanica SA Moreni, SC Terom SA, SN Plafar SA, and SC Nicolina SA.

[1] Subject to confirmation from Eurostat.

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

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

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

15. The performance criterion for the general government balance for end-June 2012 (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount that capital spending (including spending related to EU funds and arrears reduction plans, but excluding the works executed under the contracts from the PNDI) exceeds lei 15,230 million, respectively, up to a limit of lei 1,800 million. The performance criterion for the general government balance for end-June 2012 and end-September (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount of a bridge bank loan for arrears clearance of CFR Infrastructura, up to a limit of lei 900 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 nonfinancial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.

Ceiling on New General Government Guarantees Issued from end 2008 Until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (actual)	6.5
End-March 2012 (actual)	7.0
End-June 2012 (performance criterion)	14.0
End-September 2012 (performance criterion)	14.0
End-December 2012 (indicative)	14.0

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

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

Stock of Central Government and Social Security Arrears	(In billions of lei)
End-December 2010 (actual)	0.19
End-March 2011 (actual)	0.15
End-June 2011 (actual)	0.11
End-September 2011 (actual)	0.10
End-December 2011 (actual)	0.09
End-March 2012 (actual)	0.12
End-June 2012 (performance criterion)	0.06
End-September 2012 (performance criterion)	0.04
End-December 2012 (indicative)	0.02

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

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

G. Indicative Target on General Government Current Primary Spending

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

Cumulative Change in General Government Current Primary Expenditures[1]	(In millions of lei)
End-December 2010 (actual)	131,938
End-March 2011 (actual)	30,670
End-June 2011 (actual)	62,578
End-September 2011 (actual)	94,133
End-December 2011 (actual)	128,317
End-March 2012 (actual)	30910
End-June 2012 (indicative)	64,800
End-September 2012 (indicative)	99,000
End-December 2012 (indicative)	133,700

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

H. Indicative Target on the Execution of the PNDI Program

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

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

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

I. Indicative Target on Local Government Arrears

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

Stock in Local Government Arrears	(In billions of lei)
End-December 2010 (actual)	0.91
End-March 2011 (actual)	0.82
End-June 2011 (actual)	0.81
End-September 2011 (actual)	0.82
End-December 2011 (actual)	0.75
End-March 2012 (actual)	0.79
End-June 2012 (indicative)	0.50
End-September 2012 (indicative)	0.45
End-December 2012 (indicative)	0.30

J. Absorption of EU Funds

22. The EU funds contribution mentioned in the MoU conditionality is to be measured taking into account the eligible expenditure from both the structural and cohesion funds (SCF) and the European Agricultural Fund for Rural Development (EAFRD).

K. Monitoring of Public Enterprises

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

24. A quarterly indicative target for 2011 was set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A., C.N. de Autostrãzi si Drumuri Nationale din România S.A., C.N. a Huilei S.A., C.N. Poşta Românã S.A., S.C. Complexul Energetic Turceni S.A., S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A., S.C. Metrorex S.A., S.N. de Transport Feroviar de Marfã "CFR Marfã" S.A., S.N. Transport Feroviar de Călători "CFR Călători" S.A., C.N. Tarom S.A., S.C. Electrocentrale Bucuresti S.A., S.C. Electrica Furnizare Transilvania Nord S.A., S.C. Oltchim S.A., S.C. Termoelectrica S.A., SNa Lignitului Oltenia S.A., S.C. Electrificare CFR S.A., S. C. Interventii Feroviare S.A., S. C. Telecomunicatii C.F.R. S.A. The data shall be reported with operating results by firm. Actual performance was as follows:

Floor on Cumulative Operating Balance[1,2]	(In billions of lei)
End-December 2010 (actual)	-6.8
End-March 2011 (actual)	-0.7
End-June 2011 (actual)	-1.8
End-September 2011 (actual)	-2.4
End-December 2011 (adjusted preliminary)	-2.0

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

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

Floor on Cumulative Operating Balance[1]	(In billions of lei)
End-March 2012 (preliminary)	-0.4
End-June 2012 (indicative)	-2.2
End-September 2012 (indicative)	-2.7
End-December 2012 (indicative)	-3.2

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

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

27. A quarterly indicative target for 2011 was set on the stock of arrears of the public enterprises listed in ¶23. The data shall be reported at the firm level. Actual performance was as follows:

Ceiling on Stock of Arrears[1]	(In billions of lei)
End-December 2010 (actual)	17.9
End-March 2011 (actual)	19.2
End-June 2011 (actual)	19.7
End-September 2011 (actual)	18.5
End-December 2011 (adjusted preliminary)	14.9

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

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

Ceiling on Stock of Arrears	(In billions of lei)
End-March 2012 (preliminary)	16.2
End-June 2012 (indicative)	15.0
End-September 2012 (indicative)	12.5
End-December 2012 (indicative)	9.0

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

L. Private Management for Key SOEs

30. Private management will be selected, in line with MEFP ¶28, at least for the following state-owned enterprises: i) S.N. Nuclearelectrica ii) C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), iii) SNa Lignitului Oltenia S.A./Complexul Energetic Oltenia, iv) S.C. Electrica Furnizare S.A., v) S.C. Hidroelectrica, (vi) S.C. Oltchim S.A., (vii) S.N. Romgaz,, (viii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., and (ix) S.N. Transgaz.

31. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) CN Transelectrica, ii) C.N. Adm. Port. Maritim Constanta S.A., (iii) C.N. Poşta Românã S.A., (iv) C.N. Tarom S.A., (v) C.N. Romarm aparat central; and vi) S.C. Electrificare CFR S.A..

M. Reporting Requirements

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

Romania: Data Provision to the IMF and EC

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95	Monthly, on the 25th day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25th day past the test date
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 within 25 days
Final quarterly data on general government	Quarterly, within 35 days from the test date

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

with IMF and EC staff	month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporate	Monthly, 45 days after the end of each month
Balance of payments in the IMF format currently used to report	Monthly, 45 days after the end of each month
Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency).	Monthly, 20 days after the end of each month
Financial soundness indicators[1]	Monthly, 45 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly
The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence

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

ANNEX
Measures to Improve Performance of SOEs under Monitoring

C.N. Căi Ferate CFR S.A (including S.C Interventii Feroviare).

- Obtain a government memorandum to allow elimination of the penalties associated with arrears to Electrica (prior action);
- Secure bridge loan from the Ministry of Public Finance to finance the elimination of arrears to private electricity suppliers (prior action);
- Present and begin executing the necessary cost reduction and revenue enhancement measures by mid-June 2012 to assure financial viability in 2013 and beyond
- Sign contract with consultant to hire private management and board members by end-June 2012;
- Resubmit merger application, in accordance with recent court ruling, to merge Interventii Feroviare, S.C. Întreținere Mecanizată and S.C. Sere și Pepiniere into CN. Cai Ferate CFR by end-June 2012;
- Reduce personnel by an additional 11 positions that were originally with Interventii by end-June 2012;
- Continue tendering process for public service obligations and infrastructure maintenance for the remaining 524 line kilometers of extended railway out of prior total of 1,600, bringing network under management of CFR down to 15,500 line kilometers, by end-June 2012;
- Sign contract for consultancy services for the detailed analysis of the national railway network by end-June 2012;
- Implement agreement between CFR-SA from Romania and Eurostation from Belgium for the modernization of the North Station by end-June 2012;
- Repair and put into circulation the Bucharest railway ring for passengers transport by end-July 2012;
- Obtain, in conjunction with Ministry of Public Finance, a government-guaranteed loan to repay government bridge loan that was provided to clear arrears by-end October 2012;
- Appoint new board members and private management by end-September 2012;
- Increase by 10 percent y/y rental revenue by end-December 2012;
- Continue reduction in personnel and maintenance expenditures and reorganize and rationalize the sectioning points;
- Present a short report on measures that have been implemented during the last month, key findings of the various studies and new measures envisaged, during first week of every month.
- Identify sources of financing for continuation of construction works on Ramnicu Valcea – Valcele railway line.

S.C. Electrificare CFR S.A.

- Sign contract with consultant to hire private management and board members by end-June-2012;
- Continue the restructuring and modernization program, including a further reduction of 45 positions by end-2012 (compared with September 1, 2011);
- Ensure the acquisition of electricity via OPCOM when taking over supply and distribution activity for traction energy for the whole railway system.

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

- Elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system by end-2012.

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

- Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;Sign contract with privatization consultant for majority privatization to strategic investor by mid-June 2012;
- Send notification to DG Comp for envisaged state-aid scheme aiming at arrears reduction, based on the prudent private seller test prepared by privatization consultant, by mid-June 2012;
- Negotiate with Ministry of Public Finance, Ministry of Internal Affairs and Ministry of Economy arrears cancellation schemes for (power plants and Oltchim-Electrica) by end-June 2012;
- Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
- Continue to scrap and valorify 3000 depreciated cars by end-August 2012;
- Pre-qualify bidders for majority share of Marfa by mid-September 2012 and complete privatization by end-October 2012;
- Implement integrated system for assets and management remuneration by end-November 2012;
- Reinforce continuously efforts to collect outstanding invoices, including by giving notice on contracts and taking legal measures against companies with substantial arrears.

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

- Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;

- Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
- Sign contract with consultant to hire private management and board members by end-June-2012;
- Identify, together with the Ministry of Public Finance, possibilities to grant compensation amounting to 300 mil lei to balance the income and expenditure budget for 2012 by end-June 2012;
- Identify, together with the Ministry of Public Finance and the Competition Council financing possibilities for renewing and repairing old rolling stock by end-June 2012;
- Scrap and valorify 100 depreciated cars by end-December 2012;
- Begin implementing recommendations of consultant hired to evaluate the necessary services and related costs for achieving the minimum social package by mid-September 2012;
- Appoint new board members and private management by end-September 2012;
- For 2012, after the taking over of the subsidiaries, the number of personnel should not exceed the 2011 level;
- Increase 2012 revenues by 6 percent over 2011 from activities connected to public railway transport, in particular by renting all publicity spaces available;
- Implement a pilot plan on replacing REGIO trains in classical composition (locomotives and cars) by leasing EMU/DMUs by end 2012.

S.C. Metrorex S.A.

- Adopt new circulation schedules to bring transport capacity in line with market demand, by end-June 2012;
- Increase revenues by introducing 16 new metro trains into circulation starting early 2013;
- Consider tariff increase in conjunction with establishment of unified tariff structure with ground transportation agency;
- Include S.C. Metrorex S.A. in the list of potential beneficiaries of SOP – Transport 2014 – 2020 in order to use European Structural Funds.

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

- Finalize and implement remaining 2 internal management control standards standards by end-June 2012;
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points:
    - Sign the contract by end-June 2012;
    - Ensure that 50 percent of the fixed control points are functional by end-December 2012;
    - Finalize and take over the information system by end-March 2013.

- Quantify lost revenue from delay in implementing fixed control points and identify offsetting revenue or expense measures.

C.N. Tarom S.A.

- Redeliver the third Boeing B 737-800 leased-in aircraft (or reduce the rental rate at the level of the prices from the market) by end-June 2012;
- Monitor revenue and expenses related to operation of aircraft in the event that court in London rules that the aircraft cannot be redelivered and provide report on impact of aircraft on overall financial performance of fleet;
- Finalize amendment to contract with consultant, if possible within scope of current legal provisions, to incorporate a more in depth development of a restructuring program (measures regarding the routes and fleet structure and the organization design), and, based on consultant report, identify measures to be proposed for the Annex to the TMU, by mid-June 2012;
- Publish prospectus for privatization of at least a 20 percent stake via IPO by mid-June 2012, with view to conclude privatization by mid-July 2012;
- Appoint private management and board members shortly after conclusion of privatization;

  Reduce costs (e.g. by renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, by renegotiation of lease-in contract for flying staff, extending the saving oil consumption program);

  Increase revenues (e.g. by alternative sales strategies and optimizing pricing policies, developing strategy for additional lines to Eastern Europe in cooperation with Skyteam partners, resuming on-board sales and sale of TAROM branded products).

C.N. Poşta Românã S.A.

- Hire legal and transaction advisor for capital increase by at least 20 percent by end-June 2012;
- Reduce staff by at least 300 employees by end-August 2012;
- Publish prospectus for capital increase of strategic investor by end-August 2012;
- Finalize capital increase by end-September 2012;
- Appoint private management and board members shortly after capital increase has been implemented in close cooperation with new shareholder.

S.C. Oltchim S.A.

- Approve share capital increase by mid-June 2012;Select new board members and new management by end-June 2012;
- Publish prospectus for privatization by end-July 2012, with view to conclude privatization by end-September 2012;
- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

C.N. a Huilei S.A

- Pay off credits related to non-viable mines, contingent upon receiving state aid, by end-May 2012;
- Create independent company for non-viable mines by end-June 2012;
- Merge viable mines with Electrocentrale Deva and Electrocentrale Paroseni to create Hunedoara by end-July 2012;
- Start CNH liquidation by end-September 2012.

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

- Submit to the trade register a legal proposal signed by Termoelectrica's Board, based on an instruction from the Ministery of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012;
- Sign contract with consultant to hire CEO for Electrocentrale Galati by mid-June 2012;
- Merge Electrocentrale Deva and Electrocentrale Paroseni with viable mines from CNH to create Hunedoara by end-July 2012;
- Place remaining part of Termoelectrica into voluntary liquidation in early-September 2012;
- Appoint legal advisor for majority privatization of new energy company Hunedoara by end-August 2012; appoint transaction advisor for majority privatization by end-October 2012, with view to complete privatization by end-2012/early 2013.

S.C. Electrocentrale Bucuresti S.A.

- Continue exploring various strategies for clearing outstanding payments between Elcen Bucuresti and Radet Bucuresti and Radet Constanta, in conjunction with the Ministry of Economy and the municipalities of Bucharest and Constanta, even if this might imply a full waiver of penalties, by end-July 2012;
- Appoint transaction advisor by end-September 2012;
- Publish prospectus by end-November 2012, with view to conclude privatization by end-2012/early 2013.

SNa Lignitului Oltenia S.A. and S.C. Complexul Energetic Turceni S.A., S.C. Complexul Energetic Craiova S.A. and S.C. Complexul Energetic Rovinari S.A.

- Sign contract with consultant to hire private management of the new Complexul Energetic Oltenia by mid-May;
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni and publish merger in Official Gazette by mid-May 2012;
- Select new board members by end-September 2012 and new management by end-October 2012;

- Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by end-September 2012;
- Appoint transaction advisor by fall 2012;
- Publish prospectus for privatizations by late 2012, with view to conclude privatization offer by end-2012 or shortly thereafter;
- Continue reduction of underground operation of SNLO with aim to terminate it by end-March 2013.

S.C. Hidroelectrica S.A.

- Renegotiate bilateral contracts to market conditions, following announcement of EC investigation into contracts, by end-May, 2012. If conclusion not possible, cancel contract where legally permissible;
- Select new management team and board members by end-June 2012;
- Publish prospectus by end-June 2012; with view to conclude IPO by mid-October 2012.

S.C. Electrica S.A. including subsidiaries

- Keep remaining 3 distribution subsidiaries in separate companies as merging them could lead to competition restrictions;
- Select new management team and board members for Electrica Furnizare by end-June 2012;
- Appoint investment bank for privatizations of the five regional service companies by mid-June 2012;
- Publish prospectus for privatizations of the five regional service companies by mid-August 2012, with view to conclude privatization by end-October 2012;
- Sell shares in already-privatized electricity distribution and supply companies according to Electrica's strategy;
- Appoint legal advisor and transaction advisors for the majority sale of remaining parts of Electrica (including Electrica Furnizare and the three distribution companies) by end-October 2012 with a view to concluding the privatization by end-2012/early 2013;
- File for liquidation for all Electrica-Serv companies for which privatization failed immediately thereafter;
- Reduce personnel of Electrica in parallel to privatization of subsidiaries and own supply activity.

INTERNATIONAL MONETARY FUND

ROMANIA

Fifth Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of Performance Criterion, 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 Vivek Arora

June 18, 2012

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on June 11, 2012**. The additional information does not change the thrust of the staff appraisal.

2. **The government met the prior actions.** On June 6, 2012, the government approved a memorandum laying out the agreed roadmap for liberalization of gas prices for both household and nonhousehold consumers. Also on June 6, the government approved a memorandum for the cancellation of penalties on arrears of the state-owned railway company to a state-owned electricity company and an emergency ordinance to grant a bridge loan to the railway company to clear arrears to private electricity providers. In return for payment of principal, the electricity providers have agreed to cancel penalties on the arrears owed to them.

3. **Recent indicators suggest weak, but positive, growth.** Final national accounts data confirmed a 0.1 percent contraction in GDP in Q1, but high frequency indicators for April point to moderate growth in Q2. Industrial production posted modest gains and consumption indicators remained solid with retail trade volumes and consumer confidence improving further. Annual inflation remained low at 1.8 percent in May.

4. **Risks have risen, as seen in CDS spreads and exchange rate pressure.** The CDS spread for Romania has risen by nearly 90 b.p. since end-April, reflecting increased risk perception stemming from the euro area crisis and political uncertainties in Romania. The authorities have stepped up intervention in the foreign exchange market, holding leu depreciation for the year to around three percent against the euro. Absent countervailing measures, the resulting decline in reserves could constitute a risk for the end-June NFA target. The stock market has largely given up gains from earlier this year. Banking sector deposits continue to grow, albeit with significant variations among banks.

5. **Preliminary fiscal data for May shows that revenues are broadly on track.** However, both current and capital spending are above programmed levels, suggesting that tight policies will be needed June to reach the second quarter targets.

6. **Political pressures are likely to persist ahead of parliamentary elections this fall.** The ruling coalition prevailed in country-wide local elections held in mid-June.

7. **The authorities placed state-owned power producer Hidroelectrica into bankruptcy on June 18.** The government announced that bankruptcy procedures would be used to cancel below-market bilateral energy contracts. This unexpected bankruptcy raises concerns about the viability of the share sale agreed as part of the structural benchmark for end-October. It may also pose risks to overall market confidence in Romania and to the viability of sales of stakes in other public firms.

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

Measure	Target Date	Comment
Prior Action		
1. Approve a roadmap for the deregulation of gas prices as specified in the MEFP.	5 days before the Board date	Met
2. The government will approve a memorandum for the cancellation of penalties on railroad company arrears to Electrica and an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers.	5 days before the Board date	Met
Quantitative performance criteria		
1. Floor on net foreign assets	Mar. 31, 2012	Met
2. Floor on general government overall balance	Mar. 31, 2012	Met
3. Ceiling on central government and social security domestic arrears	Mar. 31, 2012	Not Met
4. Ceiling on general government guarantees	Mar. 31, 2012	Met
5. Non-accumulation of external debt arrears	Mar. 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Mar. 31, 2012	Met
2. Floor on operating balance of key SOEs	Mar. 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	Mar. 31, 2012	Met
4. Ceiling on stock of local government arrears	Mar. 31, 2012	Not Met
Inflation consultation band		
Inner band	Mar. 31, 2012	Met
Outer band	Mar. 31, 2012	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Met
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 1/	Dec. 31, 2011	Reset to June 30, 2012
4. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	Met
5. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	
New structural benchmarks		
1. Launch tender for providing software to integrate the accounting reporting system with the Treasury payment system.	June 30, 2012	
2. Hold IPOs of government shares in Romgaz and Hidroelectrica.	October 15, 2012	

1/ The health care legislation is being revised to better address lack of financial controls and adequacy of funding needs in the health sector. The provisions on private insurance for basic medical benefits are also being reassessed.

Press Release No. 12/234
FOR IMMEDIATE RELEASE
June 22, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fifth Review Under Stand-By Arrangement for Romania

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Romania's economic performance under a program supported by a 24-month Stand-By Arrangement (SBA). The authorities have indicated that they will continue to treat the arrangement as precautionary and therefore do not intend to draw under it.

Completion of the review makes an additional amount equivalent to SDR 430 million (about €519.4 million, or about US$651.3 million) available for disbursement, bringing the total resources that are currently available to Romania under the SBA to SDR 2.21 billion (about €2.67 billion, or about US$3.35 billion).

In completing the review, the Executive Board also approved a waiver for the nonobservance of a performance criterion on the stock of central government and social security arrears.

The SBA was approved on March 25, 2011 (see Press Release No 11/101) in the amount of SDR 3,090.6.1 million (about €3.73 billion, or about US$4.68 billion) and came into effect on March 31, 2011.

Following the Executive Board's discussion on Romania, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, said:

"Romania's economic performance under the program remains strong. GDP growth is projected to pick up in the second half of the year, inflation remains in check, and the fiscal and external positions continue to improve. However, with external downside risks looming large, a steadfast implementation of all program commitments, including structural measures, is needed to preserve macroeconomic stability and boost potential growth.

"The budget deficit target has been eased slightly to allow for some countercyclical spending. Strict spending discipline will nonetheless be required to meet the revised target. More broadly, further efforts to resolve outstanding arrears as well as reforms in tax administration and health care remain necessary to the achievement of the fiscal objectives under the program. The authorities also need to advance reforms in the energy and transportation sectors where price distortions and inadequate governance continue to hamper efficiency. In this regard, efforts to restructure and privatize state-owned enterprises should be intensified. Slow reforms to date have discouraged investment, holding back living standards.

"Romania's banking system remains vulnerable to spillovers from elsewhere in Europe owing to close financial sector ties. Banks' capital adequacy is good and provisions are high, but non-performing loans continue to rise. Against this background, the authorities should further strengthen financial sector oversight and their crisis management framework. Monetary conduct also needs to remain cautious and exchange rate policy should limit foreign exchange intervention as long as the impact of a weakening currency on prices and balance sheets remains modest."

Statement by Mr. Menno Snel, Executive Director for Romania and Mr. Mihai Tanasescu, Advisor to the Executive Director June 22, 2012

The economic program, supported by the Fund, European Commission, and the World Bank, played an important role in stabilizing the Romanian economy, generating concrete results in boosting growth and maintaining fiscal and financial stability. Romania's performance under the current program continues to be strong, and all performance criteria for the fifth review were met, except for the one on accumulation of central government arrears, which was missed by a small margin. The authorities continue their efforts on accomplishing the goals of a large structural agenda, with a focus on reforming the healthcare sector and state-owned enterprises.

Recent economic developments

Romania's economic recovery continues. Real GDP grew by 2.5 percent in 2011 on the back of a very good harvest and thanks to a recovery in private demand, but it declined by 0.2 percent in the fourth quarter (q/q) and by 0.1 percent in the first quarter of 2012. Economic growth is likely to be less robust than previously foreseen, reflecting mainly the deteriorating external environment in the euro area and spillover effects from the financial market turbulence, but overall, the 2012 growth is expected to reach around 1.5 percent. Growth will be driven by a recovery in domestic demand and by a better absorption of EU funds.

The inflation rate has dropped sharply to a record low of 1.8 percent in May as a result of continued food price deflation, which offset growth in administrative and oil prices. We expect inflation to gradually climb in the second half of the year, while remaining within the central bank's target band of 3 plus/minus 1 percent.

The external position improved significantly. The current account deficit is expected to be around 4.5 percent of GDP for 2012, stabilizing at around 4.5-5 percent of GDP thereafter. In 2012, net exports are expected to remain stable, and official transfers are projected to recover, as EU fund absorption picks up.

Public debt financing has been positive so far this year. On the external side, the authorities succeeded in issuing US 2.25 billion in 10-year dollar-denominated bonds in January and February at a favorable rate. On the local market, they continued to build the *lei* yield curve and to extend the maturity of domestic debt, including with the launch of a domestic bond with 15 year maturity.

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

Fiscal policy
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. The consolidation process will continue. The fiscal target in 2012 is lower than in 2011 by more than 2 percentage points of GDP in structural terms; it is set to be reduced to 2.8 percent in ESA terms. Since the first program started, Romania improved its fiscal stance by more than 7 percent of GDP, and the authorities remain committed to continue this process in 2013. Under the new fiscal strategy, implementing further structural adjustments, the deficit target in 2013 is set to be at 2.2 percent in ESA terms. Moreover, to achieve this goal the authorities are committed to continue restraining expenditures and prioritizing investment projects with a focus on the EU-funded initiatives. They will also improve tax collection by implementing measures to simplify the tax code and strengthen the tax audit and enforcement efforts, based on the technical assistance recommendations from the Fund.

The authorities proposed relaxing the program's cash deficit target in 2012 by 0.3 percent of GDP, while remaining committed to bringing down the fiscal deficit in ESA terms below 3 percent of GDP, as agreed under the EU Excessive Deficit Procedure. Using the additional space under the new cash deficit, the authorities will implement a wage increase of 8 percent beginning in June 2012, with the remainder of the 2010 cuts restoration to be implemented in December, if budget conditions permit. Personnel spending will remain at 6.7 percent of GDP in 2012, unchanged from 2011, reflecting the continued strong decline in public employment.

After a year of declining arrears and unpaid bills in the general government, arrears increased in early 2012 to 0.2 percent of GDP, concentrated mostly in local governments. These developments necessitated an allocation by the authorities of additional transfers from the central government to help reduce these arrears. At the same time, the authorities will seek technical assistance to evaluate the implementation of the Local Public Finance Law and the financial arrangements for local governments to avoid accumulating future arrears. In SOEs monitored under the program, arrears in the first quarter of 2012 stood below the indicative target, and the authorities anticipate that by implementing additional measures, the arrears will be reduced by more than 1 percent of GDP in the second half of 2012.

In the health sector, arrears in registered bills with the Health Insurance Fund have been eliminated, but arrears in hospitals have been rising. The recently introduced claw-back tax will be fully used to pay down the arrears and to implement key measures, including revising the copayment formula and better control expenditures by introducing a negative list of health services and drugs. This will decrease sharply the stock of arrears accumulated in the health care system.

Monetary and financial sector policies
The monetary authorities responded appropriately to economic developments, and the central bank has gradually and prudently reduced its policy rate amid abating inflationary pressures. Since November 2011, the central bank eased by a cumulative 100 basis points while

maintaining the reserve requirements on local and FX currencies. Due to external uncertainties, the central bank decided in its May policy meeting to keep the interest rate unchanged, and has also been adding liquidity to the system through weekly repo auctions with banks. Lending and deposit rates for non-bank clients, as well as interbank rates, have reflected the cumulative reduction in the NBR policy rate.

Headline inflation fell to a record low of 1.8 percent in May as a result of food price deflation and declining nonfuel commodity prices. Core inflation continued to decline, reaching a low of 2 percent in March. However, upside risks remain, including additional adjustment of administered prices and a possible rebound of domestic food prices. Nonetheless, inflation is expected to stay within the central bank's target band of 3 plus/minus 1 percent at end-2012, with the NBR forecast at 3.2 percent for December 2012. In light of the gathering risks of contagion from financial disturbances in the region and possible capital outflows, the monetary authorities will remain vigilant against inflation risks and are committed to taking action as needed to assure the achievement of the 2012 inflation target.

The Romanian financial sector so far has weathered well the impact of the economic challenges. The banking system remained well capitalized with an average capital adequacy ratio of 14.5 percent at end-March 2012. Private sector credit has grown, with lending to the non-financial corporate sector up 10.8 percent and to households up by 4.9 percent in real terms at end-April. However, the NPLs ratio rose to 15.9 percent in March compared to 14.3 percent at end-2011. Total prudential provisions at end-March were sufficient to cover 99 percent of NPLs while the new IFRS provisioning ratio stood at a comfortable 68.4 percent. To help mitigate the rise in impaired loans and improve the efficiency of bank balance sheets, the authorities will revise the tax treatment of bank loans sold to Romanian entities to remove the current tax disincentives, and will undergo an assessment by the World Bank of the arrangements for insolvency and creditor rights. In light of the current international vulnerabilities, the central bank remains vigilant to vulnerabilities in the banking system and stands ready to provide liquidity, as necessary, to mitigate segmentation in the interbank market. It is also refining its full range of contingency measures to be deployed -if necessary -to preserve depositor confidence. The central bank will continue supervising the banking system and taking the necessary steps to ensure that banks have sufficient capital and liquidity.

Structural reforms

Under the current program the authorities are committed to a deep-rooted reform of state owned enterprises, especially in the transport and energy sectors, to enable sustainable economic growth and better competitiveness. The authorities have made progress in the reform agenda, but challenges remain.

In the **transport sector,** the authorities are developing a new general transport master plan, which will balance the increasing demand and available fiscal means, ensure complementarities between different transport modes, and define priorities for the medium-and long-term investment. Recently, the government approved an emergency ordinance to grant a bridge loan to clear the CFR rail infrastructure arrears to private energy providers and issue a government memorandum for elimination of penalties and gradual payment of principal on arrears owed to Electrica. To increase efficiency of the sector, the authorities will focus on putting in place private management in CFR Cai Ferate and CFR Calatori, and to lease or close approximately 550 kilometers of lines. Moreover, major infrastructure projects using EU funds are advancing and revenues are increasing through tariff adjustments and enhancing toll collection. At the same time, privatization of the Tarom (IPO 20 percent) and CFR Marfa (majority privatization) this year remains a priority for the Romanian authorities.

In the **energy sector,** the authorities envisage major reforms, including a change in the national energy strategy with a view of attracting more private capital and allowing for a more transparent, flexible, and competitive energy production and supply. To enhance the pricing and regulatory framework, the government approved a roadmap to gradually adjust regulated gas prices for non-households, leading to full liberalization of this segment by January 2015. At the same time, the parliament approved legislation to transpose the EU Third Energy Package into the Romanian legislation. Progress has been made on restructuring of the state-owned enterprises, and despite some delays the authorities remain committed to speeding up implementation and preparing several companies for privatization. In this context, they succeeded in selling a 15 percent stake in Transelectrica and will concentrate efforts in 2012 to sell shares in Hidroelectrica, Nuclearelectrica, Romgaz, and Transgaz. In addition, the authorities will continue their privatization efforts of a number of companies, including of the new energy producers, Hunedoara and Oltenia.

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