April 2012
IMF Country Report No. 12/73

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

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

- The staff report for the fourth Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on February 6, 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 March 6, 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 dated March 19, providing an update on economic and policy developments.

- A Press Release summarizing the views of the Executive Board as expressed during its March 21, 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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INTERNATIONAL MONETARY FUND

ROMANIA

March 6, 2012

FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF THE PERFORMANCE CRITERIA

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 fifth tranche of SDR 430 million (€505 million) will be made available upon completion of this review. The authorities are treating the arrangement as precautionary. Additional funds under the program are provided by the European Union (also on a precautionary basis) and the World Bank.

Status of the current program: All end-December quantitative performance criteria and indicative targets were met. The prior action on government approval of a roadmap for deregulation of electricity prices is expected to be met. Modifications are proposed to the adjustors to the NFA and fiscal targets. The newly-formed government has publicly reaffirmed their commitment to the program and the policy agenda.

Key issues: The SBA review focused on four issues: (i) the potential impact of a more pessimistic growth outlook on the public finances; (ii) progress on health care and tax reforms; (iii) advances on the structural reform agenda, with a focus on SOE restructuring, privatization and regulatory reforms in the energy sector; and, (iv) strengthening of contingency planning and safety net mechanisms to ensure financial sector stability.

Approved By
Poul Thomsen and Vivek Arora

Discussions were held in Bucharest, January 24–February 6, 2011. The mission met with President Basescu, Prime Minister Boc, Finance Minister Ialomiţianu, Central Bank Governor Isarescu, other senior officials, representatives of political parties, labor and business organizations, and financial institutions. A follow-up staff visit on February 21-22 met with new Prime Minister Ungureanu and members of his cabinet. The staff team comprised J. Franks (head), J. Ralyea, M. Stierle, A. Tuladhar, and L. Zhang (all EUR); F. Salman (SPR); F. Eich (FAD); and M. Dobler (MCM). T. Lybek (Resident Representative) assisted the mission. Discussions were held jointly with the EC, ECB, and World Bank staff.

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I. INTRODUCTION AND SUMMARY

1. **After two years of recession, growth resumed in Romania in 2011, but the economic outlook has deteriorated owing to the European economic downturn.** The economy grew by 2.5 percent in 2011, driven by an exceptional agricultural harvest and strong industrial output growth. Domestic demand strengthened as construction and retail sales started to recover, fuelled by higher real disposable incomes. However, growth is likely to slow down this year as the effects of the agricultural boom fade and the euro area is forecast to fall into recession. While financial market conditions have eased lately, the risk of spillovers from the financial market turbulence in the euro area remains high. Inflation has declined considerably, and is expected to be within the authorities' end-2012 target range (3 percent ± 1 ppt.). The current account deficit is expected to remain below 4½ percent of GDP. Political uncertainty from recent street protests has receded, as the resignation of Prime Minister Boc paved the way for a government reshuffle. New Prime Minister Ungureanu has reaffirmed his government's commitment to the program.

2. **Romania's performance under the program remains strong**. All performance criteria and indicative targets for the fourth review were met. The authorities have met the structural benchmark on designing measures to deregister a significant number of small VAT payers to improve collection efficiency. Progress has also been made in meeting the structural benchmarks for SOE reforms and investment prioritization. However, some key steps remain to be fulfilled and the authorities are expected to implement them by the time of the next review. The draft legislation on health care framework law is also being revised to allow for wider consultations and is expected to be completed by September.

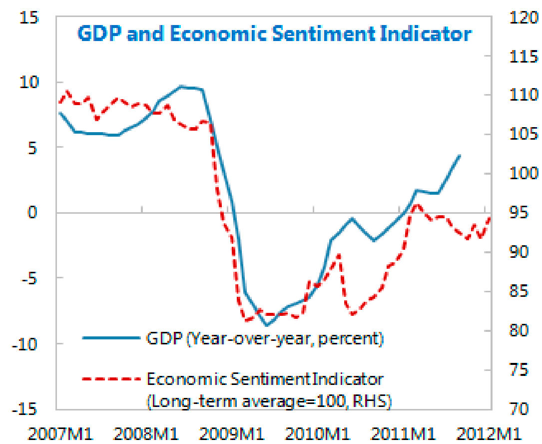
3. **Romania needs to maintain its steadfast commitment to fiscal discipline and step up efforts on the structural reform agenda to ensure stable and sustainable growth.** The overperformance in tax collections in 2011 should help compensate for weakening growth prospects and keep the budget deficit target of 1.9 percent of GDP (2.1 percent of GDP including some off-budget expenditures) within reach. Strict spending discipline is still required to achieve this target, particularly by containing current spending, ensuring smooth implementation of the clawback tax to contain health care costs, and prioritization of EU-funded capital projects. Implementation of the structural reform

agenda is advancing, albeit slowly and unevenly. The pace of reform needs to be stepped up, especially with regards to deregulation in the energy sector. Restructuring of the state-owned enterprises is crucial to attract much-needed investment and boost growth. In light of high potential spillover risks, Romania needs to continue efforts to build up fiscal, financial, and foreign exchange buffers and strengthen the toolkit for contingency measures in the financial sector. Together with the safety net provided by the precautionary arrangements with international financial institutions, these efforts should help Romania weather the ongoing financial storm.

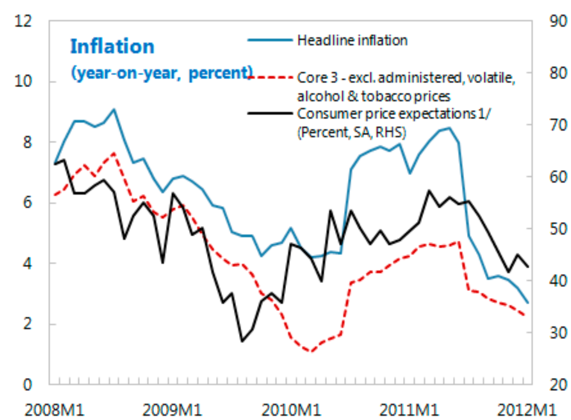
II. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Developments

4. Romania's economic recovery continued, although early signs of a slowdown are evident. Flash estimates show that the economy posted growth of 2.5 percent in 2011, owing to an exceptional agricultural harvest and strong export growth. Domestic demand continued to recover, with growth turning positive in construction and retail sales bottoming out. Real wages in the private sector increased, consumer confidence is improving, and credit growth has picked up. However, new manufacturing orders and industrial production are slowing, reflecting worsening prospects in the euro area. Private sector job growth has also moderated.



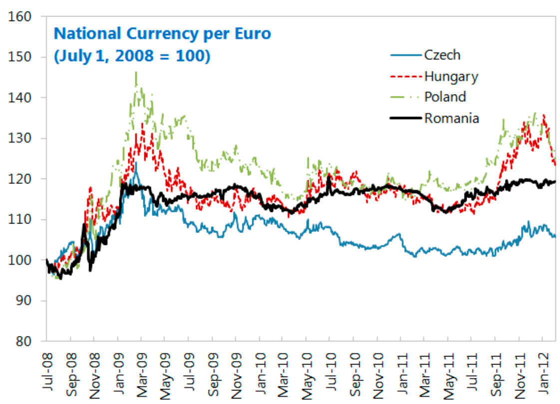
Sources: Haver; and IMF staff estimates.

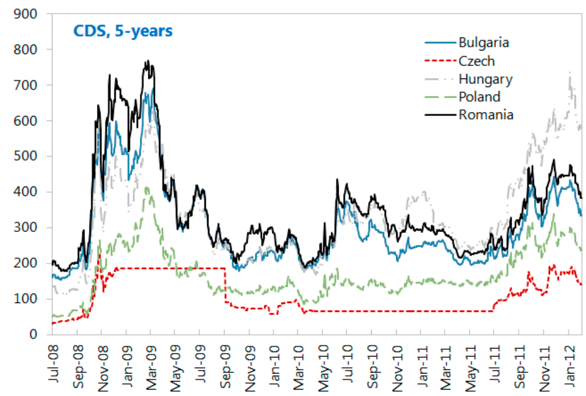


Source: European Commission; Haver; and IMF staff estimates.
1/ Price trends over next 12 months.

5. Inflationary pressures receded on the back of lower food prices. CPI inflation fell to a record low 2.7 percent in January as a result of food price deflation, which more than offset the rise in administered prices and the effect of exchange rate depreciation. Core inflation[1] has also declined to 2.4 percent.

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

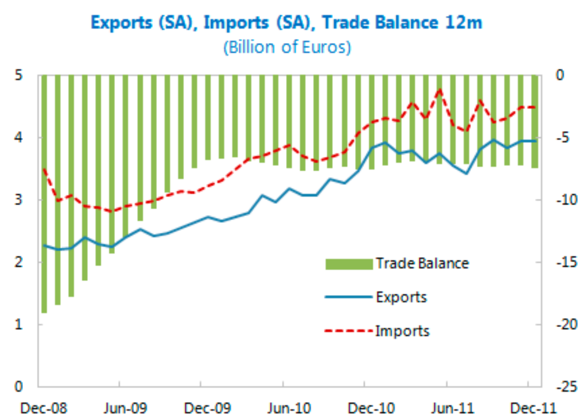




Sources: Haver; Bloomberg; and IMF staff estimates.

6. **Financial market stress has moderated after a period of heightened pressures in November**. The sovereign CDS spread has declined by nearly 100 basis points to around 370 b.p. In late January, the government also successfully placed a previously postponed USD 1½ billion 10 year dollar denominated Eurobond issue amid a favorable market response reflecting strong demand for emerging market external debt so far in 2012 and resumed inflows to emerging market dedicated bond funds. Domestic yields on treasuries have fallen and issuances have been well subscribed, reflecting both the recent monetary policy rate cuts and improved liquidity condition in local currency. After a 2½ depreciation of the leu in the second half of 2011, exchange rate pressures have recently been muted and the authorities have not intervened since November. International reserves remain comfortable at €37.3 billion, and are still fully covering short-term debt at residual maturity.

7. **The current account deficit narrowed, limiting pressures on external financing**. An improved trade balance, reflecting strong exports of machinery, automotive, and agricultural goods, coupled with increased absorption of EU Funds helped lower the current account deficit slightly to 4.3 percent of GDP in 2011.[2] Deficit financing was helped through increased IFI inflows[3]



Source: Romanian authorities and IMF staff estimates.

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[2] Recent survey on services has led to a revision of the conversion rate from CIF to FOB from 1.08 to 1.04 by National Statistical Institute. The impact is €1.6 billion on imports; however with an increase in transport revenues by €1.1billion, the overall impact on the trade balance in goods and services is deterioration by €500 million.

[3] IFIs disbursed €390 million for project financing and the World Bank finalized a DPL with a €400 million disbursement.

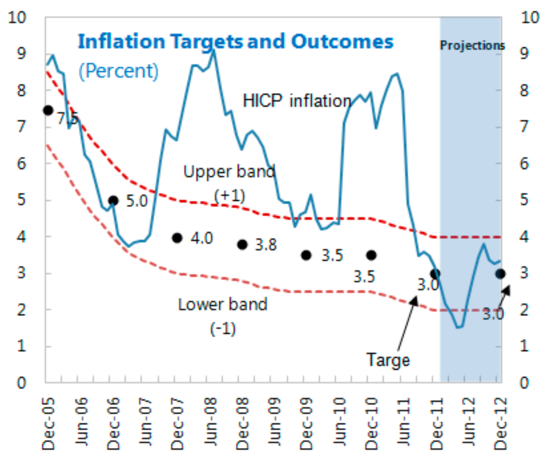
offsetting the slowdown in private capital flows. Intercompany lending continued to be the major source of FDI, which declined by 14 percent compared to 2010. Non-resident exposure to domestic treasury bills also declined (to less than 10 percent of total stock from the peak in July of over 20 percent). Private external financing sources remain weak, with bank and corporate sector borrowing skewed heavily to the short-term and rollover rates declining further in Q4.

B. Macroeconomic Outlook and Risks

8. The growth outlook has weakened due to potential adverse spillover effects from the euro area while inflationary pressures are expected to remain low.

- ***Growth.*** In 2012, growth is likely to be less robust than previously forecast due to the effects of the worsening external environment on exports and on domestic demand (via the largely foreign-owned banking system). Staff now projects 2012 growth to be 1.5 percent, driven by a gradual rise in domestic private demand and increased EU funds absorption. Medium-term growth in 2013–16 is expected to remain strong at 3.5 to 4 percent.

- ***Inflation.*** Given modest growth in domestic demand and muted pressures on global food and energy prices, inflation is likely to stay within the central bank's target band of 3 ± 1 percent. Reflecting base effects of high food and fuel prices last year, inflation will remain below 3 percent in the first half of 2012, before gradually climbing above the middle of the central bank's target band later in the year.



Source: Haver: IMF staff estimates.

- The ***current account*** deficit is projected to remain around 4-4¼ 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 eurozone should depress export growth while also leading to subdued import demand. On the ***financial account***, the government's medium term external bond placements and multilateral financing are expected to be the main sources of financing. The private sector will likely continue rolling over short-term debt in the first half o f the year, with medium term rollover rates recovering only later. FDI inflows are expected to remain depressed amidst the faltering economy in the euro area but prospective privatizations could generate some recovery. Under staff's baseline scenario, no new financing gap is envisaged, consistent with the program's precautionary nature.

9. **Risks to growth remain tilted to the downside, given ongoing euro area turbulence, while inflation risks are mainly on the upside**.

- ***Growth***. Downside risks arise mainly from external sources. A further slowdown in Europe and increased international financial market turbulence could drag down growth via the following channels: first, lower external demand would depress exports and dampen consumer sentiment; second, financial market turbulence could raise risk premia and affect capital flows to Romania. The higher risk premium would also increase banks' funding costs and may put significant downward pressures on the exchange rate, which would lead to further banking stress given the high degree of Euroization of banks' balance sheets; third, ongoing bank deleveraging may lead to further credit contraction and drag down the recovery. On the upside, rapid implementation of structural reforms and faster absorption of EU-funded projects could boost growth. The recent change in government should improve political stability through the upcoming elections, reducing downside political risks to the economic outlook.

- ***Inflation***. Risks are tilted to the upside. Additional adjustments of administered prices in the context of the structural reforms, further exchange rate pressures due to euro area turbulence, and a possible rebound of food and oil prices may push inflation higher than currently forecasted. On the downside, the still large negative output gap and slower-than-expected economic recovery may drive down core inflation 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	2.7	3.0
CPI inflation, eop	4.9	8.0	3.1	3.3	3.0
Current account balance (% of GDP)	-4.2	-4.4	-4.3	-4.4	-4.9
Gross international reserves (bn euros)	30.9	36.0	37.3	37.5	37.4

III. POLICY DISCUSSIONS

A. Fiscal Policy

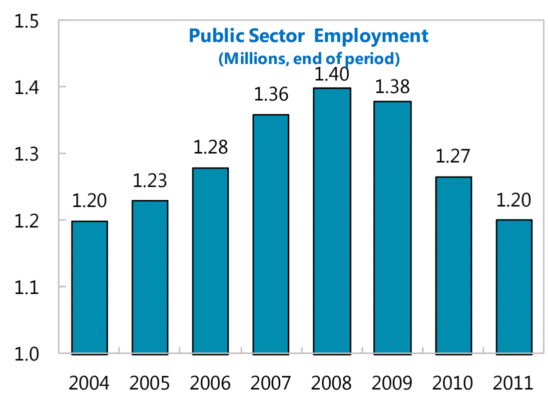
10. **The authorities met the 2011 general government cash deficit target with some margin.** The deficit reached 4.2 percent of GDP, below the program ceiling of 4.4 percent of GDP. Despite an over-performance in tax revenue, reflecting improvements in the labor market and enhanced tax collection efforts, revenues remained below projections as a result of low EU grants. The revenue shortfall was more than offset by tight current expenditure control, especially on personnel and transfers, due to declining public employment, lower unemployment benefits, and fewer invalidity and early pensioners. The large personnel reductions have however started to give rise to increased outsourcing of services, as reflected in higher than expected goods and services spending. A significant amount of the expenditure savings were allocated to capital spending at the end of the year, including to clear arrears and unpaid bills in SOEs and the health sector and to increase cofinancing of EU funded projects. Capital spending was particularly high in local governments and self-financed institutions (e.g. universities) which resulted in capital spending exceeding

Fiscal Performance, Oct-Dec 2011

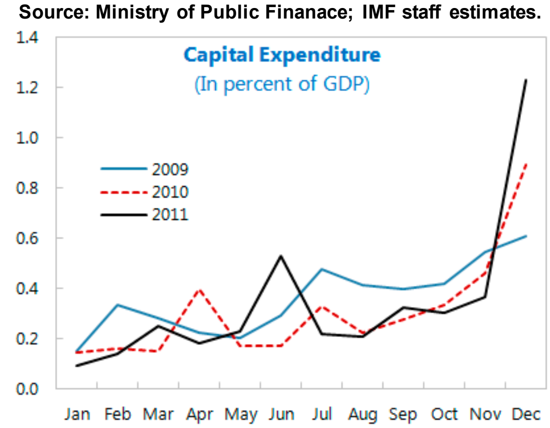
(billions, RON)

	Proj.	Act.	Diff.	Difference (excl. swaps)
Total revenue	50.8	50.0	-0.8	-0.7
Current revenue	46.3	47.3	1.0	1.1
Tax revenue	40.6	41.7	1.1	1.2
Nontax revenue	5.7	5.6	0.0	0.0
Capital revenue	0.1	0.2	0.1	0.1
Grants	4.8	2.5	-2.3	-2.3
Financial operations	-0.4	0.0	0.4	0.4
Total expenditure	61.1	60.2	-0.9	-0.8
Current	52.3	49.5	-2.8	-2.2
Personnel	11.5	9.7	-1.8	-1.8
Goods and services	8.2	9.6	1.4	1.4
Interest	2.9	2.4	-0.5	-0.5
Subsidies	2.2	2.0	-0.3	0.1
Transfers	26.7	25.2	-1.5	-1.3
Social assistance	17.2	17.0	-0.2	-0.2
Other transfers	7.2	3.7	-3.5	-2.9
EU funds, post-accession	2.0	3.7	1.7	1.7
Other expenditure	0.2	0.7	0.5	0.5
Projects financed from external credits	0.8	0.7	-0.1	-0.1
Capital	8.2	10.7	2.5	2.0
Reserve fund	0.1	0.0	-0.1	-0.1
Net lending	0.4	-0.1	-0.5	-0.5
Deficit/Surplus	-10.3	-10.2	0.1	0.1
Memo item:				
Total capital spending	14.6	17.2	2.6	

Source: Romanian authorities; and staff projections.



Source: Ministry of Public Finanace; IMF staff estimates.



Source: Romanian Authorities.

the Q4 forecast by nearly ½ percent of GDP.[4]

11. The authorities remain on track to reduce the 2012 cash deficit to below 2 percent of GDP. To bring the EU accrual deficit well below 3 percent of GDP, the 2012 budget is based on a cash budget deficit of 1.9 percent of GDP[5] (with an additional 0.2 percent of GDP in off-budget spending under the Program for National Infrastructure Development (PNDI) as agreed between the MOPF and the implementing agencies).[6] Despite the downward revision in economic growth this year, higher than projected tax yields carried over from last year—together with lower expenditures—are expected to put this ambitious target within reach. The implementation of the clawback tax, the proceeds of which is earmarked towards paying down unpaid bills in the pharmaceutical industry, should help avoid accumulation of arrears in the health care sector. Furthermore, the authorities remain committed to continued expenditure restraint. Measures include:

- ***A lower wage bill*** via a freeze is in place on public wages and pensions (though a modest increase could be considered later if economic conditions permit). Public employment reductions continue, replacing only 1 employee for every 7 departures, but applied at a higher institutional level to allow for greater flexibility.

- ***Savings in capital expenditures*** by terminating low-performing projects and the reduction in the national co-financing of EU-funded projects from 15 to 5 percent. Additional discretionary cuts in non-EU funded capital spending may nonetheless be needed to remain within

[4] Of the RON 7 billion capital spending in December 2011, (i) the state budget spent RON 1 billion for arrears clearance for Electrificare and CFR Infrastructura, RON 200 million for the National Guarantee Fund and RON 800 million in transfers to the education sector; (ii) RON 2.5 billion was spent by local governments on transportation, public development and environment, which was financed partly by transfers from the central government to clear arrears (RON ½ billion) and increased EU funds; (iii) RON 1.7 billion was spent by the Road Company, again partly funded by transfers from the central government of RON ½ billion; and (iv) nearly RON 700 million was spent by self-financed institutions, funded through higher own revenues such as university fees.

[5] The gap between ESA and cash deficits is traditionally on the order of 0.5 percent of GDP. The inclusion of additional SOEs in 2012 may add to the gap, but arrears repayment narrows it. In 2011, the gap is estimated to have narrowed to 0.2 percent of GDP.

[6] In 2011, the government approved a multiyear PNDI program of about RON 20 billion (4 percent of GDP) that invests in rural and small town infrastructure projects, such as water, sewage, roads, etc. that will be undertaken over 2012–20 with budgetary payments made in 2015-20. The authorities have, thus far, signed contracts worth RON 3.5 billion (0.7 percent of GDP) under this program and expect work execution of RON 1 billion (0.2 percent of GDP) in 2012. To limit the impact of this program on the accruals based ESA deficit, the authorities have committed to restrict works execution to RON 1 billion (0.2 percent of GDP) in 2013 as well. The authorities are also discussing

(continued)

limits on contracting of projects so as to not jeopardize the attainment of the medium term objective for fiscal deficits under the EU commitments.

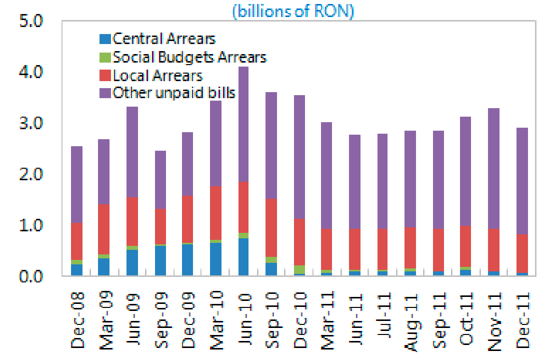
the overall spending envelope given underlying pressures in goods and services spending.

- ***Other savings*** from increased means-testing of social programs, cuts in subsidies, and transfers to SOEs, and implementation of health sector reforms.

12. The authorities affirmed their commitment to a further reduction in the deficit in 2013. In keeping with the requirements of the EU Fiscal Compact and the possible ERM-II entry, the authorities will target a cash deficit of 1 percent of GDP (1.2 percent including PNDI projects and 1.5 percent on ESA basis) in their medium term budget framework. Meeting this objective will require continued strong spending restraint and implementation of reforms to pensions and other social transfers.

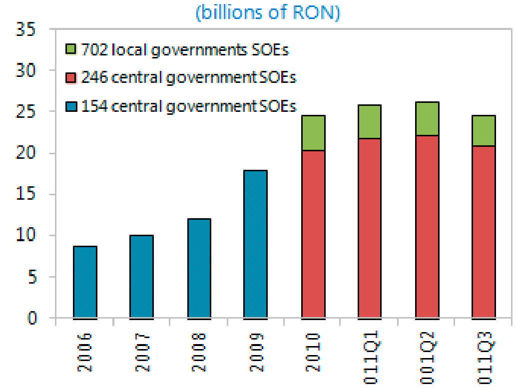
13. Arrears and unpaid bills decreased, but challenges remain in local governments and SOEs (MEFP ¶7). At the end of 2011, **general government** arrears amounted to less than 0.2 percent of GDP, mostly concentrated at the **local government** level, particularly in smaller communities. Improved enforcement and monitoring of the 2010 local public finance law (LGPFL), which requires all overdue payments to be cleared before new commitments are made, should enable further reductions in the stock of arrears. The authorities also plan to prioritize and conclude multi-year contracts for capital projects within the ceilings established in the medium term budgetary strategy thereby enabling past debts to be restructured and paid. In the **health sector**, arrears in registered bills have now been completely eliminated and unregistered bills revealed during the 2011 stocktaking exercise are now fully recorded in the system and scheduled for payment. Outside of the general government, arrears in **SOEs** monitored under the program fell to 2.9 percent of GDP at end of 2011, 0.3 percentage points lower than at the end of the third quarter. Arrears continue to be reduced in monitored SOEs through swap

General Government Unpaid Bills and Arrears (over 90 Days Overdue)
(billions of RON)



Source: Romanian authorities; IMF staff estimates.

SOE Arrears
(billions of RON)



Sources: Romanian authorities; and IMF staff estimates.

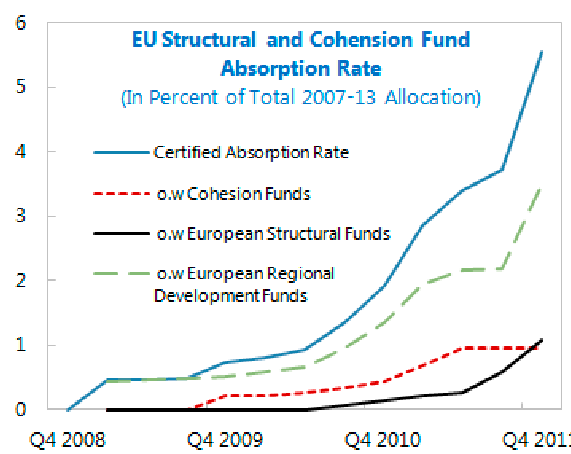
operations to cancel tax arrears with the government for overdue subsidies, payments from budget bankruptcy procedures, installment agreements and other financial operations such as debt-equity swaps (with the clearance by EU competition authorities). Together, these measures are expected to reduce SOE arrears by RON 5 to 6 billion (1 percent of GDP) in the second half of 2012. To better control spending commitments and prevent new arrears, the integration of the treasury payment system with the accounting reporting system is underway.

14. Despite recent setbacks, the authorities continue work on a comprehensive reform of the health care system. In January, a draft framework law that envisaged sweeping changes in the health care system was withdrawn due to significant public objections. The authorities now expect to have a revised draft by mid-year, which will aim to address persistent budgetary shortfalls and enhance service quality over the medium term. A key element of the framework law will be to define a publicly provided basic healthcare package, with increased private sector involvement in healthcare provision and financing, such as through supplementary private insurance and private management of hospitals, with a view towards enhancing efficiency and raising additional resources. The key objective is to ensure that the system better aligns its resources with needs. Public healthcare spending in Romania is among the lowest in the EU as a share of GDP, and population aging will aggravate the funding shortfall. In the near term, 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. These specific initiatives include:

- A *negative list of health services and drugs to be excluded from coverage*, including (i) revised lists of reimbursed drugs and (ii) a reduction in hospitalization periods, prepared in consultation with the World Bank; and implementation of the national hospital bed plan.
- A revision of the *copayment law* that was recently approved in Parliament, in order to base it on a modest flat rate.
- Transfer of responsibility for the *collection of health contributions* for the self-employed from the Health House to the tax authority (ANAF) from July 2012.

15. The authorities continue to improve their fiscal financing strategy. Taking advantage of the favorable market conditions, since January the authorities have been prefinancing their funding needs in the domestic market, amidst declining yields and issuances that have been generally oversubscribed. They successfully relaunched their Medium Term Note program by issuing a US$1.5 billion 10-year dollar-denominated eurobond in late January and reopened the issue in late February for another US$750 million. They plan to continue with regular external bond issuances as market conditions permit. To protect government finances against external shocks, the authorities are building up foreign currency buffers (including €1 billion World Bank DPL-DDO financing), with a view to maintaining four months of gross financing needs. Moreover, they continue to build the yield curve, including with a recent launch of a domestic bond with a 15 year maturity.

16. The absorption of EU structural funds is improving but further efforts are needed. At end-2011, certified absorption of Structural and Cohesion Funds amounted to €1.06 billion, or only 5.5 percent of the 2007–13 allocation. Further efforts are required to meet the authorities' goal of absorbing an additional €6 billion[7] during 2012. To this end, the authorities have identified high priority projects, strengthened the capacity of management authorities, and taken steps to reduce procedural bottlenecks such as limiting the time to process reimbursement claims. External assistance is also being sought to improve the technical expertise of the managing authorities. The authorities are making progress in compiling an investment portfolio of all projects funded by the state budget to ensure proper monitoring and prioritization of projects. This portfolio will be used to evaluate projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. Over time the database's coverage is being widened to include state budget cofinanced projects at the local government level, while PNDI projects will also be monitored more strictly.



Source: European Commission.

17. Tax administration and policy reforms remain a high priority in order to reduce collection costs and improve compliance. The authorities are making progress in the areas of organizational restructuring, administrative efficiency, risk

[7] Total EU Funds absorption target, including agricultural funds.

assessment, taxpayer segmentation, and indirect audit methods. As part of efforts to reduce collection costs, 141 regional offices were closed, the number of large taxpayers decreased from 3000 to 2000, and staff reduced by 8 percent since end-2010. Administrative measures are being undertaken to reduce the number of small taxpayers registered for VAT purposes by 20 percent between September 2011 and 2012 (structural benchmark). A tax compliance strategy regarding High Net Wealth Individuals (HNWI) is also being strengthened. Drawing on the recommendations of IMF technical assistance, the authorities plan to simplify depreciation schedules, payments of capital gains taxes, and deduction mechanism for personal income taxation. Strategies for strengthening the property tax base and excise taxes to preserve real value will also be developed.

B. Structural Reforms

State-Owned Enterprises

18. Structural reforms in the energy and transport sectors remain among the most pressing challenges in Romania. The reform agenda, developed in close consultation with the European Commission and the World Bank, focuses on changes to the regulatory and price framework of the energy market, and on restructuring SOEs, including arrears clearance and privatization. Measures are also envisaged to improve the transport infrastructure. These reforms are macroeconomically critical to ensure more investment and greater efficiency in these vital sectors of the economy and to put Romania on a higher growth path. In 2011, the 22 companies under program monitoring ran a deficit of 0.35 percent of GDP, and had arrears of 2.6 percent of GDP, while subsidies from the budget amounted to 0.5 percent of GDP.

19. Energy sector reforms need to be stepped-up to attract higher investment, achieve greater efficiency in production and consumption, and achieve greater energy independence. The authorities have increased regulated gas prices by roughly 24 percent since summer 2011, and agreed to an adjustment of 5 percent in the regulated electricity prices to non-residential and residential customers by midyear. These measures constitute an important first step toward full cost recovery and more market-based pricing. However, significant additional action is needed to create an efficient energy market, improve the financial condition of energy SOEs, and to comply with EU energy directives. In light of this, the authorities have committed to the following reforms:

- They have developed a roadmap, to be approved by mid-March (prior action), to gradually adjust regulated **electricity prices** for non-households, leading to full liberalization of this segment by January 2014. The roadmap will also specify a gradual path for the liberalization of the regulated electricity price paid by households starting 2013 and concluding by end-2017, with protections put in place for vulnerable consumers.

- In the **gas sector**, the authorities aim to develop a roadmap for the deregulation of gas prices by April. In the interim, the authorities intend to consult with relevant stakeholders to prepare a draft package of tax, royalty, and regulatory measures for the oil and gas sector. The authorities also will actively seek to avoid a parliamentary override of the presidential veto of the gas export ban law.

- Existing **bilateral electricity contracts**, particularly those of the state-owned electricity generator Hidroelectrica, generate lost revenues on the order of €175-220 million per year. The government has agreed to seek ways to terminate or renegotiate these contracts as soon as legally possible.

- To address regulatory deficiencies, a legal draft has been prepared to transpose the **3rd EU Energy Package** into Romanian legislation. The draft adequately addresses unbundling and vulnerable consumers, but amendments are necessary to ensure the independence of the energy regulator. The authorities committed to approve the amended legislation by emergency ordinance by mid-February.

- Strict enforcement of recent legal changes, designed to avoid the accumulation of new arrears to energy producers for **district heating** is needed. The authorities have agreed to analyze the situation, avoid the accumulation of new arrears, and propose legal changes if needed.

20. The authorities have made some progress on restructuring SOEs, but implementation remains uneven. The end-2011 targets for both the operating balance and arrears for companies under monitoring were met, in part, through the use of budgetary savings. However, 2012 budgets for some SOEs are inadequate, and the authorities have asked the line ministries to resubmit revised **restructuring plans** by end-February. Many of the agreed measures designed to improve the viability of SOEs were implemented; however, steps to prepare several companies for **privatization** are lagging. The authorities now plan to issue privatization offers for four SOEs by end-April (instead of seven as intended at the time of the third review). Implementation of the new **governance law**, which represents a major improvement in the SOE governance framework, has commenced. The Ministry of

Economy plans to select new management teams for selected SOEs where the government retains a majority share by end-April 2012. The Ministry of Transport and Industry intends to start a similar process in February.

21. The government continues to slowly improve the transport infrastructure and enhance service provision. The authorities are pursuing major infrastructure projects utilizing EU structural funds. They also have made some progress in closing underutilized rail lines and streamlining the operations in certain transport SOEs. Application of standard costs in contracts has yielded cost savings and measures to increase tariffs and toll collection have generated revenue gains for passenger rail, the Bucharest subway system, and the national roads operator. However, without significant further restructuring and aggressive implementation of measures, the national rail system operator and the national rail passenger carrier will require substantial government support to avoid accumulating new arrears.

Other Reforms

22. The authorities continue implementation of labor market and social assistance reforms approved in 2011. The new Social Dialogue Code has come into force with an agreement now reached among social partners regarding the sectoral definitions for collective contracts under the new framework. The authorities are committed to continue consultations to ensure that the new Social Dialogue Code respects core International Labor Organization (ILO) conventions. Secondary legislation on social assistance reform is currently being drafted to implement the 2011 Social Assistance Law, which aims to streamline social benefits and improve the efficiency of social protection. The labor and pension reforms have already shown positive impact. The new Labor Code has contributed to employment recovery and increased the share of fixed-term contracts. Enforcement of the new pension law has dramatically reduced the number of early retirements and misuse of disability pensions. The national minimum wage was also increased (from 670 lei to 700 lei) broadly in line with inflation.

C. Financial Sector Policies

23. Provisions for impaired assets and developments in the euro area continued to weigh upon the Romanian banking sector during the fourth quarter. The sector as a whole recorded a loss of 1.4 percent of average equity over the year, as the slow recovery impacted upon borrowers' repayment capacity and credit quality. Lending remained weak, particularly lending to individuals, and was flat in real terms over the fourth quarter. The ratio of non-performing loans to total loans ended the fourth quarter marginally lower at 14.1 percent as impairments decelerated. Total provisions at end-December were sufficient to cover 99.5 percent of non-performing loans. The banking system remained well-capitalized with an average capital adequacy ratio of 14.5 percent at end-December supported by new capital injections of RON 1.6 billion. The authorities continue to take a proactive approach to requesting additional capital from shareholders of individual banks before they approach the statutory minimum of 8 percent. The aggregate exposure to Romania of the nine largest foreign banks that participated in the European Bank Coordination Initiative stood at 101 percent of the March 2009 level.[8] However, a potential loss of parent funding and resulting deleveraging remains a major risk due to the regional economic downturn and international financial turbulence.[9]

24. The authorities are taking steps to address non performing loans which have accumulated on bank balance sheets. The authorities will revise the tax treatment of bank loans sold to Romanian entities to remove current tax disincentives, and will undergo an assessment by the World Bank of the arrangements for insolvency and creditor rights in spring 2012. In light of the continued weak recovery, the NBR is adopting a more flexible approach to allow banks to extend the restructuring period for loans which continue to perform under the restructured terms. Staff emphasized the importance of close monitoring to mitigate the risk of 'evergreening' and ensure that loan-loss provisioning remains prudent. The NBR will continue to intensively supervise the banking system and take necessary measures to ensure that banks have sufficient capital and liquidity.

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

[9] Based on a partial equilibrium analysis, a 10 percent decline in exposure is estimated to reduce GDP growth by 1.8 percent (Regional Economic Outlook, October 2011). Ongoing household deleveraging would likely mitigate some of this impact.

Given the difficult funding conditions and economic outlook, further capital will be required, particularly at some small and medium sized banks with high cost ratios, rising loan impairments, and lower than average provisions. However, systemwide capital needs are likely to be lower in 2012 than in 2011.

25. The authorities are making further progress to strengthen the institutional framework and operational preparedness of the financial safety net. Staff discussed the NBR's latest liquidity and solvency stress tests to identify where further support would be required from shareholders under various scenarios.

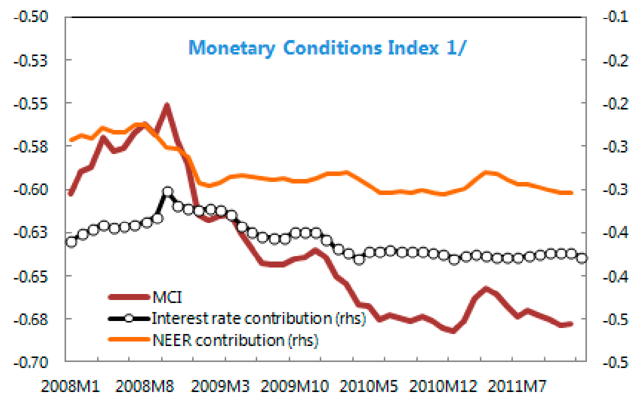
- *Emergency lending*: The NBR is taking steps to place its contingency plans onto an advanced stage of operational preparedness, including by being able to widen collateral classes for emergency lending assistance.

- *Bank resolution framework*: Amendments were adopted in January to the bank resolution legislation to introduce bridge bank and other stabilization powers for dealing with failing banks, as well as to improve the efficacy with which the Deposit Guarantee Fund (DGF) could augment its resource by borrowing from the MoPF.

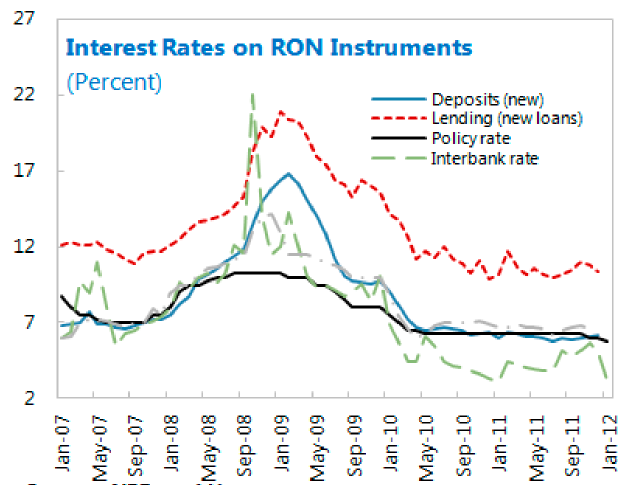
26. The authorities have taken steps to strengthen institutional arrangements and coordination between the financial safety net participants. The DGF has joined the National Committee for Financial Stability (NCFS), and a joint working group overseen by the NBR's banking supervision department has been established. An MoU will be signed by the NBR and the DGF by end-February to ensure that the DGF is given sufficient information on potential problem institutions early on to enable it to prepare to meet its obligations effectively. Going forward, the authorities will finalize procedures for deploying the bank resolution powers, including bridge bank and purchase and assumption powers. These will build upon experience available from other EU countries which have recently adopted these powers, and incorporate lessons from the crisis simulation exercise to be undertaken in spring 2012 with World Bank support. The NBR, DGF and MoPF will at the highest levels collectively review and approve the operational preparedness and inter-agency arrangements for the financial safety net by end April 2012.

D. Monetary and Exchange Rate Policies

27. The central bank has gradually reduced its policy rate amid abating inflationary pressures. Since November, the NBR eased by a cumulative 75 basis points to 5.5 percent. The exchange rate has also weakened slightly in recent months, leading to a further relaxation of the monetary stance. Nonetheless, inflation is expected to stay within the central bank's target band of 3±1 percent given the weak domestic demand and muted pressures on global food and energy prices (see box). While the impact of the rate cuts on exchange rate and capital flows appears to be limited so far, the authorities are cognizant of potential risks to inflation arising from administrative price hikes and excess exchange rate volatility due to financial market instability. In light of these risks, staff recommended caution in further rate cuts, and urged the authorities to maintain existing reserve requirements for both local currency and FX deposits.[10] The central bank has been active in providing weekly repos to ensure adequate liquidity in the banking system. This has eased RON liquidity conditions, and led the overnight interbank market rate to decline sharply compared to November. Euro funding from parent banks has also improved, owing to the LTRO operation of the ECB and the authorities have not intervened in the foreign exchange market lately. Romania's exports continue to gain world market share and staff's exchange rate assessment based on extended CGER analysis does not show a misalignment in the currency.



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

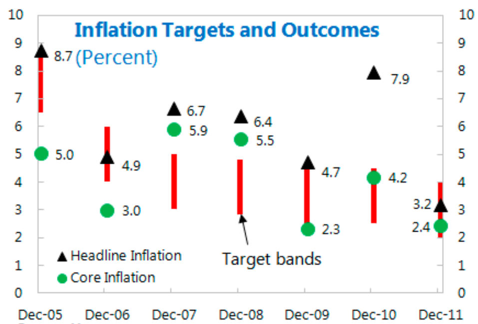


Sources: NBR: and Haver.

[10] The NBR recently approved a new regulation relaxing the reserve requirement for deposits with residual maturities over 2 years which have been rolled over. Previously, these deposits were still subject to the reserve requirements even after extending the maturity to above 2 years.

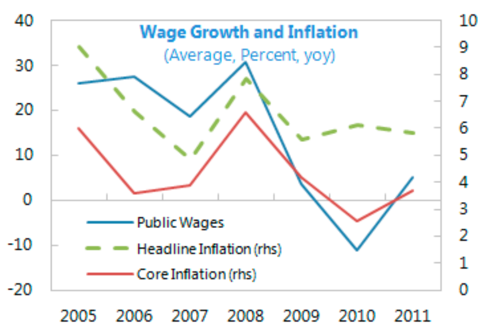
Box 1. Inflation Targeting in Romania

Since adopting the inflation targeting regime in 2005, there has been significant disinflation in Romania. However, the NBR has been successful in achieving its end-year inflation target only twice (in 2006 and 2011). This box summarizes the key factors that prevented the NBR from reaching its target in the past and the challenges ahead.



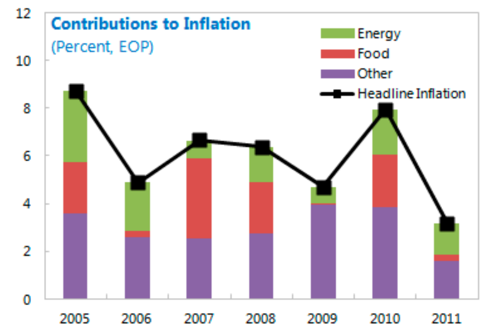
Source: Haver.

- **Fiscal dominance.** From 2005 to 2008, public wages grew at around 20-30 percent while public employment expanded by 3 percent annually, on average. Given tight labor market conditions, this spilled over into the double digit private sector wage growth, overstimulating aggregate demand and pushing up unit labor costs and inflation. On the tax policy side, excise increases related to EU harmonization, and the 5 percentage VAT hike in 2010 also impacted inflation.



Source: Haver and IMF Staff estimates.

- **Food and energy price shocks.** Food accounts for an unusually large weight in Romania's CPI basket (35 percent), while energy has a lower share (~8 percent) but has strong second-round effects. Since 2005, food and energy inflation have contributed more than half of headline inflation in most years. In 2011 as well, a bumper domestic harvest put significant downward pressures on food prices, driving down headline inflation.



Source: Haver and IMF Staff estimates.

- **Weak monetary policy transmission.** Despite tightening monetary policy in 2007-08, the NBR's ability to stabilize inflation was hindered by weak transmission of policy rates due to two key factors: (i) High FX lending (63 percent of the total), occurs at rates closely linked to external factors such as the EURIBOR rate and the sovereign CDS spread rather than to domestic monetary policy; and (ii) a wide interest rate corridor of ± 400 b.p. around the policy rate (between the NBR's deposit facility and credit facility rate) allows for higher volatility in the interbank rate and greater decoupling of the money market rate from the policy rate. In periods of excess liquidity, the money market rate has been very close to the deposit facility rate, implying a much looser monetary stance than what the policy rate signals.

Going forward, the central bank still faces challenges in achieving its inflation target. Prudent fiscal policy will remain crucial in maintaining conditions for low inflation. As the economy recovers, Romania may also experience renewed wage pressures, though these may be attenuated by recent labor market reforms. Needed adjustments in administered prices may produce second round effects. Given the historical high inflation rate in Romania, anchoring inflation expectations may be challenging until households adapt to the low-inflation environment. To better control price stability, the central bank should continue to enhance its operational framework to strengthen monetary policy transmission.

IV. PROGRAM MODALITIES AND OTHER ISSUES

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

- *One prior action and a new structural benchmark are proposed*. (Table 2) Government approval of a roadmap for the deregulation of electricity prices is proposed as a prior action. Also, an increase of 5 percent in the electricity price for residential and nonresidential consumers by end-June 2012 is proposed as a new structural benchmark. These measures are essential to help normalize the electricity market, helping to secure future investment in the sector needed for economic growth, and to ameliorate losses in SOEs thus improving fiscal sustainability.
- *A modification in the end-March and end-June NFA target is proposed.* The end-quarter targets are unchanged; however the adjustor for end-March 2012 is revised due to a change in the size of external bond placement and an adjustor on the size of the MOPF external bond placement is introduced for end-June 2012, reflecting risks due to the deteriorating external environment.
- *A modification in the end-March adjustor to the general government balance is proposed.* The end-March 2012 adjustor on capital expenditures is increased to allow more front loading of capital spending in line with the higher capital transfers needed for SOE reforms, and an adjustor for end-June 2012 is introduced.

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

Program risks. Romania's capacity to repay the Fund is expected to remain strong. Fund credit outstanding would decline from 39.2 percent of gross reserves in 2012. Peak payments would be in 2013–14 at a still manageable 14.1 and 13.6 percent of gross reserves and around 8.7 and 7.4 percent of exports of goods and services. While this exposure remains large, servicing risks are mitigated by the relatively low level of public debt. Public indebtedness (including guarantees) is expected to remain under 36 percent of GDP, with public external debt peaking at around 18 percent of GDP in 2012. Total external debt has peaked at 74.5 percent of GDP in 2010 and will decline in the medium run. In addition, a 2011 update of the 2009 safeguards assessment found a robust safeguards framework at the NBR, while recommending measures to sustain NFA reporting standards and effective audit oversight, and enhance accounting disclosures.

V. STAFF APPRAISAL

29. Economic growth resumed in Romania last year, but with the pace of recovery losing momentum and high risks in Europe, a strong commitment to economic reform and cautious policy stance must continue. Given slowing manufacturing exports, the fading effects of the agricultural boom, and severe winter weather, growth prospects depend crucially on the ability to absorb more EU funds and political stability in the run up to elections. The risks of spillovers remain high and the authorities are appropriately fortifying Romania's defenses. Financial market stress has eased lately and the authorities have wisely used this window of opportunity to build up fiscal financing buffers through higher than planned issuances in the domestic debt market and a successful Eurobond issue. To guard against the risk of a decline in capital inflows and banking instability, the authorities should continue to ensure that foreign exchange buffers and capital buffers in the banking system are maintained. The Fund-EU precautionary program, together with the forthcoming credit line from the World Bank, should help cushion against these risks and provide an important policy anchor. In this regard, the incoming government's strong affirmation of their commitment to the program and the policy agenda is welcome.

30. Continued strong spending discipline and improved tax collections are needed to achieve the ambitious 2012 deficit target. On the spending side, despite considerable public pressure, the government has decided to postpone any consideration of public wage and pension increases. This cautious fiscal stance provides an important signal of Romania's firm commitment to spending discipline. The authorities have also maintained tight control on current spending through large reductions in public employment and consolidating social transfers. While the strict employment rationalization policy has been effective in controlling the wage bill, greater flexibility is needed in applying this policy across institutions. Over time, the focus must shift from employment reduction to more comprehensive restructuring of ministries' operations, guided by the recently completed functional reviews.

31. Prioritization of capital spending will be necessary to ensure proper utilization of scarce resources and to secure adequate funding for cofinancing of EU funded projects. It will be important to ensure proper prioritization of capital projects with a strong focus on EU-funded projects to maximize cost effectiveness and efficiency. In this regard, the improvement in EU funds absorption late last year and greater scrutiny and monitoring of the EU-funded projects at the highest levels of government are encouraging; but the EC's recent decision to suspend reimbursement payments for some programs indicate that administrative capacity still needs to be strengthened considerably. Considering that many ongoing projects remain underfunded, staff supports the government's intention to channel resources towards capital projects nearing completion rather than initiating new projects. The government's recent undertakings in off-budget capital projects such as PNDI go in the wrong direction in terms of improving transparency and control of public resources and should be halted.

32. **The recent decision to revisit the comprehensive health care law and undertake wider consultations and public engagement is encouraging.** While the authorities' plans to allow more private sector involvement in health care financing and provision are welcome, adequate monitoring and regulatory mechanisms are also needed. An overly hasty privatization of basic service would invite problems in care delivery as well as system financial stability. Revenue measures to adequately fund the system will be necessary. There are still considerable implementation risks with the clawback tax, while the copayment law, as currently legislated, is administratively unfeasible. A viable clawback tax and copayment system are crucial to contain health care costs in the near term while the comprehensive reforms are prepared.

33. **Structural reforms have been advancing but progress remains uneven and faster implementation is essential if sustainable economic growth is to be maintained.** Important steps have been undertaken: the SOE governance legislation has passed, the process for appointing private management in SOEs is advancing, and privatization steps, such as hiring of legal and transactions advisers, have progressed in several cases. However, in other cases, privatization steps are delayed, and reforms in a number of SOEs are inadequate to ensure financial viability. More ambitious reforms—including deeper reforms and majority privatizations—are necessary to attract much needed capital investment. Restructuring of public enterprises also needs to be stepped up to limit the burden on the budget and to improve efficiency of scarce public resources. Non-viable enterprises should be liquidated. Furthermore, deregulation in the energy sector continues to lag, especially in the gas sector and political commitment to move forward appears low. The authorities need to press forward more firmly on outlining a plan that assures that prices are better aligned with cost recovery rates, while protecting vulnerable consumers.

34. **The authorities continue efforts to ensure that the banking system remains stable and resilient against external shocks.** With more than 80 percent of the banking system controlled by foreign banks (including a number from euro area crisis countries), Romania is particularly vulnerable to the increasing banking sector uncertainties elsewhere in Europe. However, the impact of

the Euro area bank deleveraging on the Romanian banking system has been limited thus far. To forestall contagion effects, Romania has built significant capital and liquidity buffers in the system while preparing detailed contingency plans for any banking problems. The authorities need to ensure that the newly acquired powers for banking resolution can be quickly operationalized. Clear coordination and information sharing amongst the different agencies involved is necessary as contagion could potentially come through many channels at once on the back of a global repricing of risk. The authorities also need to remain alert to difficulties in small local banks. Given weak bank profitability and tepid credit conditions, regulatory initiatives to deal with an overhang of impaired assets on the banks' books would be a welcome move towards ensuring faster credit recovery.

35. **Amid slowing growth prospects and receding supply shocks, the NBR is now well-placed to meet its 2012 inflation target.** The 75 bp cumulative cut in the policy rate since November has not had any demonstrable impact on exchange rate depreciation or pressures on capital outflows. The ECB's LTRO operations have likely helped minimize any such adverse impact of the rate cut. Nevertheless, with some euro area banks deleveraging and external borrowing increasingly skewed to the short term, vulnerability to a decline in capital inflows is on the rise. In this context, the NBR will need to maintain sufficient coverage of foreign currency buffers and stay vigilant against an adverse impact on the exchange rate. Staff recommends caution in further monetary policy easing in the coming months in light of possible capital outflows or renewed downward pressures on the exchange rate. The real exchange rate remains broadly in line with fundamentals.

36. **While Romania is relatively well situated to deal with an economic downturn, the authorities must be prepared in the event of a significant adverse shock.** Fiscal financing buffers are increasing compared to the beginning of the program, and the forthcoming World Bank DPL-DDO will provide additional precautionary funding. Coverage of foreign exchange buffers is still adequate and the authorities have now accumulated significant access under the IMF/EU program to provide additional support if needed. Given these significant cushions, if growth slows further there is room to let automatic stabilizers play. In the event of a sudden stop of capital inflows or banking system stress from a disorderly credit event in the eurozone, however, some exchange rate flexibility and activation of the precautionary credit line with the IFIs would be needed.

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

Box 2. The Stand-By Arrangement

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

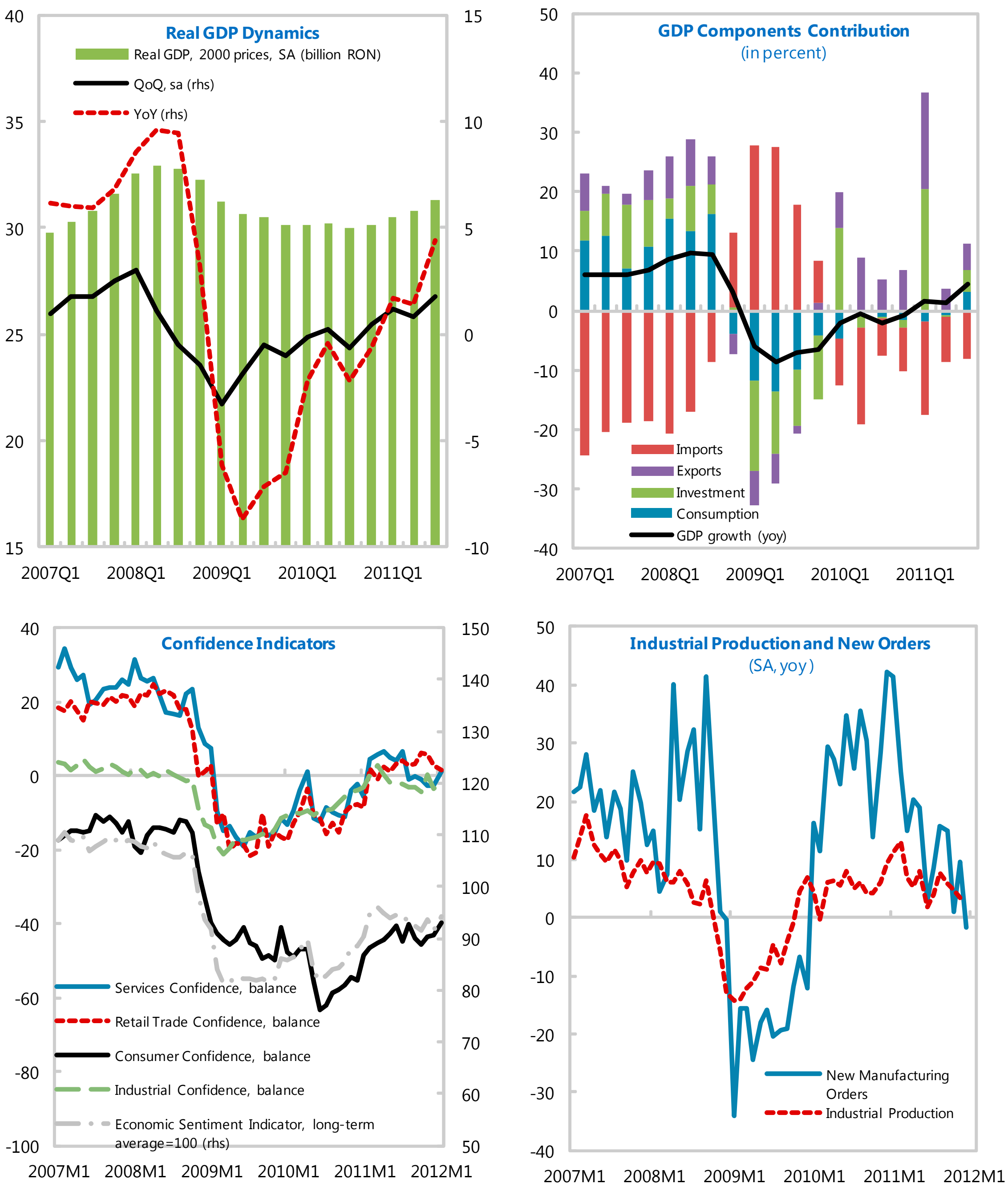
Length: 24 months.

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 three disbursements amounting to SDR 1.29 billion became available during June–December 2011 with the completion of the first through third reviews. SDR 430 million will be made available subject to the completion of this review. Four subsequent disbursements, totally SDR 1310.6 million, are contingent upon completion of the fifth to the eighth review.

Conditionality

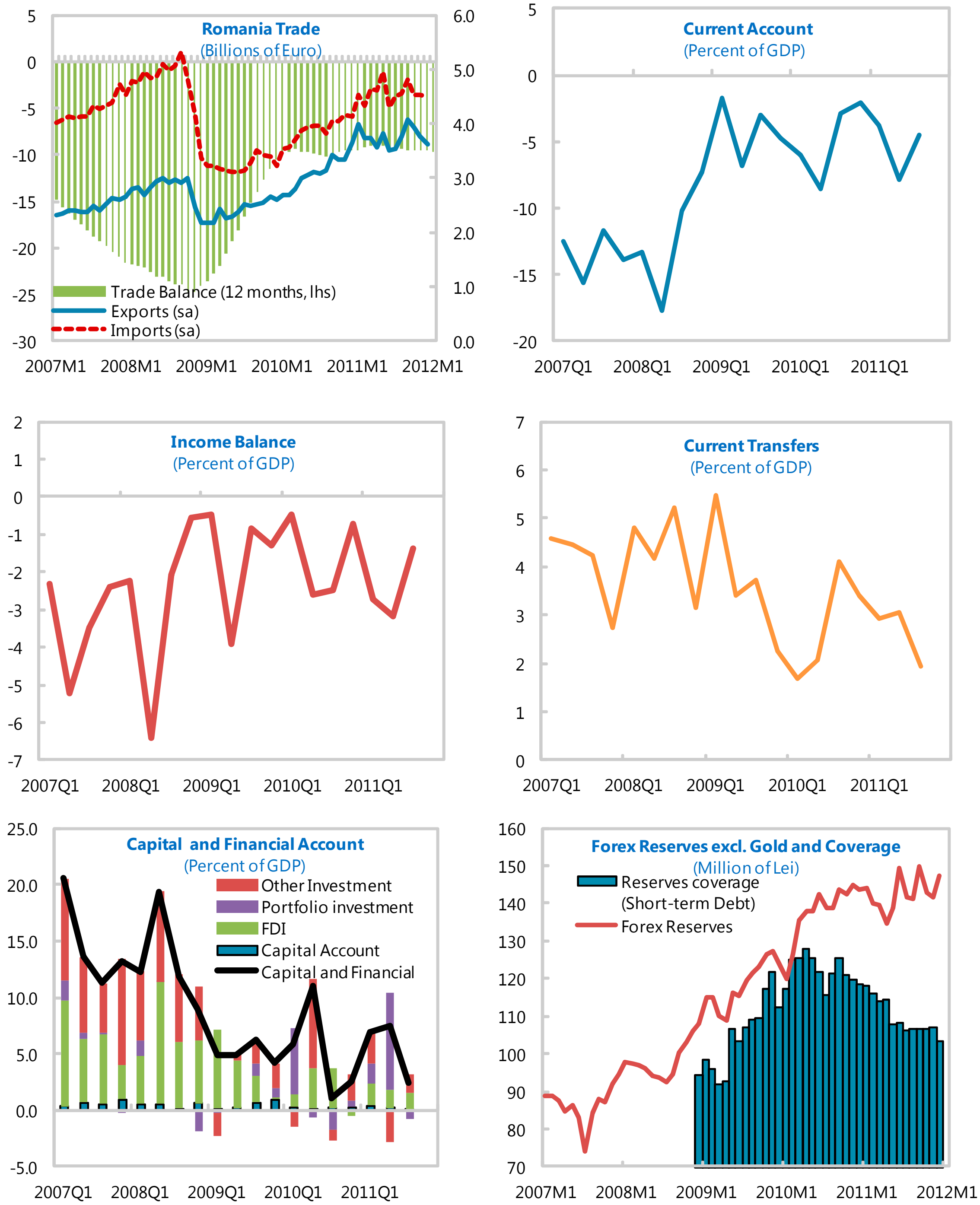
- ***Quantitative Performance Criteria***
  - A floor on the change in net foreign assets
  - A ceiling on central government and social security domestic arrears
  - A floor on the overall general government cash balance
  - A ceiling on general government guarantees
  - Non-accumulation of external debt arrears
- ***Quantitative Indicative Targets***
  - A ceiling on general government current primary spending
  - A ceiling on local government domestic arrears
  - A floor on the operating balance and a ceiling on arrears of the key loss-making SOEs
  - A ceiling on the execution of the PNDI program
- **A consultation band around the 12-month rate of inflation of consumer prices**
- ***Prior Action***
  - Approve a roadmap for the deregulation of electricity prices as specified in the MEFP.
- ***Structural Benchmarks***
  - Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears. July 15, 2011.
  - Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan. September 30, 2011.
  - Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. December 31, 2011.
  - Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(Compared to end-September 2011). December 31, 2011.
  - Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP. February 15, 2012
  - An increase of 5 percent in the electricity price for both residential and nonresidential consumers. *June 30, 2012 (proposed)*

Figure 1. Romania: Real Sector, 2007–12



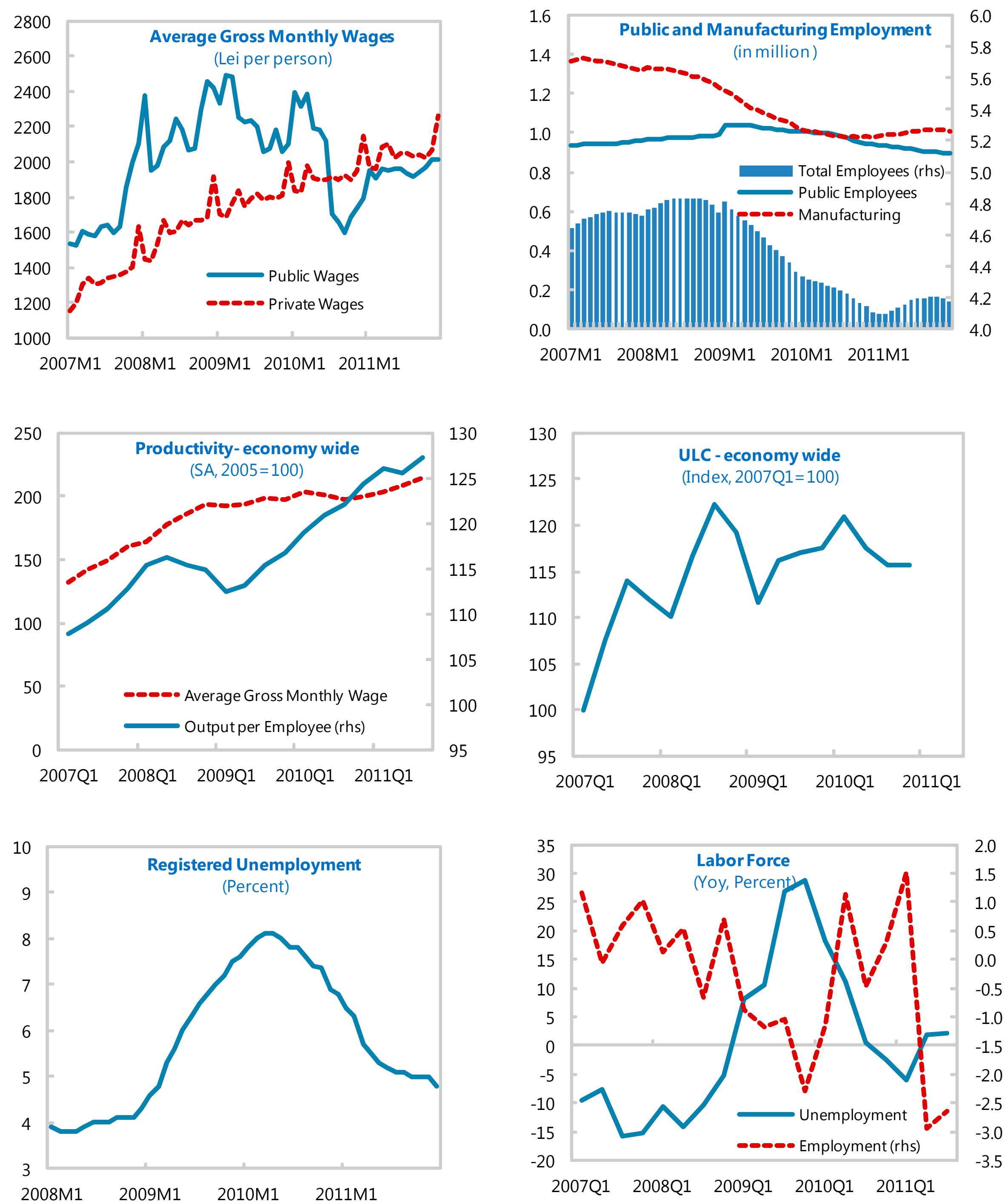
Source: Haver.

Figure 2. Romania: External Sector, 2007–11



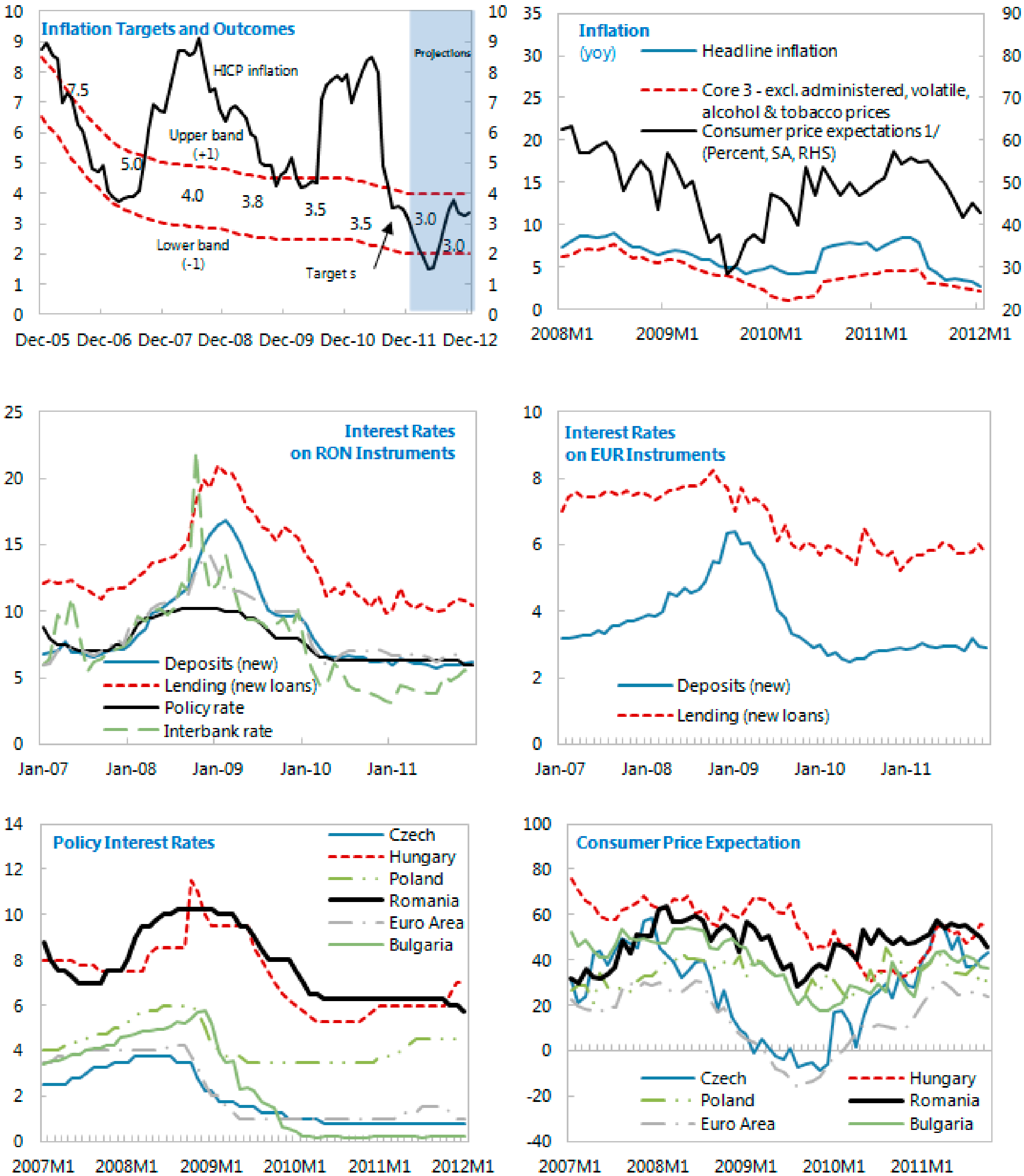
Source: Haver; National Bank of Romania.

Figure 3. Romania: Labor Sector, 2007–11



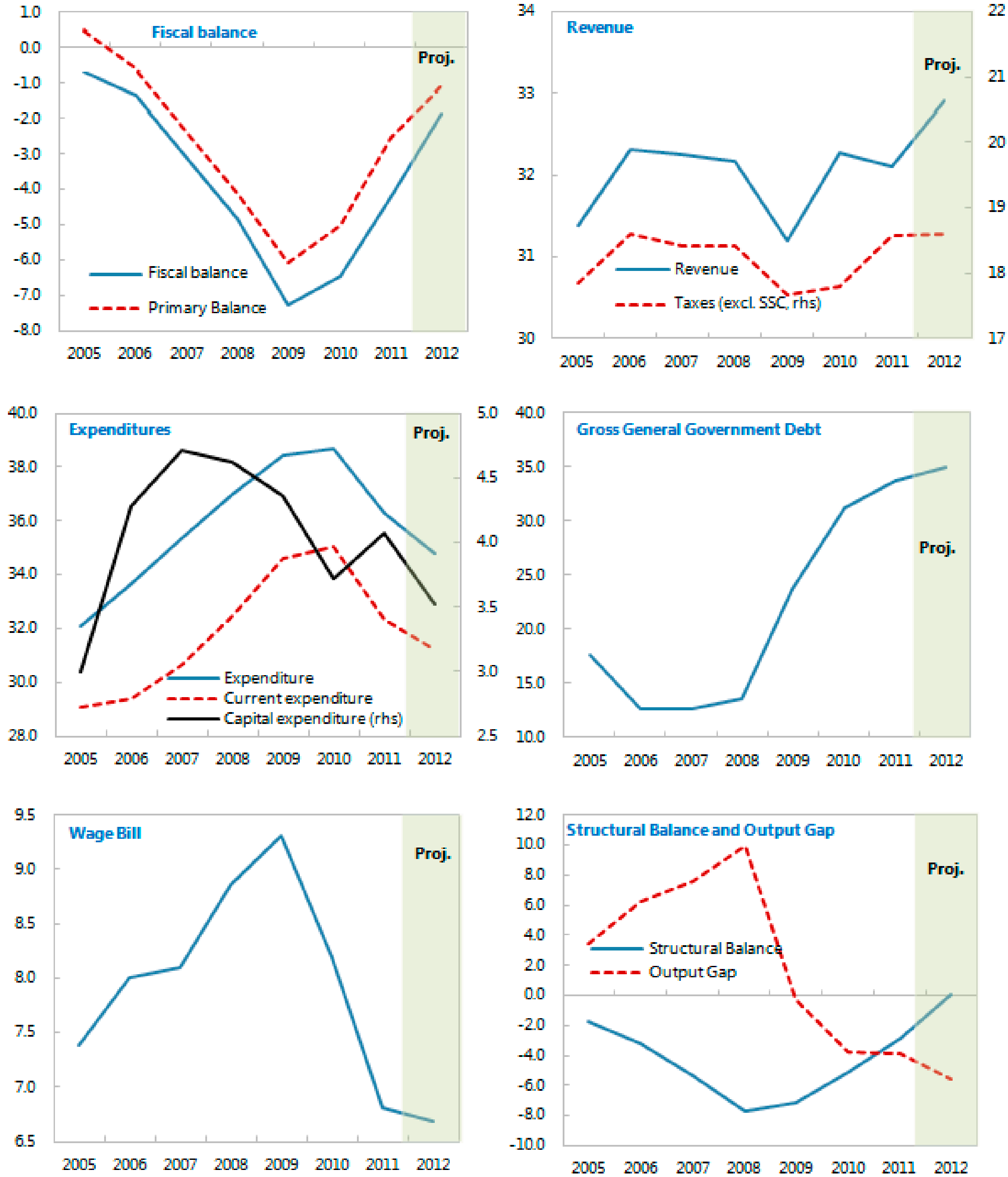
Source: Haver.

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



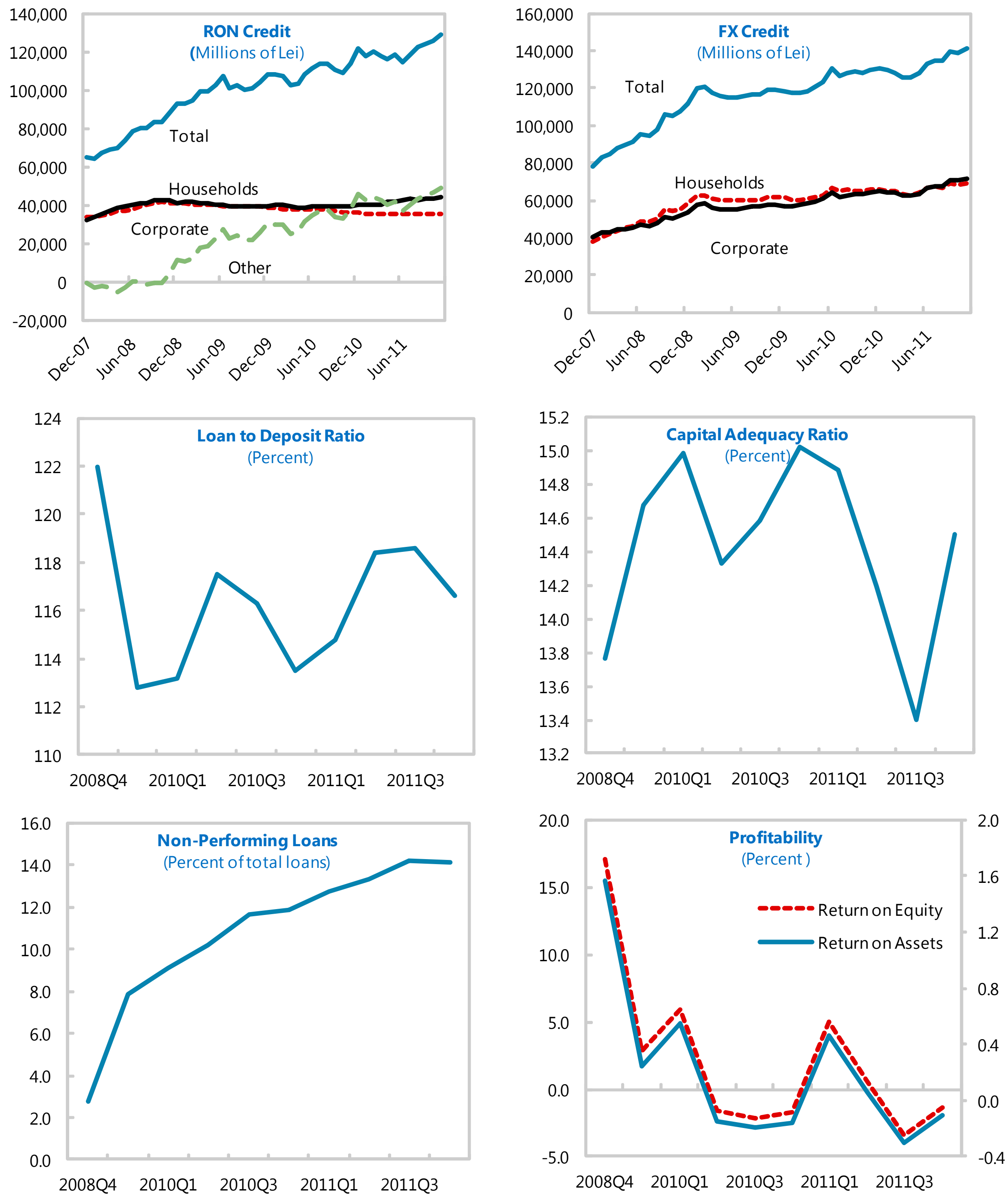
Source: Haver; National Bank of Romania; Consensus Forecast; IMF staff estimates.
1/ Price Trends over next 12 Months.

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



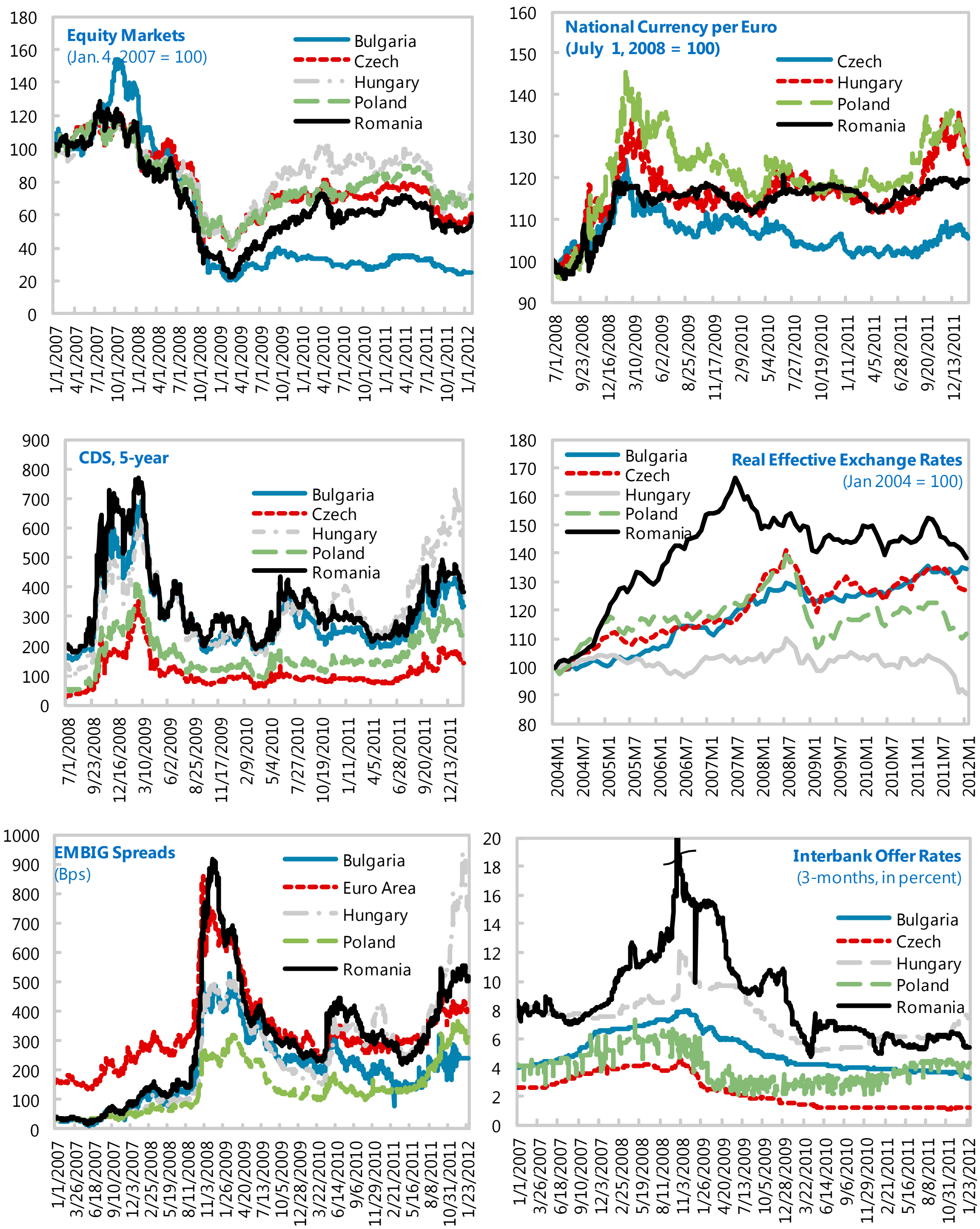
Source: Romania National Authorities; IMF staff estimates.

Figure 6. Romania: Financial Sector, 2007–11



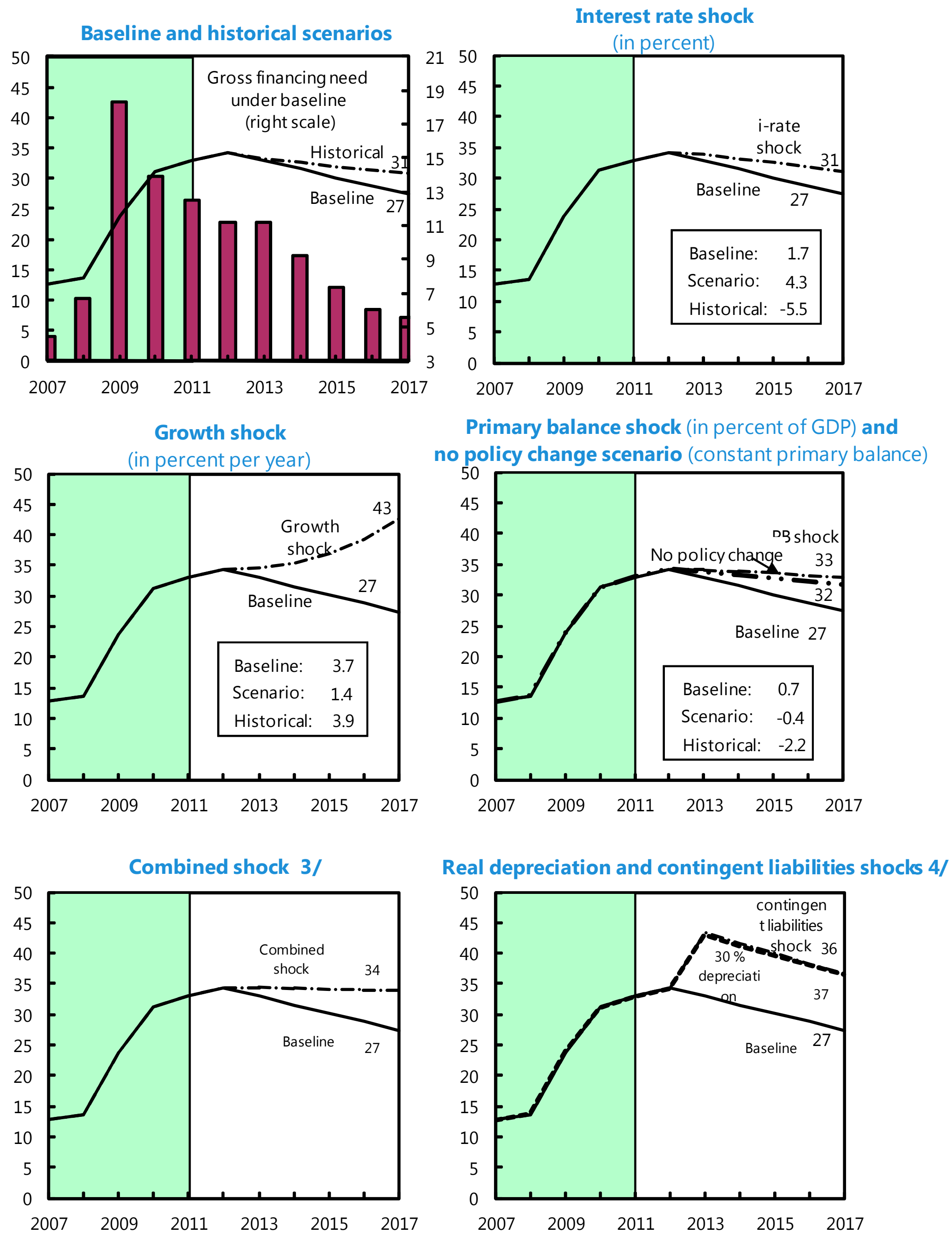
Source: Dxtime; Romania National Bank.

Figure 7. Romania: Financial Developments



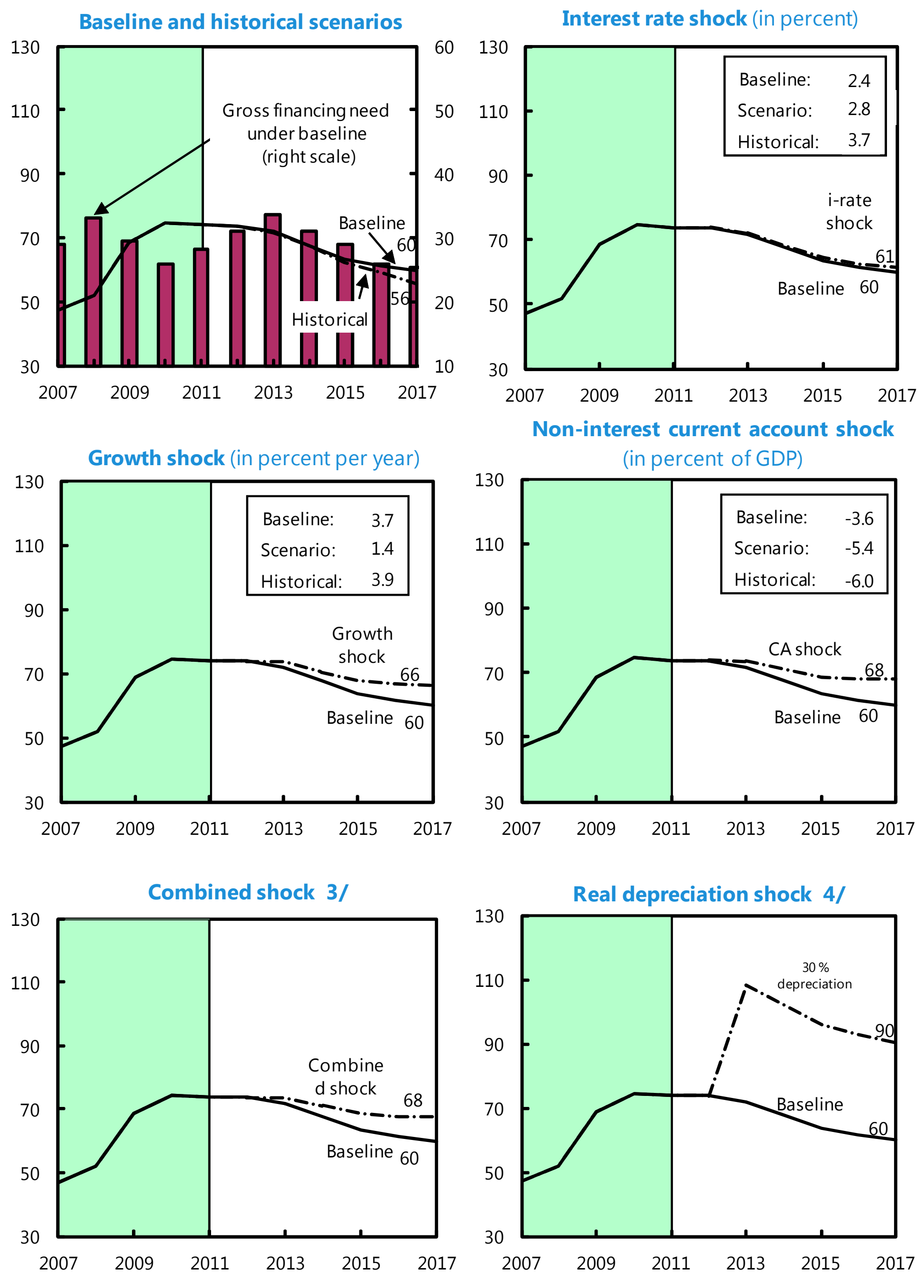
Source: Bloomberg; Haver.

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



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	Prog.	Prelim.	Prog.	Prog.	Indicative	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-500	-457	0	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,953	-23,837	-3,100	-6800	-8500	-12210
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.10	0.09	0.08	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	14.0	6.5	14.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	...	...	...	...	5.7	...	4.1	4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	4.7	...	3.1	3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	*3.7*	3.1	*2.1*	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	2.7	...	1.1	1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	1.7	...	0.1	0.4	1.9	1.2
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	130,700	128,317	32,000	64,800	96,350	130,850
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	-3.9	-2.0	-1.5	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei)) 4/	17.9	19.2	19.7	18.5	15.9	14.9	17.0	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.80	0.75	0.70	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 5/	...	...	...	...	...	...	200	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to previous year end stock. 2011 December target is adjusted down from 500 million to -500 million reflecting the delayed Eurobond issuance.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ Adjusted indicative targets for end-September and end-December in 2011, reflecting the merger of SOEs under monitoring.
5/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Fourth Review

Measure	Target Date	Comment
Prior Action		
1 Approve a roadmap for the deregulation of electricity prices as specified in the MEFP.	5 days before the Board date	
Quantitative performance criteria		
1. Floor on net foreign assets	Dec. 31, 2011	Met
2. Floor on general government overall balance	Dec. 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	Dec. 31, 2011	Met
4. Ceiling on general government guarantees	Dec. 31, 2011	Met
5. Non-accumulation of external debt arrears	Dec. 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Dec. 31, 2011	Met
2. Floor on operating balance of key SOEs	Dec. 31, 2011	Met
3. Ceiling on stock of arrears of key SOEs	Dec. 31, 2011	Met
4. Ceiling on stock of local government arrears	Dec. 31, 2011	Met
Inflation consultation band		
Inner band	Dec. 31, 2011	Met
Outer band	Dec. 31, 2011	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears. 1/	July 15, 2011	Partially 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. 2/	Sept. 30, 2011	Partially Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 3/	Dec. 31, 2011	Partially Met
4. Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(compared to end-September 2011).	Dec. 31, 2011	Met
5. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP. 4/	Feb. 15, 2012	Partially Met
New Structural Benchmarks		
1. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	

1/ Legal advisors were appointed for TAROM, Transelectrica, Transgaz, and Romgaz and mechanisms to facilitate restructuring of SOE arrears were implemented. In addition, most action plans have been received. The authorities committed to complete the action plan process by mid-February and to hire a legal advisor for CFR Marfa by end-April 2012.

2/ The investment portfolio is being revised to include local government projects co-financed by the state budget.

3/ 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.

4/ Legal advisors were appointed for Electrica Serv and Nuclearelectrica. The deadline for hiring legal or transaction advisors for the other companies in Group 2 and Group 3 was rescheduled.

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

	2007	2008	2009	2010	2011 3rd Rev.	2011 Est.	2012 Proj.
Output and prices			(Annual percentage change)				
Real GDP	6.3	7.3	-6.6	-1.6	2.0	2.5	1.5
Contributions to GDP growth							
Domestic demand	15.9	8.3	-13.5	-1.6	2.0	2.9	1.7
Net exports	-9.6	-1.0	7.0	0.0	0.0	-0.4	-0.3
Consumer price index (CPI, average)	4.8	7.8	5.6	6.1	5.9	5.8	2.7
Consumer price index (CPI, end of period)	6.7	6.4	4.9	8.0	3.6	3.1	3.3
Producer price index (end of period)	7.6	15.3	1.9	6.3	...	8.9	...
Unemployment rate (average)	6.4	5.8	6.9	7.3	7.2	7.2	7.2
Nominal wages	22.7	23.7	8.5	2.4	5.3	4.9	3.2
Saving and Investment			(In percent of GDP)				
Gross domestic investment	31.0	31.3	25.4	24.8	27.3	27.0	28.0
Gross national savings	17.6	19.7	21.2	20.4	23.3	22.7	23.6
General government finances							
Revenue	32.3	32.2	31.2	32.3	33.0	32.1	32.9
Expenditure	35.4	37.0	38.5	38.7	37.3	36.3	34.8
Fiscal balance	-3.1	-4.8	-7.3	-6.4	-4.3	-4.2	-1.9
External financing	0.0	0.4	2.6	2.8	3.1	2.6	1.9
Domestic financing	3.1	4.4	4.6	3.6	1.3	1.6	0.0
Privatization proceeds 1/	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Fiscal balance (including PNDI)	-3.1	-4.8	-7.3	-6.4	-4.3	-4.2	-2.1
Structural fiscal balance 2/	-5.8	-8.5	-7.2	-5.1	-2.8	-2.9	-0.2
Gross public debt (direct debt only)	10.4	11.8	21.7	28.2	31.6	30.9	32.3
Gross public debt (including guarantees)	12.7	13.6	23.8	31.2	34.5	33.7	35.0
Money and credit			(Annual percentage change)				
Broad money (M3)	33.7	17.5	9.0	6.9	8.3	6.6	6.6
Credit to private sector	60.4	33.7	0.9	4.7	4.8	6.6	3.2
Interest rates, eop			(In percent)				
Euribor, six-months	4.8	3.5	4.5	1.2	...	1.6	...
NBR policy rate	7.5	10.3	8.0	6.3	...	6.0	...
NBR lending rate (Lombard)	12.0	14.3	12.0	10.3	...	10.0	...
Interbank offer rate (1 week)	7.1	12.7	10.7	3.6	...	6.0	...
Balance of payments			(In percent of GDP)				
Current account balance	-13.4	-11.6	-4.2	-4.4	-4.0	-4.3	-4.4
Merchandise trade balance	-14.3	-13.7	-5.8	-6.1	-3.5	-5.6	-5.9
Capital and financial account balance	17.6	12.7	-2.5	1.0	2.3	1.2	4.6
Foreign direct investment balance	5.7	6.7	3.0	1.8	1.5	1.4	1.9
International investment position	-43.5	-49.4	-62.3	-62.8	-75.5	-61.6	-65.2
Gross official reserves	21.8	20.2	26.1	29.0	28.9	27.9	27.6
Gross external debt	47.1	51.8	68.6	74.5	77.5	73.8	73.7
Exchange rates							
Lei per euro (end of period)	3.6	3.9	4.2	4.3	...	4.3	...
Lei per euro (average)	3.3	3.7	4.2	4.2	...	4.2	...
Real effective exchange rate							
CPI based (percentage change)	8.4	-5.0	-7.5	1.9	...	2.8	...
GDP deflator based (percentage change)	17.3	1.5	-8.8	1.9	...	2.6	...
Memorandum Items:							
Nominal GDP (in bn RON)	416.0	514.7	501.1	522.6	552.7	565.6	593.6

Social and Other Indicators

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

Poverty rate: 5.7% (2008)

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

1/ Excludes receipts from planned privatizations under the program.

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

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

	2008	2009	2010	2011		2012	2013	2014	2015	2016	2017
				3rd Rev.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)											
Real GDP	7.3	-6.6	-1.6	2.0	2.5	1.5	3.0	3.7	4.0	4.0	4.0
Real domestic demand	7.3	-12.0	-1.5	1.9	2.8	1.7	3.3	3.8	4.2	4.2	4.2
Consumption	8.7	-7.4	-1.3	0.6	0.4	0.9	2.1	3.8	4.4	4.4	4.4
Investment	15.6	-28.1	-2.1	0.2	2.6	6.1	6.1	4.5	3.9	4.2	4.4
Exports	8.3	-6.4	14.0	12.8	11.7	5.2	7.2	8.0	8.2	8.2	8.2
Imports	7.9	-20.5	11.9	11.2	11.2	5.3	7.3	7.6	8.3	8.3	8.4
Consumer price index (CPI, average)	7.8	5.6	6.1	5.9	5.8	2.7	3.0	3.0	3.0	3.0	3.0
Consumer price index (CPI, end of period)	6.4	4.9	8.0	3.6	3.1	3.3	3.0	3.0	3.0	3.0	3.0
Saving and investment (in percent of GDP)											
Gross national saving	19.7	21.2	20.4	23.3	22.7	23.6	24.5	24.9	25.4	25.7	26.0
Government	1.5	-2.0	0.8	2.9	3.4	4.8	5.9	6.1	6.4	6.6	6.9
Private	18.2	23.2	19.6	20.4	19.4	18.8	18.6	18.9	19.1	19.1	19.1
Gross domestic investment	31.3	25.4	24.8	27.3	27.0	28.0	29.4	30.0	30.5	30.8	31.1
Government	6.3	5.2	7.3	7.3	7.6	6.7	6.9	7.1	7.3	7.5	7.8
Private	25.0	20.1	17.6	20.0	19.4	21.3	22.6	22.9	23.2	23.2	23.3
General government (in percent of GDP)											
Revenue	32.2	31.2	32.3	33.0	32.1	32.9	33.0	33.1	33.2	33.3	33.4
Tax revenue	27.9	27.2	26.5	27.9	27.5	27.2	27.0	27.0	27.1	27.2	27.2
Non-Tax revenue	3.1	2.9	3.8	3.3	3.2	3.2	3.0	3.1	3.1	3.2	3.2
Grants	0.9	1.0	1.8	1.7	1.2	2.3	2.9	2.9	2.9	2.9	2.9
Expenditure	37.0	38.5	38.7	37.3	36.3	34.8	34.0	34.1	34.2	34.2	34.3
Fiscal balance	-4.8	-7.3	-6.4	-4.3	-4.2	-1.9	-1.0	-1.0	-0.9	-0.9	-0.9
Structural fiscal balance 1/	-8.5	-7.2	-5.1	-2.8	-2.9	-0.2	0.6	0.4	0.2	0.1	0.0
Gross public debt (direct debt only)	11.8	21.7	28.2	31.6	30.9	32.3	31.1	29.8	28.4	27.1	25.9
Gross public debt (including guarantees)	13.6	23.8	31.2	34.5	33.7	35.0	33.5	32.1	30.6	29.1	27.7
Monetary aggregates (annual percent change)											
Broad money (M3)	17.5	9.0	6.9	8.3	6.6	6.6	9.0	10.3	11.3	11.5	11.7
Credit to private sector	33.7	0.9	4.7	4.8	6.6	3.2	4.5	5.0	6.9	8.6	10.0
Balance of payments (in percent of GDP)											
Current account	-11.6	-4.2	-4.4	-4.0	-4.3	-4.4	-4.9	-5.1	-5.0	-5.0	-5.0
Trade balance	-13.7	-5.8	-6.1	-3.5	-5.6	-5.9	-6.0	-6.0	-6.0	-5.9	-5.8
Services balance	0.5	-0.2	0.3	-0.7	0.3	0.0	0.1	0.0	0.0	0.1	0.1
Income balance	-2.7	-1.6	-1.5	-2.4	-1.7	-1.6	-1.8	-1.9	-2.0	-2.0	-2.0
Transfers balance	4.3	3.5	2.9	2.6	2.8	3.1	2.8	2.7	2.9	2.7	2.8
Capital and financial account balance	12.7	-2.5	1.0	2.3	1.2	4.6	8.2	7.1	4.7	5.5	5.0
Foreign direct investment, balance	6.7	3.0	1.8	1.5	1.4	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	37.8	37.3	37.5	37.4	35.8	33.7	34.6	34.4
Gross international reserves (in months of next year's imports)	7.8	7.2	7.3	7.5	7.0	6.5	5.9	5.2	4.5	4.5	4.5
International investment position (in percent of GDP)	-49.4	-62.3	-62.8	-75.5	-61.6	-65.2	-67.8	-66.9	-62.7	-58.9	-55.4
Real effective exchange rate, CPI based	-5.0	-7.5	1.9	2.6	2.6	-4.2	2.2	3.4	2.6	2.2	2.0
External debt (in percent of GDP)	51.8	68.6	74.5	77.5	73.8	73.7	71.8	67.5	63.4	61.4	58.9
Short-term external debt (in percent of GDP)	14.7	13.0	15.7	16.1	17.2	17.2	17.0	16.3	15.7	15.1	14.6
Terms of trade (merchandise, percent change)	3.1	1.2	2.6	1.5	5.0	-0.3	-0.7	-1.1	-0.2	-0.2	-0.3
Nominal GDP (in millions of lei)	514,700	501,139	522,561	552,703	565,620	593,623	635,355	686,275	742,529	804,622	873,679
Nominal GDP (in millions of Euros)	139,666	118,298	124,182	130,918	133,523	135,647	145,206	159,361	174,981	192,110	207,646
Output Gap	10.0	-0.3	-3.6	-4.2	-3.6	-4.7	-4.6	-4.0	-3.4	-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	Prog	Act	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.9	-5.5	-5.2	-5.7	-6.0	-7.2	-8.1	-8.8	-9.7	-10.6
Merchandise trade balance	-6.9	-7.6	-4.6	-7.5	-8.0	-8.7	-9.5	-10.5	-11.3	-12.3
Exports (f.o.b.)	29.1	37.4	44.0	45.0	48.2	52.4	57.0	62.4	68.3	74.8
Imports (f.o.b.)	36.0	45.0	48.6	52.5	56.3	61.1	66.5	72.9	79.6	87.1
Services balance	-0.3	0.4	-0.9	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Exports of non-factor services	7.1	6.6	7.0	7.3	7.7	8.4	9.1	10.0	10.9	11.9
Imports of non-factor services	7.4	6.2	8.0	6.9	7.6	8.3	9.0	9.9	10.8	11.8
Income balance	-1.9	-1.9	-3.1	-2.3	-2.2	-2.6	-3.0	-3.5	-3.8	-4.2
Receipts	1.2	0.9	1.1	1.2	1.0	1.0	1.0	1.1	1.1	1.2
Payments	3.1	2.8	4.2	3.6	3.2	3.6	4.1	4.5	4.9	5.4
Current transfer balance	4.1	3.6	3.4	3.7	4.2	4.1	4.4	5.1	5.3	5.8
Capital and financial account balance	-2.9	1.2	3.0	1.6	6.2	12.0	11.3	8.2	10.6	10.4
Capital account balance	0.6	0.2	0.6	0.2	0.7	0.6	0.6	0.6	0.6	0.6
Foreign direct investment balance	3.6	2.2	2.0	1.9	2.6	2.7	3.0	3.3	3.6	4.0
Portfolio investment balance	0.5	0.7	3.3	0.5	1.8	3.7	2.6	0.0	0.0	0.0
Other investment balance	-7.6	-1.9	-3.0	-0.9	1.2	4.9	5.1	4.3	6.4	5.9
General government	-0.5	0.3	-1.8	-1.5	-0.4	0.0	-0.2	-1.5	0.0	-1.2
Domestic banks	-5.5	0.6	-0.9	-0.1	0.8	0.8	0.9	1.0	1.1	1.2
Other private sector	-1.6	-2.7	-0.3	-0.9	0.8	4.1	4.4	4.8	5.3	5.8
Errors and omissions	-1.0	-0.2	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral financing	2.1	3.7	3.2	3.5	...	...	...	...	...	...
European Commission	1.5	2.2	1.4	1.4	...	...	...	...	...	...
World Bank	0.3	0.0	0.3	0.7	...	...	...	...	...	...
EIB/EBRD/IFC	0.3	1.5	1.5	1.4	...	...	...	...	...	...
Overall balance	-6.7	-0.8	0.9	0.0	1.8	4.8	3.2	-0.6	0.9	-0.2
Financing	6.7	0.8	-0.9	0.0	-1.8	-4.8	-3.2	0.6	-0.9	0.2
Gross international reserves (increase: -)	-1.1	-3.5	-1.8	-0.9	-0.2	0.1	1.7	2.1	-0.9	0.2
Use of Fund credit, net	6.8	4.3	0.9	0.9	-1.6	-4.8	-4.9	-1.5	0.0	0.0
Purchases 1/	6.8	4.3	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	-1.6	-4.8	-4.9	-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	-4.0	-4.3	-4.4	-4.9	-5.1	-5.0	-5.0	-5.0
Foreign direct investment balance	3.0	1.8	1.5	1.4	1.9	1.9	1.9	1.9	1.9	1.9
Merchandise trade balance	-5.8	-6.1	-3.5	-5.6	-5.9	-6.0	-6.0	-6.0	-5.9	-5.8
Exports	24.6	30.1	33.6	33.7	35.5	36.1	35.8	35.7	35.6	35.4
Imports	30.4	36.2	37.1	39.3	41.5	42.1	41.7	41.7	41.4	41.3
Gross external financing requirement	29.5	25.9	27.3	28.1	31.0	33.5	30.9	28.9	25.9	25.2
				(Annual percentage change)						
Terms of trade (merchandise)	1.2	2.5	1.5	5.0	-0.3	-0.7	-1.1	-0.2	-0.2	-0.3
Export volume	-6.4	14.0	12.8	11.7	5.2	7.2	8.0	8.2	8.2	8.2
Import volume	-20.5	11.9	11.2	11.2	5.3	7.3	7.6	8.3	8.3	8.4
Export prices	4.7	6.1	5.0	8.5	1.6	1.2	0.6	1.0	1.0	1.0
Import prices	3.3	3.5	1.7	5.9	1.9	1.3	1.2	1.4	0.9	1.0
				(In billions of euros)						
Gross international reserves 2/	30.9	36.0	37.8	37.3	37.5	37.4	35.8	33.7	34.6	34.4
GDP	118.3	124.2	130.9	133.5	135.6	145.2	159.4	175.0	192.2	211.1

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	Proj	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**38.2**	**38.9**	**8.9**	**8.8**	**9.1**	**9.4**	**36.2**	**75.1**
I.A. Current account deficit	5.5	5.7	1.5	1.5	1.5	1.5	6.0	11.7
I.B. Short-term debt	21.0	22.1	6.1	5.5	6.0	5.1	22.7	44.8
Public sector	4.6	5.9	1.0	1.0	1.2	0.6	3.8	9.7
Banks	11.2	12.1	3.6	2.9	3.3	3.2	13.1	25.1
Corporates	5.2	4.1	1.5	1.5	1.5	1.3	5.8	10.0
I.C. Maturing medium- and long-term debt	11.3	10.9	1.7	2.5	1.9	3.0	9.1	20.0
Public sector	1.7	1.8	0.2	1.0	0.2	0.5	1.9	3.7
Banks	3.2	3.6	0.5	0.6	0.6	0.5	2.2	5.8
Corporates	6.4	5.6	1.0	0.9	1.1	2.0	5.0	10.6
I.D. Other net capital outflows 1/	0.4	0.2	-0.4	-0.6	-0.3	-0.3	-1.6	-1.4
II. Total financing sources	**33.9**	**35.1**	**8.9**	**9.6**	**9.1**	**8.9**	**36.4**	**71.5**
II.A. Foreign direct investment, net	2.2	1.9	0.6	0.6	0.6	0.6	2.6	4.5
II.B. Capital account inflows	0.2	0.2	0.2	0.2	0.2	0.2	0.7	0.9
II.C. Short-term debt	23.2	24.7	5.7	5.9	6.5	5.2	23.3	48.0
Public sector	5.4	6.3	1.0	1.0	1.2	0.6	3.8	10.1
Banks	12.5	12.5	3.3	3.2	3.6	3.2	13.3	25.9
Corporates	5.3	5.8	1.4	1.6	1.8	1.4	6.1	12.0
II.D. Medium- and long-term debt	8.2	8.3	2.4	2.9	1.7	2.9	9.9	18.1
Public sector	2.3	2.9	1.4	1.6	0.1	0.3	3.3	6.2
Banks	2.3	3.0	0.3	0.5	0.6	0.5	2.0	5.0
Corporates	3.7	2.3	0.7	0.8	1.1	2.0	4.6	6.9
Errors and Omissions	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.1
III. Increase in gross reserves	3.5	0.9	0.4	1.1	-0.3	-1.0	0.2	1.1
IV. Financing Gap	**8.0**	**4.4**	**0.4**	**0.4**	**-0.3**	**-0.5**	**0.0**	**4.4**
V. Program financing	**8.0**	**4.4**	**0.4**	**0.4**	**-0.3**	**-0.5**	**0.0**	**4.4**
IMF 2/	4.3	0.9	0.0	0.0	-0.7	-0.9	-1.6	-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	-0.7	-0.9	-1.6	-1.6
Others	3.7	3.5	0.4	0.4	0.4	0.4	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	0.4	0.4	0.4	0.4	1.6	3.0
Memorandum items:								
Rollover rates for amortizing debt ST (in percent)								
Public sector	118	108	100	100	100	100	100	105
Banks	112	104	90	110	110	100	102	103
Corporates	101	141	95	105	115	105	105	120
Rollover rates for amortizing debt MLT (in percent)								
Public sector	135	160	611	163	28	66	175	167
Banks	71	85	70	90	100	100	91	87
Corporates	58	42	70	90	100	100	92	66
Gross international reserves 3/	36.0	37.3	...	...	...	...	37.5	...
Coverage of gross international reserves								
- Months of imports of GFNS (next year)	7.3	7.0	...	...	...	...	6.5	...
- Short-term external debt (in percent)	118.6	103.2	...	...	...	...	90.5	...

Sources: 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, 2007–12
(In percent of GDP)

	2007	2008	2009	2010	2011 Act. 6/	2012 Proj. 7/
Revenue	32.3	32.2	31.2	32.3	32.1	32.9
Taxes	27.9	27.9	27.2	26.5	27.5	27.2
Corporate income tax	2.9	2.8	2.7	2.1	2.0	2.0
Personal income tax	3.5	3.6	3.7	3.4	3.4	3.4
VAT	7.5	7.9	6.8	7.5	8.5	8.5
Excises	3.0	2.7	3.1	3.3	3.4	3.4
Customs duties	0.2	0.2	0.1	0.1	0.1	0.1
Social security contributions	9.5	9.5	9.5	8.7	9.0	8.6
Other taxes	1.4	1.2	1.2	1.3	1.2	1.2
Nontax revenue	3.4	3.1	2.9	3.8	3.2	3.2
Capital revenue	0.2	0.2	0.1	0.1	0.1	0.3
Grants, including EU disbursements	0.8	0.9	1.0	1.8	1.2	2.3
Expenditure	35.4	37.0	38.5	38.7	36.3	34.8
Current expenditure	30.7	32.5	34.6	35.1	32.3	31.2
Compensation of employees	8.1	8.9	9.3	8.2	6.8	6.7
Goods and services	6.1	6.2	5.6	5.7	5.6	5.4
Interest	0.7	0.7	1.2	1.4	1.6	1.7
Subsidies	1.7	1.5	1.4	1.3	1.1	0.9
Transfers	14.1	15.1	16.6	18.2	16.8	16.2
Pensions	5.4	6.4	8.0	8.1	8.4	8.1
Other social transfers	3.9	4.1	4.8	5.1	3.6	3.3
Other transfers 1/	4.0	3.4	3.4	4.5	4.3	4.4
Other spending	0.7	1.2	0.5	0.6	0.6	0.4
Proj. with ext. credits	0.0	0.0	0.4	0.3	0.4	0.3
Capital expenditure 2/	4.7	4.6	4.4	3.7	4.1	3.5
Reserve fund	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and expense refunds	0.0	-0.1	-0.5	-0.1	-0.1	0.0
Fiscal balance	-3.1	-4.8	-7.3	-6.4	-4.2	-1.9
Primary balance	-2.4	-4.1	-6.1	-5.0	-2.6	-0.2
Fiscal balance including PNDI			-7.3	-6.4	-4.2	-2.1
Financing	3.1	4.8	7.3	6.4	4.2	1.9
External borrowing (net)	0.0	0.4	2.6	2.8	2.6	1.9
Domestic borrowing (net)	2.3	2.9	5.8	4.0	2.3	0.9
Use of deposits	0.7	1.4	-1.2	-0.4	-0.7	-1.0
Privatization proceeds	0.2	0.1	0.1	0.1	0.0	0.0
Financial liabilities						
Gross public debt 3/	12.7	13.6	23.8	31.2	33.7	35.0
Gross public debt excl. guarantees	10.4	11.8	21.7	28.2	30.9	32.3
External	7.0	7.0	10.0	13.0	14.6	15.8
Domestic	3.4	4.9	11.7	15.2	16.4	16.5
Memorandum items:						
Total capital spending (excluding PNDI)	...	6.3	5.2	7.3	7.6	6.7
Fiscal balance (ESA95 basis) 6/	-2.9	-5.7	-9.0	-6.8	-4.6	...
Gross public debt (ESA95 basis) 6/	12.8	13.4	23.6	30.5	31.9	...
Output gap 4/	7.6	10.0	-0.3	-3.6	-3.6	-4.7
Conventional structural fiscal balance	-5.8	-8.5	-7.2	-5.1	-2.9	-0.2
Gross public debt (authorities definition) 5/	19.8	21.3	29.4	37.2	...	...
Nominal GDP (in billions of RON)	416.0	514.7	501.1	522.6	565.6	593.6

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

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

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

4/ Percentage deviation of actual from potential GDP.

5/ Includes guarantees and intra-governmental debt.

6/ Includes arrears reduction plans in VAT (1131m), SSC (1089m), CIT (82m), excises (74m), transfers (804m), capex (738m), subsidies (729m), goods and services (127m). Preliminary for fiscal balance and gross public debt on ESA95 basis.

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

Table 7. Romania: General Government Operations, 2007–12 (concluded)
(In millions of RON)

	2007	2008	2009	2010	2011 3rd Rev. 5/	2011 Act 6/	2012 3rd Rev. 7/	2012 Proj 7/
Revenue	134,173	165,549	156,373	168,635	182,360	181,567	195,197	195,351
Taxes	116,066	143,855	136,350	138,667	154,259	155,710	161,384	161,508
Corporate income tax	11,917	14,426	13,466	10,969	11,077	11,030	11,729	11,590
Personal income tax	14,402	18,523	18,551	17,957	18,860	19,461	19,809	20,077
VAT	31,243	40,874	34,322	39,246	47,689	47,917	49,868	50,664
Excises	12,552	13,646	15,646	17,312	19,672	19,105	21,183	20,378
Customs duties	856	962	656	574	637	674	686	725
Social security contributions	39,443	49,008	47,829	45,704	49,532	50,637	50,975	51,105
Other taxes	5,653	6,416	5,879	6,905	6,790	6,885	7,134	6,968
Nontax revenue	13,991	15,892	14,487	19,796	18,260	18,217	18,988	18,786
Interest Revenue	780	545	864	595	18,260	544	18,988	570
Capital revenue	963	1,076	546	685	701	766	1,486	1,554
Grants	3,154	4,702	5,057	9,494	9,141	6,874	13,338	13,504
o/w EU pre-accession funds	...	...	2,959	4,054	1,331	765	818	972
Financial operations and other	0	25	-67	-6	0	0	0	0
Expenditure	147,141	190,407	192,782	202,256	206,314	205,404	206,407	206,561
Current expenditure	127,513	167,095	173,445	183,243	185,668	182,836	183,833	185,414
Compensation of employees	33,696	45,608	46,676	42,839	40,317	38,496	39,800	39,680
Goods and services	25,187	32,012	28,028	29,541	30,346	31,770	31,486	32,118
Interest	3,096	3,776	6,063	7,275	9,391	8,883	10,228	10,228
Subsidies	6,875	7,899	7,215	6,735	6,660	6,407	5,463	5,465
Transfers	58,660	77,800	83,407	95,060	96,702	95,172	94,807	96,017
Pensions	22,664	33,187	39,851	42,107	47,769	47,469	47,873	47,879
Other social transfers	16,186	20,973	24,101	26,505	20,422	20,539	19,603	19,698
Other transfers 1/	16,769	17,646	16,931	23,514	25,905	24,049	25,236	26,179
Other spending	3,041	5,993	2,523	2,933	2,606	3,115	2,096	2,261
Proj. with ext. credits	0	0	2,056	1,794	2,252	2,108	2,050	1,907
Capital expenditure 2/	19,607	23,779	21,828	19,441	20,543	23,056	22,342	20,920
Reserve fund	0	0	0	0	51	0	232	227
Net lending and expense refunds	21	-467	-2,490	-428	52	-488	0	0
Fiscal balance	-12,968	-24,858	-36,409	-33,621	-23,953	-23,837	-11,210	-11,210
Primary balance	-9,872	-21,082	-30,346	-26,346	-14,562	-14,954	-982	-982
Fiscal balance including PNDI	-12,968	-24,858	-36,409	-33,621	-23,953	-23,837	-12,210	-12,210
Financing	12,968	24,858	36,409	33,621	23,953	23,837	11,210	11,210
External borrowing (net)	151	2,282	13,144	14,807	16,895	14,629	11,931	11,423
Domestic borrowing (net)	9,448	14,889	29,129	20,841	10,616	13,022	5,240	5,535
Use of deposits	2,733	7,316	-6,129	-2,161	-3,958	-3,827	-6,360	-5,751
Privatization proceeds	636	371	291	289	400	0	400	5
Financial liabilities								
Gross public debt 3/	52,917	70,200	119,195	163,023	190,533	190,674	207,704	207,631
Gross public debt excl. guarantees	43,339	60,883	108,527	147,262	174,858	174,913	192,028	191,870
External	29,316	35,775	49,993	67,717	84,580	82,346	96,511	93,769
Domestic	14,024	25,108	58,535	79,545	90,278	92,567	95,518	98,101
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 (1709m), nontax revenues (726m), transfers (1324m), subsidies (823m), capex (238m).

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

7/ 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-09	Dec-10	Dec-11	2012 Proj.			
				Q1	Q2	Q3	Q4
			I. Banking System				
Net foreign assets	**17,684**	**18,776**	**15,877**	**19,900**	**26,843**	**27,175**	**24,320**
In million euros	4,182	4,382	3,676	4,573	6,139	6,185	5,518
o/w commercial banks	-19,708	-21,158	-21,814	-21,433	-21,053	-20,672	-20,292
Net domestic assets	**171,946**	**183,987**	**200,331**	**190,104**	**187,993**	**197,955**	**206,073**
Public sector credit (Net)	26,748	43,393	51,496	53,147	53,798	55,450	58,101
Private sector credit	199,887	209,298	223,034	218,655	221,393	231,204	230,121
Other	-54,688	-68,704	-74,199	-81,699	-87,199	-88,699	-82,149
Broad Money (M3)	**189,630**	**202,763**	**216,208**	**210,003**	**214,836**	**225,130**	**230,393**
Money market instruments	1,617	3,177	4,149	4,564	5,020	6,024	5,186
Intermediate money (M2)	188,013	199,586	212,059	205,440	209,816	219,106	225,207
Narrow money (M1)	79,361	81,605	85,835	81,278	85,618	91,064	92,349
Currency in circulation	23,968	26,793	30,609	27,599	31,258	32,728	32,931
Overnight deposits	55,394	54,812	55,226	53,679	54,359	58,336	59,417
			II. National Bank of Romania				
Net foreign assets	**101,015**	**109,433**	**110,106**	**113,173**	**118,900**	**118,002**	**113,760**
In million euros	23,891	25,540	25,489	26,006	27,192	26,858	25,810
Net domestic assets	**-49,354**	**-54,330**	**-48,541**	**-60,050**	**-62,941**	**-58,483**	**-47,523**
Public sector credit, net	-13,626	-12,795	-13,564	-13,564	-13,564	-13,564	-16,064
Credit to banks, net	-23,848	-26,148	-19,529	-21,529	-23,529	-25,529	-21,529
Other	-11,880	-15,387	-15,448	-24,958	-25,848	-19,390	-9,930
Reserve money	**51,662**	**55,103**	**61,565**	**53,123**	**55,959**	**59,519**	**66,237**
Broad money (M3)	9.0	6.9	6.6	7.0	7.5	7.6	6.6
NFA contribution	2.6	0.6	-1.4	3.8	1.5	0.7	3.9
NDA contribution	6.4	6.3	8.1	3.1	5.9	7.0	2.7
Reserve money	2.4	6.7	11.7	6.5	7.0	7.0	7.6
NFA contribution	-18.4	16.3	1.2	25.8	4.1	-3.3	5.9
NDA contribution	20.8	-9.6	10.5	-19.3	2.9	10.3	1.7
Domestic credit, real	5.4	3.2	5.4	9.5	8.6	4.7	1.6
Private sector, real	-3.8	-3.0	3.4	5.2	1.3	0.6	-0.2
Public sector, real	159.5	21.9	9.9	17.8	13.0	20.7	18.7
Broad money (M3), in real terms	3.9	-1.0	3.4	5.0	5.1	3.7	3.1
Private deposits, at constant e/r	8.1	5.0	4.9	4.3	5.8	6.6	5.4
Private credit, nominal	0.9	4.7	6.6	7.2	3.6	4.4	3.2
Memorandum items							
CPI inflation, eop	4.7	8.0	3.1	1.9	2.3	3.8	3.3
Inflation target	2.5 - 4.5	2.5 - 4.5	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0	2.0 - 4.0
Interest rates (percent):							
Policy interest rate	8.00	6.25	6.0	...	...	...	...
Interbank offer rate, 1 week	10.7	3.6	6.0	...	...	...	...
Corporate loans 1/	15.4	9.4	9.7	...	...	...	...
Household time deposits 1/	9.9	7.6	6.6	...	...	...	...
Share of foreign currency private deposits	38.8	36.1	33.6	...	...	...	...
Share of foreign currency private loans	60.1	63.0	63.4	...	...	...	...
M2 velocity	2.67	2.62	2.67	2.62	2.64	2.65	2.64
Money multiplier (M3/reserve money)	3.67	3.68	3.51	3.95	3.84	3.78	3.48

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

Table 9. Romania: Financial Soundness Indicators, 2008–11

(In percent)

	2008 Dec.	2009 Dec.	2010 Mar.	2010 Jun.	2010 Sep.	2010 Dec.	2011 Mar.	2011 June	2011 Sep.	2011 Dec.
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
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
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	14.0
Nonperforming loans (1/) net of provisions to capital	10.7	11.3	12.6	14.5	16.3	15.7	15.7	16.5	17.8	16.3
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
Return on equity(2/)	17.0	2.9	6.0	-1.6	-2.1	-1.7	5.0	0.6	-3.4	-1.4
Net interest income to operating income	44.8	44.1	55.7	58.2	58.7	60.6	59.8	63.7	62.3	61.9
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
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
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
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
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
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
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
Foreign currency liabilities, in percent of total attracted and borrowed source	43.7	42.8	43.6	44.7	44.1	43.5	43.8	43.2	43.6	43.1
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
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
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
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

Source: Romanian National Bank.

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

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

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

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

5/ Tier 1 Capital to average assets.

Table 10. Romania: Schedule of Reviews and Purchases

Date	Amount of Purchase: Millions of SDRs	Amount of Purchase: Percent of Quota	Conditions
March 25, 2011	60.0	5.82	Approval of arrangement
June 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	2,150	21	0	0	0	0
Stock 2/	3,070	3,091	3,091	2,262	719	3
Obligations 3/	30	35	36	863	1,564	722
Repurchase	0	0	0	829	1,543	717
Charges	30	35	36	34	22	5
Stock of existing and prospective Fund credit						
In millions of SDR	12,332	8,301	4,419	2,358	719	3
In percent of quota	1,197	806	429	229	70	0
In percent of GDP	10.8	6.8	3.3	1.6	0.5	0
In percent of exports of goods and services	26.3	16.3	8.0	3.9	1.1	0
In percent of gross reserves	39.2	26.5	14.8	8.4	2.5	0
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	1,587	4,421	4,069	2,125	1,662	723
In percent of quota	154.1	429.2	395.0	206.3	161.3	70.2
In percent of GDP	1.4	3.6	3.1	1.5	1.0	0.4
In percent of exports of goods and services	3.4	8.7	7.4	3.5	2.5	1.0
In percent of gross reserves	5.1	14.1	13.6	7.6	5.8	2.5

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, 2007-17
(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	33.7	**35.0**	**33.5**	**32.1**	**30.6**	**29.1**	**27.7**	**-0.7**
o/w foreign-currency denominated	9.3	8.6	15.3	20.0	20.3	20.7	19.0	17.7	16.7	15.7	14.8	
Change in public sector debt	0.1	0.9	10.1	7.4	2.5	1.3	-1.4	-1.5	-1.5	-1.5	-1.4	
Identified debt-creating flows (4+7+12)	0.7	3.7	8.0	6.9	2.7	0.3	-1.3	-1.5	-1.5	-1.5	-1.4	
Primary deficit	2.4	4.1	6.1	5.0	2.6	0.2	-0.7	-0.7	-0.8	-0.8	-0.8	
Revenue and grants	32.3	32.2	31.2	32.3	32.1	32.9	33.0	33.1	33.2	33.3	33.4	
Primary (noninterest) expenditure	34.6	36.3	37.3	37.3	34.7	33.1	32.3	32.4	32.5	32.5	32.6	
Automatic debt dynamics 2/	-1.8	-0.5	1.9	1.8	0.0	0.1	-0.6	-0.7	-0.7	-0.7	-0.6	
Contribution from interest rate/growth differential 3/	-1.4	-1.7	1.6	0.4	-0.8	0.1	-0.6	-0.7	-0.7	-0.7	-0.6	
Of which contribution from real interest rate	-0.8	-0.9	0.7	0.0	-0.1	0.6	0.4	0.4	0.5	0.5	0.4	
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	-1.1	-1.1	
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	-0.1	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	106.3	101.5	96.8	92.0	87.3	82.8	
Gross financing need 6/	4.4	6.7	18.4	13.9	12.8	11.4	11.3	9.4	7.4	6.1	5.7	
in billions of U.S. dollars	7.5	13.6	30.2	22.8	23.8	20.6	21.9	19.8	17.0	15.3	15.5	
Scenario with key variables at their historical averages 7/						**35.0**	**34.1**	**33.4**	**32.7**	**32.1**	**31.6**	**-2.8**
Scenario with no policy change (constant primary balance) in 2012-2017						**35.0**	**34.4**	**33.8**	**33.2**	**32.6**	**32.1**	**-0.8**
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	5.6	5.7	6.0	6.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percen	-6.4	-8.1	4.4	0.1	-0.2	1.9	1.3	1.5	1.7	1.8	1.9	
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	5.6	3.4	3.9	4.1	4.1	4.2	4.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	12.0	12.4	-4.0	-1.5	-4.6	-3.4	0.8	3.9	4.2	4.2	4.3	
Primary deficit	2.4	4.1	6.1	5.0	2.6	0.2	-0.7	-0.7	-0.8	-0.8	-0.8	

1/ Coverage: general government gross debt, including guarantees.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = 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 ae(1+r).
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 13. Romania: External Debt Sustainability Framework, 2007-17
(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	47.1	51.8	68.6	74.5	73.8	**73.7**	**71.8**	**67.5**	**63.4**	**61.4**	**59.9**	**-5.2**
Change in external debt	4.9	4.8	16.8	5.8	-0.6	-0.1	-2.0	-4.3	-4.0	-2.1	-1.5	
Identified external debt-creating flows (4+8+9)	-1.4	0.4	10.1	-1.2	-2.7	0.1	-1.6	-0.9	0.7	0.8	0.9	
Current account deficit, excluding interest payments	12.2	10.1	2.4	2.9	2.6	2.6	3.2	3.5	3.6	3.7	3.9	
Deficit in balance of goods and services	14.0	13.2	6.1	5.8	5.3	5.9	6.0	5.9	6.0	5.8	5.9	
Exports	29.2	30.4	30.6	35.4	39.2	41.2	41.8	41.5	41.3	41.2	41.7	
Imports	43.2	43.6	36.6	41.2	44.5	47.1	47.8	47.4	47.3	47.0	47.6	
Net non-debt creating capital inflows (negative)	-5.8	-6.1	-3.4	-2.4	-1.8	-3.2	-4.4	-3.5	-1.9	-1.9	-1.9	
Automatic debt dynamics 1/	-7.8	-3.6	11.1	-1.7	-3.6	0.7	-0.3	-0.8	-1.0	-1.0	-1.1	
Contribution from nominal interest rate	1.2	1.5	1.8	1.6	1.6	1.8	1.8	1.6	1.4	1.3	1.2	
Contribution from real GDP growth	-2.1	-3.1	4.0	1.1	-1.7	-1.1	-2.1	-2.5	-2.5	-2.3	-2.3	
Contribution from price and exchange rate changes 2/	-7.0	-2.0	5.3	-4.3	-3.5	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.4	4.3	6.7	7.0	2.1	-0.3	-0.4	-3.4	-4.7	-2.9	-2.4	
External debt-to-exports ratio (in percent)	160.9	170.3	224.5	210.2	188.6	178.8	171.5	162.6	153.4	148.9	143.5	
Gross external financing need (in billions of US dollars) 4/	35.9	46.2	34.9	32.1	37.5	42.1	48.6	49.3	50.6	49.7	52.4	
in percent of GDP	28.8	33.1	29.5	25.9	28.1	31.0	33.5	30.9	28.9	25.9	25.2	
Scenario with key variables at their historical averages 5/						**73.7**	**71.5**	**67.6**	**62.5**	**59.2**	**55.7**	**-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	3.7	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	19.8	4.4	-9.3	6.7	4.9	0.1	3.9	5.8	5.6	5.6	3.9	
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 (US dollar terms, in percent)	15.9	16.6	-14.9	21.7	18.9	6.9	8.6	8.8	9.5	9.5	9.4	
Growth of imports (US dollar terms, in percent)	24.7	13.2	-28.9	18.2	16.0	7.6	8.6	8.8	9.7	9.1	9.4	
Current account balance, excluding interest payments	-12.2	-10.1	-2.4	-2.9	-2.6	-2.6	-3.2	-3.5	-3.6	-3.7	-3.9	
Net non-debt creating capital inflows	5.8	6.1	3.4	2.4	1.8	3.2	4.4	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 US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

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

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

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

ROMANIA: LETTER OF INTENT

Bucharest, February 28, 2012

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

Dear Mme. Lagarde:

1. The Romanian authorities reaffirm our commitment to 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 performance criteria for the fourth program review and have advanced on a large and difficult structural agenda. While further progress is needed in some areas, we are committed to additional actions described in the attached Memorandum of Economic and Financial Policies (MEFP). Our achievements in economic stabilization and reforms are bearing fruit, as economic growth recovered in 2011 after two years of decline. The recovery remains vulnerable to difficulties in international financial markets and economic weakness in the euro area, so continued firm policy implementation and maintenance of fiscal, monetary, and financial sector buffers are required to safeguard against risks.

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

- *Quantitative performance criteria and indicative targets*. All end-December 2011 quantitative performance criteria were observed. All indicative targets were also met. Inflation remained within the inner band of the inflation consultation mechanism.

- *Structural benchmarks*. The benchmark was met on designing measures to deregister a significant number of small VAT payers to improve collection efficiency. Healthcare reform legislation was prepared; however, the draft was later withdrawn due to opposition. We are preparing alternative proposals, in consultation with the World Bank, and expect to have a draft prepared by end-June. Finally, we continue to advance on previous benchmarks which were partially met: the prioritization of the investment portfolio is advancing, the appointment of legal and transaction advisors for the sale of stakes in SOEs remains a key objective of the government, and we are continuing the remaining actions for SOE reforms to complete the benchmark from July 2011 by April 2012.

3. In the attached MEFP, we set out our plans to further advance towards meeting the objectives laid out in our macroeconomic program. In view of our strong performance under the program supported by the IMF and the EU, the Government of Romania and the National Bank of Romania (NBR) request completion of the fourth 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 a modification of the March 30, 2012, quantitative performance criteria and the establishment of such criteria for June 30, 2012, as set out in the attached MEFP, where changes to adjustors on performance criterion on Net Foreign Assets and general government balance have been made (and described in the Technical Memorandum of Understanding (TMU)). As detailed in the MEFP, we also propose a new structural benchmark and a prior action 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, and in this Letter are adequate to achieve the objectives of our economic program. We stand ready to take additional measures as appropriate to ensure achievement of its objectives. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached Memorandum or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the EC with the necessary information for program monitoring.

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

Sincerely,

/s/	/s/
Bogdan Dragoi	Mugur Isarescu
Minister of Public Finance	Governor of the National Bank of Romania

ROMANIA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Economic Developments and Outlook

1. Romania's economic recovery continues, but the outlook has weakened due to deteriorating conditions elsewhere in the Europe. Indicators suggest 2011 growth was around 2½ percent, higher than previously anticipated due to an exceptional domestic harvest and strong exports. CPI inflation fell to 3.1 percent in December, as the harvest put significant downward pressures on food prices. For 2012, we now expect growth of around 1½–2 percent. The slowdown in Europe will constitute a major drag on the recovery, but it will be partly offset by increased EU-funds absorption and the gradual recovery of domestic demand. Continued firm policy implementation is required to safeguard against downside risks, as there remain significant vulnerabilities to adverse developments in international financial markets and the euro area. Inflation is projected to stay within the central bank's target band in 2012, although upward risks remain. The current account deficit should stabilize at around 4-4½ percent of GDP, reflecting improved trade performance.

Fiscal Policy

2. For 2011, we achieved a cash deficit of 4.2 percent of GDP, successfully staying within the target of 4.4 percent of GDP. In the fourth quarter, tax revenues overperformed, reflecting a gradual recovery in the labor market and enhanced tax collection efforts. We also reduced public employment by another 20,000 positions, bringing the wage bill below 7 percent of GDP. The implementation of reforms to pensions, including auditing invalidity pensions and tightening eligibility conditions, has produced a significant reduction in the number of invalidity pensioners. The decline in unemployment and streamlining of inefficient social benefits programs have reduced social assistance spending. In August, we also improved the legislation to provide heating allowances for the segments of most vulnerable population while eliminating central government heating subsidies. The overperformance in tax revenues and a tight control on wage bill spending allowed us to allocate some resources to clear arrears and unpaid bills in SOEs and the health sector. Other resources were reallocated to capital expenditures and transfers for funding EU-funded projects.

3. For 2012, we remain committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP with a budget cash deficit of 1.9 percent of GDP (2.1 percent of GDP including spending under the National Development and Infrastructure Program (PNDI)). Although the economic outlook has weakened, the favorable effects of higher tax yields last year should generate sufficient revenues to keep us on track to reach our target, although sustained expenditure restraint will be required. Public wages will remain frozen in the public sector as well as pensions. However, if economic conditions permit we will consider budget modifications later in the year in line with the Fiscal Responsibility Law. Public employment reductions will continue with the policy of replacing only 1 out of 7 employees; however, we will implement it with more flexibility to relieve bottlenecks from staff shortages. Savings in the capital budget will be generated by eliminating low-performing projects and by reduced national co-financing of EU-funded projects, as permitted under EU regulation 1311/2011 for member states under an IMF/EU program. The implementation of a clawback tax will help ensure non-accumulation of arrears in the pharmaceutical industry. Restructuring of public enterprises included in the general government will also be crucial to achieving the 2012 target. Budgetary transfers have been made contingent on the approval of viable restructuring plans for SOEs. Means-testing of social benefits programs is also expected to continue generating savings.

4. Arrears and unpaid bills of the general government (excluding SOEs) have continued to decline. Arrears now stand below 0.2 percent of GDP (almost entirely in local governments). In SOEs monitored under the program, arrears have fallen in the fourth quarter of 2011 by some 0.8 percent of GDP to 2.6 percent of GDP.

- In the ***health sector***, arrears in registered bills have now been completely eliminated unregistered bills revealed during the stocktaking exercise by end-2011 have been fully recorded in the system and scheduled for payment. The implementation of the clawback tax should help preclude accumulation of new arrears in the health sector.

- At the ***local government level***, arrears decreased in 2011, but the trend could be speeded up. Improved enforcement and monitoring of the 2010 changes to the local public finance law (LPGFL) should enable further reductions in the stock of arrears. To this end, line ministries shall conclude multi-year co-financing contracts for each of the local government projects in their portfolio by March 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. Together, we anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 5 to 6 billion (1 percent of GDP) in the second half of 2012.

- The next phase in the integration of the accounting reporting system with the ***Treasury payment system*** is underway, including the commitment control and reporting module for all levels of government. The design of the system will be finalized by end-April 2012 and the tendering process with the software provider will be launched by mid-May 2012. 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 7 in this area will be transposed into Romanian law on a timely basis. Towards this end, we will seek to use revenues from the clawback tax to begin shortening the period for paying bills submitted for pharmaceuticals by end-June.

- To prevent possible future arrears due to unfunded contracts, we will ensure that any commitments made at the **central government** level for multiannual capital projects are fully budgeted in the medium term budgetary framework. Contracting for multiannual investment projects will be undertaken consistent with these multiannual commitment allocations.

5. We continue our efforts to prepare and implement comprehensive reforms of the healthcare system. A draft framework law for the reform presented in January was withdrawn for reconsideration in light of significant public objections, but we aim to produce a revised draft by end-June, with public debate between July and September and parliamentary approval slated by end-October. The reform will aim to address the persistent budgetary shortfalls in the healthcare system and enhance service quality. Over the medium-term, given that public healthcare spending in Romania is among the lowest in the EU as a share of GDP, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy, while

factoring in the challenge of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services, and to raise additional resources.

6. To address health sector financial imbalances, we are committed to implementing key healthcare measures even before the comprehensive framework legislation is complete:

- In light of the problems in the design of the ***copayment law*** that was recently approved in Parliament, we will revise the copayment, basing it on a modest flat rate. We shall approve the revision by emergency ordinance by mid-April 2012 for implementation shortly thereafter.

- To control expenditures and ensure efficiency gains in the short term, we will prepare, by mid-April 2012, and implement by end-June, a ***negative list of health services and drugs***, based on the outcome of the technical assistance offered by the National Institute for Health and Clinical Excellence, that will include (i) revised lists of reimbursed drugs and (ii) a reduction in hospitalization periods and implement the national hospital bed plan. We will also create the legal framework for the Health Technology Assessment and initiate its implementation. We will also adjust the National Health Programs in order to match the new basic package of services.

- We will monitor aggregate ***hospital budgets*** to ensure that they are consistent with the expenditure programmed in the general government budget. Moreover, we will take all necessary actions to avoid new arrears. For hospitals under the responsibility of local governments, the health care reform legislation will include provisions to facilitate monitoring by the Ministry of Health.

- 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. We will begin distributing new health cards to all participants by end-April, which will help control fraud and abuse in the system and better monitor spending commitments. We have signed a contract for the acquisition of a new electronic prescription module for the National Health Information System, and the system is expected to operational by end-May 2012. These mechanisms will help ensure that future spending remains within allocations.

7. We will seek to improve the efficiency of the tax system building on recommendations of IMF technical assistance. Specifically, these measures will include (i) simplification of depreciation schedules for fixed assets; (ii) simplification of declaration and payment of capital gains taxes; (iii) simplification of the deduction mechanism for personal income taxation; (iv) development of a strategy for revision of the property tax base; and (v) development of a plan for adjustment of excise tax rates to preserve real value.

8. The Government will establish through the Strategic Planning Committee the public policy priorities, which will be sustained by the medium-term Fiscal Strategy. The government has created an interministerial group coordinated by the Center of Government to follow up on the implementation of the action plans for the functional reviews. We are making progress in implementing the action plans derived from the functional reviews and we have submitted the first set of progress reports in January. Over the coming months we will take further steps in implementing priority activities with the support of the IFIs, as agreed in the recently signed MOU with EIB and the WB. We will report on the progress of these activities in the second set of quarterly progress reports due by mid-April. The Center of Government will begin to develop indicators that would help measure the intermediate outcomes derived from progress on the action plans. In addition, the government will approve an annual work plan of significant legal and policy proposals requiring approval up to end-2012, based on input from line ministries.

9. Local market conditions for public debt financing have improved so far in 2012, and we took advantage to increase our debt issuance to further build our buffers. We are also continuing efforts to build the yield curve by extending the maturity of our domestic bond issuances with the issuance of a 15-year bond. On the external side, after a postponement due to difficult market conditions in late 2011, we successfully issued a US$1.5 billion 10-year dollar-denominated bond in January with a favorable rate, and plan to return to the external market again in 2012, as market conditions permit in accordance with the debt management strategy. To facilitate improved access to external financing, we will step up outreach efforts to the international investment community. We will continue efforts towards consolidating the fiscal buffers (including World Bank DPL-DDO financing) maintaining our objective of four months of gross financing needs to protect government finances

against unforeseen external shocks. The interest paid on these financial buffers represent a necessary cost for insurance against shocks. We have improved our debt management strategy and will undertake a project with support of the World Bank to strengthen the debt management office.

10. 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. We are monitoring the implementation of the May 2011 Priority Action Plan and have submitted two progress reports to the European Commission. In order to significantly boost absorption this year, we have identified high priority projects, strengthened the capacity of managing authorities, and taken steps to reduce procedural bottlenecks. In particular, we have submitted for review an updated priority action plan to the Commission including measures to increase transparency. We have also adopted a Code of Conduct for the personnel working with EU funds, and in order to ensure its effective implementation, a monitoring mechanism is currently under preparation and it shall be adopted by the end of February. To strengthen the capacity of managing authorities (including for agricultural funds), 100 vacant and 211 newly-added positions (through redistribution within the approved limit of positions at the level of the main budgetary institutions) will be filled by June 2012. We have also limited the time to process reimbursement claims to beneficiaries to 45 working days across all managing authorities. To enhance the technical expertise of managing authorities, we have already signed MOUs with the EIB and the WB for providing technical assistance, in accordance with the rules applicable to technical assistance projects, and a new MOU will be signed with the EBRD by end-March. We will ensure sufficient cash allocations for funding of investment projects financed by the EU, such that no arrears are accumulated.

11. We are making progress in compiling an investment portfolio of all government projects to ensure proper monitoring and prioritization of projects. This portfolio will be used to evaluate projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. We have identified 14 projects, representing more than 10 percent of the total project value, which will be discontinued. We will further improve the investment portfolio database to include coverage to state budget cofinanced projects at the local government level and strengthen monitoring of the PNDI projects by the capital monitoring unit of the Ministry of Public

Finance (MOPF) (end-March, 2012). The Ministry of Regional Development and Tourism (MRDT) and the Ministry of Environment and Forest (MEF) are committed to ensure that execution spending under the PNDI does not exceed RON 1.0 billion in 2012 (RON 820 million for MRDT and RON 180 million for MEF) and RON 1.0 billion in 2013. In addition, the authorities overseeing public private partnerships (PPPs) commit to joint reporting by mid-April 2012 on the functioning of their working arrangements. The medium term fiscal strategy underpinning the convergence program to be submitted to the EU will specify the yearly amounts allocated for spending under the PNDI, and the total authorization for contracts under the PNDI will be adjusted accordingly.

12. Improving tax administration and fighting tax evasion are crucial elements of our strategy to increase revenue. We are making progress on a comprehensive reform of ANAF. Among the key developments are the following:

- We have revised provisions of the Fiscal Code to facilitate, under certain conditions, the cancellation of registration for VAT purposes for firms. We are implementing our plan to reduce ***the number of taxpayers registered for VAT*** purposes by 20 percent between September 2011 and 2012 using administrative measures.

- With regard to ***High Net Wealth Individuals*** (HNWI), the tax compliance strategy is being strengthened. Based on the risk analysis procedure adopted in September 2011, individual taxpayers will be selected for tax verification. Towards this end, we have accelerated data analysis and are seeking access to new databases in order to start tax verifications of individuals by mid-2012. We are seeking financing for acquiring an IT tool to be used in risk analysis and to cover training costs on indirect audit methods.

- We passed the **government decision on ANAF restructuring** and closed 141 regional offices to reduce collection costs and reduced staff by 8 percent since end 2010. We aim to increase the capacity and efficiency of the administration further, including through an IMF FAD TA and World Bank support. Furthermore, we will prepare and have approved (by end-2012) a multiannual project with the World Bank for modernizing tax administration. We will approve by government memorandum an action plan containing the main measures and deadlines, which will undergird the modernization of tax administration.

- We have decreased the number of large taxpayers under the supervision of the ***large taxpayer directorate*** to 2000 beginning in 2012.

- We have adopted a ***compliance risk strategy*** in accordance with best practices in September 2011. We established a department in charge of risk assessment, which is now operating. We will implement further measures in order to prevent any difficulties, which could appear when the reverse charge derogation for cereals will expire.

- We are planning expansion of ***e-filing and further simplification of tax forms*** and the number of payments required with a view to providing a one-stop shop for tax declaration and payments. In December, 87 percent of all tax returns filed to ANAF were using the new e-filing facilities, which have been extended to all taxpayer categories and for the main administrated tax liabilities.

- By July 2012 we will finalize the takeover of social contribution collections from natural persons, who are required to be insured.

Financial Sector

13. Provisioning for impaired assets, as well as developments in the euro area, continued to weigh upon the Romanian banking sector during the fourth quarter. The sector as a whole recorded a loss equivalent to 1.4 percent of average equity over the year. The ratio of non-performing loans to total loans ended the fourth quarter at 14.1 percent, marginally lower by 0.1 percentage points than the previous quarter, mainly due to a rise in lending to the corporate sector. Total provisions at end-December were sufficient to cover 99.5 percent of non-performing loans. Supported by new capital injections of RON 1.6 billion, the banking system remained well-capitalized with an average capital adequacy ratio of 14.5 percent at end-December.

14. To help mitigate the rise in impaired loans and improve the efficiency of bank balance sheets, we will by end-June ensure that the tax treatment of bank receivables sold to Romanian firms is neutral. In addition, in allowing banks flexibility to extend loan restructurings, the NBR will closely monitor bank practices to ensure that the loan-loss provisioning and the assessment of risk credit of restructured loans continue to remain prudent and in line with good international practices. The authorities will also undergo an assessment by the World Bank of the arrangements for insolvency and creditor rights in spring 2012. Amendments were adopted in January 2012 to the

bank resolution legislation to introduce bridge bank and other stabilization powers for dealing with failing banks, as well as to strengthen arrangements to augment quickly the resources of the Deposit Guarantee Fund (DGF). In addition, the authorities have taken steps to strengthen institutional arrangements, and coordination, between financial safety net participants. The DGF has joined the National Committee for Financial Stability (NCFS), and a joint working group overseen by the NBR's banking supervision department has been established between the NBR and the DGF. An MOU will be signed by the NBR and the DGF by end-February, which will ensure that the DGF is given sufficient early warning and information on potential problem institutions to enable it to prepare to meet its obligations effectively. Going forward, the NBR along with the DGF will finalize the intra- and inter-agency procedures for deploying the bank resolution powers, including bridge bank and purchase and assumption powers. These will build upon experience available from other EU countries, which have recently adopted these powers, and will continue to be reviewed and be revised in light of experience, including lessons from the crisis simulation exercise to be undertaken in spring 2012. The NBR, DGF, and MOPF will at the highest levels review and approve the operational preparedness and arrangements by end-April 2012. The law amending the Law 503/2004 on the bankruptcy of insurance undertakings will be enacted by end-April 2012. We will continue to consult with the IMF and EC staff before introducing or amending other aspects of the regulatory framework and avoid adopting legislative initiatives, such as the current draft of the personal insolvency law or proposals for the debt collecting law, which could undermine debtor discipline.

Monetary Policy

15. Headline inflation fell to 3.1 percent in December, closing within the central bank's inflation target band for the second year since adopting the inflation targeting regime in 2005. The decline of inflation was mainly driven by food price deflation owing to an exceptional harvest, the disappearance of the first round effect of the VAT hike, in addition to a decline in core inflation. For 2012, given the weak domestic demand and muted pressures on global food and energy prices, inflation is likely to stay within the Central Bank's target band of 3$\pm$1 percent. Amid the abating inflationary pressures, we have lowered the policy rate by 75 basis points in three steps since November. Monetary conditions remain appropriate. The impact of the rate cuts on the exchange rate and capital flows has so far been limited. However, upside risks remain, including additional adjustment of administered prices, a possible rebound of domestic food prices, and exchange rate

depreciation pressures. The ongoing instability in international financial markets and the attendant risks of excessive exchange rate volatility and reduced capital flows, together with inflation risks, mean that a continued prudent monetary policy stance is required supported by a consistent macroeconomic policy mix. We will maintain banks' reserve requirements ratios unchanged in the coming months and will act judiciously on the monetary policy rate. We will also continue regular repo operations as needed to ensure adequate liquidity in the banking system.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

16. We are making progress on our plans for major reforms in the transport and energy sectors to enhance economic growth in Romania. In the ***transport sector***, we are developing a new general transport strategy and master plan for Romania, which will balance increasing demand and available fiscal means, ensure complementarities between the different transport modes, and define priorities for medium- and long-term investment. Expenditure cuts and arrears clearance schemes have improved the financial position of SOEs in the transport sector. We will continue to seek additional measures to raise revenues and reduce costs (including through the application of standard costs). We are finalizing plans for a government-guaranteed loan or budgetary resources to clear CFR rail infrastructure arrears to energy providers by end-June 2012 and thereby realize significant savings through the cancellation of penalties. These efforts will be complemented by the development by end-March 2012 of ways to improve revenue generation and management of the real estate of the various transport sector SOEs, possibly through the establishment of a special real estate company. In addition, we will immediately initiate steps to reconstitute the boards of directors and hire private management in SOEs as required by the Corporate Governance Law of November 2011. Finally, we have closed 1,000 kilometers of underutilized rail line bringing the total network under management of CFR closer to our goal of 15,500 line kilometers.

17. For the ***energy sector***, we plan to enhance the pricing and regulatory framework by undertaking the following steps:[1]

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

- We have drafted legislation to transpose the EU 3rd Energy Package into Romanian legislation. The draft provides for an appropriate unbundling regime and the definition of vulnerable consumers. Before approval we will consult with the European Commission staff and agree with the World Bank and IMF on amendments to ensure full financial and operational independence of the energy regulator (ANRE). Though somewhat delayed compared to our original plan, we will approve the legislation on electricity by emergency ordinance by end-March 2012 and submit it to Parliament for approval. For gas, the legislation will be prepared by end-April 2012.

- We remain committed to achieving full functioning of energy markets to ensure proper incentives for energy investments and improvements in energy efficiency crucial for future economic growth. We will now start implementing the earlier agreed phasing out of regulated prices in electricity, in full compliance with EU regulation. On February 22, 2012, we sent to the European Commission, World Bank, and the IMF the English translation of the electricity roadmap including all relevant specifications, particularly measures to protect vulnerable consumers and ensure competition. As soon as fully agreed with the IFIs, we will approve the roadmap for electricity by government memorandum (prior action) and include it in the draft law mentioned above.

- In the ***electricity sector***, the process will begin with an adjustment of 5 percent in the regulated prices to non-residential and residential tariff customers later in 2012. ANRE will then progressively increase the share of electricity sourced from the deregulated market by the electricity supply companies for their non-residential customers, starting with 15 percent in September 2012 and reaching 100 percent by end-2013. Regulated prices to non-residential consumers will be removed 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. For households, non-regulated tariffs will be phased in beginning in 2013 and finishing by 2017.

- In the ***gas sector***, we will prepare by end-April 2012 (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 oil and gas exploration, oil and gas production, gas storage, and gas distribution and supply. The package will include a roadmap for the gradual removal of regulated prices to non-residential and residential consumers and measures to protect vulnerable consumers. 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 are committed to developing a gas trading platform. Towards this end, we will name a system operator by April 1, 2012, with an aim of beginning operations on January 1, 2013. Finally, we are fully aware that a parliamentary override of the presidential veto of the gas export ban law could lead to the suspension of the program, as it contravenes basic principles of the EU single market. We will actively seek to avoid such an override.

- The process to terminate all bilateral ***energy contracts*** of SOEs concluded outside of OPCOM has started. Those that cannot be terminated in the short term are currently being renegotiated to ensure that the duration will not be extended, quantities are reduced, prices are adjusted as permitted to market conditions, and terms of the contracts published. In addition, the Ministry of Economy, supported by the Ministry of Justice (within its legal competencies) will assess options to terminate all existing bilateral contracts and will inform the IFIs about our findings by end-February 2012. New bilateral contracts will continue to be made transparently and non-discriminatorily 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, bilateral gas contracts will be traded through it.

- The Ministry of Administration and Interior, together with the Ministry of Public Finance, will ensure prompt application of Emergency Ordinance 69/2011. We will prepare by end-March 2012 a report on final end-consumer prices for district heating compared with those recommended by the regulator and those budgeted by municipalities, including information on actual payments. This will allow us to assess whether recent legal changes have improved the financing of the district heating system in Romania.

State-Owned Enterprises

18. We continue to implement measures to improve the performance of SOEs. Preliminary data indicate that we met the fourth quarter indicative targets on the operating balance and arrears in key companies. While we have achieved major improvement in some companies, more substantial measures remain to be taken. Most restructuring plans for the central government SOEs have been submitted, but the quality of these plans varies. By mid-February 2012 line ministries will send

revised plans to the MOPF in accordance with guidance given by staff 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.

19. On privatization, our goal remains to offer minority and majority stakes in a series of companies over the coming months. We will seek professional advice on the overall strategy and streamline the administrative framework for privatizations with the aim of attracting the best advisors and achieving the highest possible price in a market-friendly manner. As noted in our last Letter of Intent, the transaction consultants will have the task of drafting evaluation reports, and recommending and justifying the offer price of the shares in view of a successful closing transaction. Our planned privatization actions are as follows:

- The first group of companies to be offered by end-April 2012 includes: i) Oltchim (sale of remaining public shares to strategic investor), ii) Transelectrica (SPO of a 15 percent stake plus a later capital increase of about 12 percent), iii) Transgaz (SPO of a 15 percent stake); and iv) Cuprumin (full privatization).

- The second group of companies includes i) Posta Romana (minority stake), ii) Romgaz (IPO of a 15 percent stake), iii) Electro Serv (majority privatization of company created by the merger of Transilvania Sud, Transilvania Nord, and Muntenia Nord), and iv) Tarom (IPO of 20 percent). Appointment of transaction advisors for this group will be completed by April 2012.

- The third group comprises i) Hidroelectrica (IPO of 10 percent to increase capital); ii) Electrica Serv (majority privatization of all remaining regional companies); iii) Nuclearelectrica (IPO of at least 10 percent via capital increase); iv) S.C. Electrica Furnizare S.A. (including the supply activity transferred from SC Electrica SA, majority privatization); and v) CFR Marfă (majority privatization). Appointment of legal advisors for this group will be concluded by end-April 2012.

- The following companies will be offered for privatization by end-December 2012/early 2013: (i) the new energy producer Hunedoara, to be created by April 2012 by merging the power plants in Paroşeni and Mintia and the four viable mines of CNH (majority privatization), (ii) the new energy producer Oltenia to be created by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni (majority privatization), and (iii) Elcen Bucuresti (majority privatization).

20. In addition to the privatizations, we continue preparations to resolve the financial situation of Termoelectrica. Valuable assets will be extracted or be sold and the remaining part of the company will be placed into voluntary liquidation (end-April 2012).

21. We have begun to implement the requirements of our general corporate governance law, the passage of which marked a significant improvement in the framework for SOE corporate governance in Romania. In the Ministry of Economy, we have solicited and 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 will be selected by end-April 2012 to take office as soon as legally possible thereafter. In cases where significant minority stakes are to be sold, this timetable may be adjusted to allow for participation of the new minority shareholders. For SOEs under the Ministry of Transport and Infrastructure the corresponding process will be started by end-February. We remain firmly committed to increasing the number of SOEs with private management in the course of 2012.

Other Structural Reforms

22. We are continuing implementation of labor market and social assistance reforms approved in 2011. The new Social Dialogue Code will begin to take effect this year, as an agreement has now been reached among social partners regarding the sector definitions of collective contracts. We will continue the consultation with International Labor Organization (ILO) to ensure that the new Social Dialogue Code respects core ILO conventions. The Social Assistance Law, which aims to streamline social benefits and improve the efficiency of social protection, was approved by the parliament. We are now working on the secondary legislations of the social assistance. Recently implemented legislation has already shown a positive impact. The new Labor Code has contributed to employment recovery and increased the share of fixed-term contracts. The enforcement of the new pension law has dramatically reduced the number of early retirements and the fraud rate of handicapped pension applications; however, a deficit remains in the pensions system.

We are committed to improving entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. In this regard we have eliminated in early February 2012 undue barriers for opening large surface retail stores.

Table 1. Romania: Quantitative Program Targets

	2010	2011					2012			
	Dec	March	June	Sept	Dec		March	June	Sept	Dec
	Actual	Actual	Actual	Actual	Prog.	Prelim.	Prog.	Prog.	Indicative	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-500	-457	0	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,953	-23,837	-3,100	-6800	-8500	-12210
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.10	0.09	0.08	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	14.0	6.5	14.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	...	...	...	...	5.7	...	4.1	4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	4.7	...	3.1	3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	*3.7*	3.1	*2.1*	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	2.7	...	1.1	1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	1.7	...	0.1	0.4	1.9	1.2
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	130,700	128,317	32,000	64,800	96,350	130,850
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	-3.9	-2.0	-1.5	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei)) 4/	17.9	19.2	19.7	18.5	15.9	14.9	17.0	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.80	0.75	0.70	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 5/	...	...	...	...	...	...	200	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to previous year end stock. 2011 December target is adjusted down from 500 million to -500 million reflecting the delayed Eurobond issuance.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ Adjusted indicative targets for end-September and end-December in 2011, reflecting the merger of SOEs under monitoring.
5/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Fourth Review

Measure	Target Date	Comment
Prior Action		
1 Approve a roadmap for the deregulation of electricity prices as specified in the MEFP.	5 days before the Board date	
Quantitative performance criteria		
1. Floor on net foreign assets	Dec. 31, 2011	Met
2. Floor on general government overall balance	Dec. 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	Dec. 31, 2011	Met
4. Ceiling on general government guarantees	Dec. 31, 2011	Met
5. Non-accumulation of external debt arrears	Dec. 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Dec. 31, 2011	Met
2. Floor on operating balance of key SOEs	Dec. 31, 2011	Met
3. Ceiling on stock of arrears of key SOEs	Dec. 31, 2011	Met
4. Ceiling on stock of local government arrears	Dec. 31, 2011	Met
Inflation consultation band		
Inner band	Dec. 31, 2011	Met
Outer band	Dec. 31, 2011	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears. 1/	July 15, 2011	Partially 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. 2/	Sept. 30, 2011	Partially Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 3/	Dec. 31, 2011	Partially Met
4. Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(compared to end-September 2011).	Dec. 31, 2011	Met
5. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP. 4/	Feb. 15, 2012	Partially Met
New Structural Benchmarks		
1. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	

1/ Legal advisors were appointed for TAROM, Transelectrica, Transgaz, and Romgaz and mechanisms to facilitate restructuring of SOE arrears were implemented. In addition, most action plans have been received. The authorities committed to complete the action plan process by mid-February and to hire a legal advisor for CFR Marfa by end-April 2012.

2/ The investment portfolio is being revised to include local government projects co-financed by the state budget.

3/ 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.

4/ Legal advisors were appointed for Electrica Serv and Nuclearelectrica. The deadline for hiring legal or transaction advisors for the other companies in Group 2 and Group 3 was rescheduled.

ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

February 28, 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				2011	2012			
	Dec. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. PC	Jun. PC	Sep. indicat.	Dec. indicat.
Cumulative change in NFA	20,026	119[2]	1,896	293	-457[3]	19,569	0	250	250	450
Memorandum Item: Gross Foreign Assets	32,432	996	2,793	1206	464	32,897	0	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.

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)

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative flows from end of 2010 under external program	1,200	1,650	2,050	2,050	2,050	2,050	2,050	2,050
Flows of external MOPF bond placement				1,000	1,150	1,350	0	0

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

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

Inflation consultation band

	2010	2011				2012			
	Dec. actual	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Mar. target	Jun. target	Sep. indicat.	Dec. indicat.
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*	*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

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 (performance criterion)	-3,100
End-June 2012 (performance criterion)	-6,800
End-September 2012 (indicative)	-8,500
End-December 2012 (indicative)	-12,210

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

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

12. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government, which will include the following SOEs: C.N. de Autostrãzi si Drumuri Nationale din România SA, Fondul Proprietatea SA, Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui 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.

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

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

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

15. The performance criterion for the general government balance for end-March 2012 and 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 6,970 million and lei 15,230 million, respectively, up to a limit of lei 1,800 million.

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

16. The issuance of general government guarantees to the non-financial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but

may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.

Ceiling on new general government guarantees issued from end 2008 until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (actual)	6.5
End-March 2012 (performance criterion)	14.0
End-June 2012 (performance criterion)	14.0
End-September 2012 (indicative)	14.0
End-December 2012 (indicative)	14.0

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

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

Stock of central government and social security arrears	(In billions of lei)
End-December 2010 (actual)	0.19
End-March 2011 (actual)	0.15
End-June 2011 (actual)	0.11
End-September 2011 (actual)	0.10
End-December 2011 (actual)	0.09
End-March 2012 (performance criterion)	0.08
End-June 2012 (performance criterion)	0.06
End-September 2012 (indicative)	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 (indicative)	32,000
End-June 2012 (indicative)	64,800
End-September 2012 (indicative)	96,350
End-December 2012 (indicative)	130,850

[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 (indicative)	0.70
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 Marfă "CFR Marfă" 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 (adjusted preliminary)	-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 Marfă "CFR Marfă" S.A.,C.N. Tarom S.A., S.C. Oltchim S.A., C.N. a Huilei S.A., S.C. Termoelectrica S.A., S.C. Electrocentrale Deva S.A., S.C. Electrocentrale Paroseni S.A., S.C. Electrocentrale Galati S.A., S.C. Electrocentrale Bucuresti S.A., SNa Lignitului Oltenia S.A., S.C. Complexul Energetic Craiova S.A., S.C. Complexul Energetic Rovinari S.A., S.C. Complexul Energetic Turceni S.A., S.C. Hidroelectrica, S.C. Electrica S.A., C.N. Poşta Românã S.A. The data shall be reported with operating results by firm. The targets will be as follows:

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

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

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 (adjusted preliminary)	18.5
End-December 2011 (adjusted preliminary)	14.7

[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 (indicative)	17.0
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 ¶21, at least for the following state-owned enterprises: i) C.N. Poşta Românã S.A., ii) C.N. Tarom S.A., iii) S.C. Electrificare CFR S.A., iv) SNa Lignitului Oltenia S.A./Complexul Energetic Oltenia, v) S.C. Electrica Furnizare S.A., vi) S.C. Hidroelectrica, vii) C.N. Romarm aparat central, and viii) S.C. Oltchim S.A..

31. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) C.N. Căi Ferate CFR S.A., ii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., iii) SN Nuclearelectrica, iv) S.N. Transgaz, v) CN Transelectrica, vi) S.N. Romgaz and vi) C.N. Adm. Port. Maritim Constanta S.A..

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 primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
Preliminary data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, within 30 days
Final data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, end May for the previous year and end-August for first half of the current year
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
The balance of the TSA in RON	Monthly, within two weeks of the end of each month
The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period)	Monthly, within two weeks of the end of each month
The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows.	Monthly, within two weeks of the end of each month
Reporting of progress in the implementation of the Romanian public administration's functional review	Quarterly, to be sent two weeks before each mission for each of the 12 ministries

To be provided by the National Bank of Romania	
NFA data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data
Monetary survey data in the format agreed with IMF and EC staff	Monthly, within 30 days of the end of the month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporate	Monthly, 45 days after the end of each month
Balance of payments in the IMF format currently used to report	Monthly, 45 days after the end of each month
Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency).	Monthly, 20 days after the end of each month
Financial soundness indicators[2]	Monthly, 15 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly
The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence

[2] 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.

- Revise the activity contract by end-February 2012;
- Develop ways to improve management of the real estate of the transport sector SOEs, possibly through the establishment of a special real estate company by end-March 2012;
- Reduce personnel by 28 positions that were originally with Interventii by end-March 2012;
- Reduce personnel and maintenance expenditures and reorganize and rationalize the sectioning points, starting April 1, 2012.
- Renegotiate the construction and rehabilitation agreement for the railway line Ramnicu Valcea- Valcele and Portile de Fier and identify a financing source, including the possibility of a state guarantee, by end April;
- Continue tendering process for public service obligations and infrastructure maintenance for 1,600 line kilometers of extended railway, bringing the total number of line kilometers under private management to 4,000 kilometers. Close all lines for which tenders failed, bringing network under management of CFR down to 15.500 line kilometers, by end-April 2012;
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Develop a terms of reference for and contracting the consultancy services for the detailed analysis of the national railway network by end-April 2012;
- Use budgetary means and/or a state credit guarantee to reduce arrears to electricity suppliers by end-June 2012;
- Implement agreement between CFR-SA from Romania and Eurostation from the Belgium to set up a joint venture 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;
- Increase by 10 percent y/y rental revenue by end-December 2012;
- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive;
- Present a short report on 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.

S.C. Electrificare CFR S.A.

- Appoint private management and board members by mid-2012;
- Continue the restructuring and modernization program, including a further reduction of 85 positions by end-2012 (compared with September 1, 2011);
- Ensure the acquisition of electricity via OPCOM when taking over supply and distribution activity for traction energy for the whole railway system.

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

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

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

- Provide analysis 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-April 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 mid-March 2012;
- Send notification to DG Comp for envisaged state-aid scheme aiming at arrears reduction, based on the prudent private seller test, by in April 2012;
- Appoint privatization consultant for majority privatization to strategic investor by end-April (formerly structural benchmark for mid-February 2012);
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Publish the shares selling announcement by mid-June 2012, with view to conclude privatization by end-October 2012;
- Scrap and valorify 3000 depreciated cars by end-August 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 analysis 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-April 2012;
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Contract a consultant to evaluate the necessary services and related costs for achieving the minimum social package by end-May 2012, with corresponding action to be taken immediately thereafter;
- 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 240 depreciated cars by end-June 2012;
- Identify, together with the Ministry of Public Finance, an arrears reduction scheme possibly amounting to 300 mil RON by end-June 2012;
- For 2012, after the taking over of the subsidiaries, the number of personnel should not exceed at 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;
- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive.

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;
- 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.

- Customize internal management control standards: by end March 2012, 12 out of the necessary 25 standards will be finalized and implemented;
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points:
    - Sign the contract by end April 2012;

- Ensure that 50 percent of the fixed control points are functional by end October 2012;
- Finalize and take over the information system by end January 2013.

C.N. Tarom S.A.

- Redeliver the third Boeing B 737-800 leased-in aircraft (or reducing the rental rate at the level of the prices from the market) by end-March 2012;
- Develop a restructuring program (measures regarding the routes and fleet structure and the organization design), based on the diagnosis of Roland Berger, and include measures to be proposed for the Annex to the TMU, by mid-April 2012;
- Publish prospectus for privatization of at least a 20 percent stake via IPO by end-May 2012, with view to conclude privatization by end-June 2012;
- Renegotiate the contract with Globeground to reduce ground-handling operations costs.
- 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-March 2012;
- Reduce staff by at least 600 employees by end-March 2012;
- Reduce postal subunits from 5,835 at end-2011 to below 5,700 by end-April 2012;
- Publish prospectus for capital increase of strategic investor by end-May 2012;
- Finalize capital increase by end-June 2012;
- Implement installment plan for clearance of past tax arrears;
- Appoint private management and board members shortly after capital increase has been implemented in close cooperation with new shareholder.

S.C. Oltchim S.A.

- Select new management team and board members as soon as possible;
- Publish announcement for SPO by mid-March 2012, with view to conclude privatization around end-April 2012, contingent on DG Comp decision;

- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

C.N. a Huilei S.A

- Complete transfer to ANAF of non-viable parts of CNH by mid-February 2012. Create independent company for non-viable mines, within 90 days of decision by EC on state aid, for the purpose of closing the mines down in line with EU regulations;
- Offer viable mines in open and transparent tendering process shortly after decision by DG Comp on state aid;
- 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.

- Use forced execution by ANAF for Electrocentrale Bucuresti by mid-February 2012 and put it under direct ownership of the Ministry of Economy;
- Use forced execution by ANAF for the subsidiaries Paroseni and Deva by mid-February 2012 and start forming the new energy company Hunedoara by merging these two companies;
- Extract remaining valuable assets of Termoelectrica via forced execution by ANAF or sell them and place the remaining part of the company into voluntary liquidation by end-February 2012;
- Put group 1 of Electrocentrale Deva of 210 MW into conservation by end-April 2012;
- Appoint legal advisor for majority privatization of new energy company Hunedoara by end-June 2012; appoint transaction advisor for majority privatization by end-August 2012, with view to complete privatization by end-2012.

S.C. Electrocentrale Bucuresti S.A.

- Complete forced execution by ANAF against Termoelectrica by mid-February 2012 and put it under direct ownership of the Ministry of Economy;
- Complete transfer of ownership of CTE Iernut to SNGN ROMGAZ SA in payment of arrears by end-March 2012;
- Develop strategy 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-March 2012;

- Appoint transaction advisor by end-August 2012;
- Publish prospectus by end-October 2012, with view to conclude privatization by end-2012.

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 for merger of SNLO and the three energy complexes in Craiova, Rovinari and Turceni by end-February 2012;
- Appoint private management and board members as from the formation of the new Complexul Energetic Oltenia;
- Turceni: Reduce personnel by 80 (compared with end-2011) by end-March 2012;
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni and publish merger in Official Gazette by end-April 2012;
- Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by summer 2012;
- Appoint transaction advisor by summer 2012;
- Publish prospectus for privatizations by late 2012, with view to conclude privatization offer by end-2012 or shortly thereafter;
- Continuous reduction of underground operation of SNLO with aim to terminate it by end-March 2013.

S.C. Hidroelectrica S.A.

- Conclude renegotiation of bilateral contracts as permitted to market conditions by February 15, 2012. If conclusion not possible, cancel contract where legally permissible;
- Select new management team and board members by end-April 2012 to take office as soon as legally possible thereafter;
- Appoint investment bank for IPO by mid-February 2012;
- Publish prospectus by end-August 2012; with view to conclude IPO by end-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;
- Appoint legal advisor for majority privatization of regional Electrica-Serv companies via IPO or to strategic investor by mid-February 2012;

- Transfer the own supply activity of SC Electrica SA to SC Electrica Furnizare SA by the mid-March 2012;
- Appoint investment bank for privatization of all six new companies created by splitting Electrica Serv by end-April 2012;
- Appoint investment bank for all other privatizations, including majority privatization of SC Electrica Furnizare SA, by mid-June 2012;
- Publish prospectus for privatization of new Electrica Serv company active in the area of Transilvania Sud, Transilvania Nord and Muntenia Nord by end-May 2012, with view to conclude privatization by end-June 2012;
- Publish prospectus for all other privatizations by mid-August 2012, with view to conclude privatization by end-October 2012;
- 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.

ROMANIA

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

March 19, 2012

Approved By **Poul M. Thomsen and Vivek Arora**

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on March 7, 2012**. The additional information does not change the thrust of the staff appraisal.

2. **Recent indicators suggest a continued weakening of growth.** The 2011 GDP data confirmed an annual growth of 2.5 percent, in line with staff expectations. The Q4 GDP data showed a slight contraction of 0.2 percent quarterly (+1.9 percent y-o-y). Private consumption and fixed investment grew faster than expected, while public consumption and inventories continued to drag down domestic demand. Export growth also slowed down but net exports contributed positively due to a contraction in imports. High frequency indicators for January pointed to moderate growth. Industrial production and construction posted modest gains and consumption indicators remained strong with retail trade volumes, consumer confidence, and employment improving further. However, new industrial orders fell and Q1 GDP growth is expected to be negative due to the adverse impact of severe weather in February.

3. **Annual inflation fell further to 2.6 percent in February**. This figure was somewhat higher than expected, perhaps reflecting supply disruptions from the severe weather.

4. **Financial market conditions continued to improve**. Five year CDS spreads have narrowed by around 50 basis points since end-February to near 300 bps. Equity prices have been stable in March following an increase of over 10 percent in February.

5. **Pre-election political pressures are rising, increasing risks to the 2012 budget deficit.** Senior officials have publicly discussed possible public sector wage increases and/or reductions in social contribution rates. However, the authorities have also reaffirmed their commitment to the program targets.

6. **The government met the prior action.** On March 14, the government approved a memorandum laying out a multi-year roadmap for liberalization of electricity prices for both household and non-household consumers. These steps will help ensure full cost recovery and market based pricing.

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

Measure	Target Date	Comment
Prior Action		
1 Approve a roadmap for the deregulation of electricity prices as specified in the MEFP.	5 days before the Board date	Met
Quantitative performance criteria		
1. Floor on net foreign assets	Dec. 31, 2011	Met
2. Floor on general government overall balance	Dec. 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	Dec. 31, 2011	Met
4. Ceiling on general government guarantees	Dec. 31, 2011	Met
5. Non-accumulation of external debt arrears	Dec. 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Dec. 31, 2011	Met
2. Floor on operating balance of key SOEs	Dec. 31, 2011	Met
3. Ceiling on stock of arrears of key SOEs	Dec. 31, 2011	Met
4. Ceiling on stock of local government arrears	Dec. 31, 2011	Met
Inflation consultation band		
Inner band	Dec. 31, 2011	Met
Outer band	Dec. 31, 2011	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears. 1/	July 15, 2011	Partially 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. 2/	Sept. 30, 2011	Partially Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 3/	Dec. 31, 2011	Partially Met
4. Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(compared to end-September 2011).	Dec. 31, 2011	Met
5. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP. 4/	Feb. 15, 2012	Partially Met
New Structural Benchmarks		
1. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	

1/ Legal advisors were appointed for TAROM, Transelectrica, Transgaz, and Romgaz and mechanisms to facilitate restructuring of SOE arrears were implemented. In addition, most action plans have been received. The authorities committed to complete the action plan process by mid-February and to hire a legal advisor for CFR Marfa by end-April 2012.

2/ The investment portfolio is being revised to include local government projects co-financed by the state budget.

3/ 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.

4/ Legal advisors were appointed for Electrica Serv and Nuclearelectrica. The deadline for hiring legal or transaction advisors for the other companies in Group 2 and Group 3 was rescheduled.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/98
FOR IMMEDIATE RELEASE
March 21, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fourth Review Under Stand-By Arrangement for Romania

The Executive Board of the International Monetary Fund (IMF) today completed the fourth 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 €500 million, or about US$662 million) available for disbursement, bringing the total resources that are currently available to Romania under the SBA to SDR 1.78 billion (about €2 billion, or about US$2.74 billion).

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 €3.6 billion, or about US$4.77 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 continues to make good progress under the precautionary Fund-supported program. Policy implementation has remained strong and all program targets were met. After two years of decline, economic growth has resumed and inflation has fallen to historical lows. However, the economic outlook for this year is being weighed down by the declining growth prospects in the euro area. Continued commitment to the economic reform agenda is crucial to help withstand current uncertainties and increase potential growth.

"The authorities remain firmly committed to their 2012 budget deficit target of well below 3 percent of GDP. Continued strict spending discipline is needed to achieve the target. Increased European Union funds absorption and improved capital spending are key priorities. Additional action is required to reform the health care sector and to improve weak tax administration. Structural reforms of State-Owned Enterprises have progressed, but faster implementation of restructuring efforts and enhanced regulation and market-oriented pricing in the energy and transport sectors will be essential to reduce arrears, improve economic efficiency, and boost growth.

"While risks in the banking system remain significant due to high non performing loans and potential financial spillovers from elsewhere in Europe, sizable capital buffers exist to cushion the impact of any adverse shocks. Continued supervisory vigilance and detailed operational procedures to quickly implement contingency plans remain essential. External financing conditions have eased, although banks' external borrowing remains skewed to the short-term. Inflation continues to decline, but the authorities should be cautious in further monetary easing in light of risks of weakening of the currency and possible capital outflows."

Statement by Mr. Menno Snel, Executive Director for Romania and Mr. Mihai Tanasescu, Senior Advisor to the Executive Director
March 21, 2012

The program supported by the international financial institutions played an important role in stabilizing the Romanian economy, generating results in boosting growth and maintaining fiscal and financial stability. Romania's performance under the current program remains strong, and all performance criteria and indicative targets for the fourth review were met. The authorities continue their efforts on a large structural agenda, with a focus on reforming the health care sector and state-owned enterprises.

Recent Economic Developments

Economic growth has resumed after two years of recession. As a whole, the economy grew in 2011 by 2.5 percent (up from 2 percent previously forecast), and is expected to continue on a positive path in 2012. However, 2012 economic growth is likely to be less robust than previously foreseen, reflecting mainly the deteriorating external environment in the euro area and spillover effects from financial market turbulence. Amid signs of a gradually improving labor market and the anticipated absorption of EU funds, 2012 growth is expected to be mainly driven by domestic demand, reaching around 1.5–2 percent.

The inflation rate has dropped sharply in recent months to 2.56 percent at end-February, reflecting a large decline in food prices and elimination of the first-round effect of the 2010 VAT increase. We expect inflation to remain below 3 percent in the first half of 2012, before gradually climbing, and to stay within the central bank's target band of 3 plus/minus 1 percent.

The external position improved significantly. The current account deficit is projected to remain around 4–4.5 percent of GDP in 2012, stabilizing at 4.5–5 percent of GDP thereafter. In 2012, net exports are expected to remain stable as the projected recession in the euro zone should depress export growth while also leading to subdued import demand. FDI inflows are expected to remain depressed amidst the faltering economy in the euro area, but further privatizations could generate some recovery.

Taking advantage of favorable market conditions, in January the authorities successfully extended their Medium-Term Note program by issuing a US$ 1.5 billion 10 year dollar denominated Eurobond, and reopened the issue in late February for another US$ 750 million. The authorities will continue to build up their foreign currency buffers, including 1 billion Euros from the World Bank DPL-DDO financing, with a view to maintaining four months of gross financing needs. Moreover, they continue to build up the yield curve, including with the recent launch of a domestic bond with a 15 year maturity.

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

Fiscal Policy

The fiscal package implemented since the beginning of the previous program in 2009 has produced the targeted adjustment and put the fiscal stance on the right path. The 2011 cash deficit target was met with a significant margin and the expenditure savings were allocated to capital spending at the end of the year, including to clear arrears and unpaid bills in state-owned enterprises and the health sector. The 2012 budget is based on a cash deficit of 1.9 percent of GDP, well below 3 percent of GDP on ESA terms. Despite the downward revision in economic growth this year, higher than projected tax yields carried over from last year, together with lower expenditures, are expected to put this ambitious target within reach. Moreover, to achieve this goal, the authorities decided to freeze public wages and pensions and to continue reductions in public employment. To stimulate domestic demand, however, the authorities could later consider an increase in the wage bill, if economic conditions permit.

On the expenditure side, the authorities will continue efforts to improve and prioritize capital spending in order to increase the absorption of EU funds. The authorities approved a list of 100 EU-funded priority projects whose implementation will be strictly monitored. Savings in capital expenditures could come from the reduction in the national co-financing of EU-funded projects from 15 to 5 percent. On health care reform, the authorities will implement a comprehensive package of measures to address the structural deficits of the health care system, including having a revised draft framework by mid-year, which will enhance service quality over the medium term. A key element of the framework law will be to define a publicly provided basic healthcare package, with increased private sector involvement in healthcare provision and financing, such as through supplementary private insurance and private management of hospitals.

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

To continue the fiscal consolidation path, the authorities are committed to decreasing the stock of arrears. At the end of 2011 general government arrears amounted to less than 0.2 percent of GDP, mostly concentrated at the local government level, particularly in smaller communities. Stricter enforcement of the local public finance law will continue to reduce the stock of existing arrears. In the health sector, arrears in registered bills have been completely eliminated. Outside of the general government, arrears in state owned enterprises continued to be reduced, but additional efforts are needed.

Monetary and Financial Sector Policies

The monetary authorities responded appropriately to recent economic developments, and the central bank has gradually reduced its policy rate amid abating inflationary pressures. Since November 2011, the central bank eased by a cumulative 75 basis points, to 5.5 percent, while maintaining the reserve requirements on local and FX currencies. The impact of the rate cuts on the exchange rate and capital flows has so far been limited. 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. In light of the gathering risks of contagion from financial disturbances in the region and possible capital outflows, the monetary authorities will remain vigilant against inflation risks and committed to taking action as needed to assure 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-December 2011 supported by new capital injections of RON 1.6 billion (about 400 million Euros). NPLs have stagnated at 14 percent at end-2011, and provisioning remains prudent, covering 99.5 percent of NPLs. 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 current tax disincentives, and will undergo an assessment by the World Bank of the arrangements for insolvency and creditor rights. A key role in keeping the financial system in good health has been played by the European Bank Coordination Initiative. The aggregate exposure to Romania of the nine banks in the initiative stood at 101 percent of the March 2009 level, and even though they have not agreed on a specific target exposure level, going forward these banks have affirmed their long-term commitment to the country and continued to report exposures. In light of the current international vulnerabilities, the central bank remains vigilant to weaknesses in the banking system, and stands ready to provide liquidity as necessary to mitigate segmentation in the interbank market. It is also refining its full range of contingency measures to be deployed if necessary to preserve depositor confidence. The central bank will continue to intensively supervise the banking system and take the necessary measures to ensure that banks have sufficient capital and liquidity.

On the regulatory front, the central bank continues to make progress in strengthening the institutional framework and operational preparedness of the financial safety net. In January 2012 amendments were adopted to the bank resolution legislation to introduce bridge bank and other stabilization powers for dealing with failing banks, as well as to strengthen arrangements to augment quickly the resources of the Deposit Guarantee Fund.

Structural Reforms

Under the current program the authorities are committed to 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 energy sector, the authorities envisage major reforms, including a change in the national energy strategy with a view to attracting more private capital and allowing 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 electricity prices for non-households, leading to full liberalization of this segment by January 2014. In the gas sector, the authorities aim to develop a roadmap for the deregulation of gas prices by April 2012. To address regulatory deficiencies, the government approved and submitted to parliament legislation to transpose the 3rd EU Energy Package, including the functional and financial independence of the energy regulator. 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. The implementation of the new corporate governance law has commenced, and three companies will introduce private management this year.

In the transport sector, the authorities continued to implement measures to cut expenditures and raise revenues. In the rail sector, the government has made progress in closing underutilized rail lines and streamlining the operations in certain transport state-owned enterprises. Moreover, major infrastructure projects using EU funds are advancing and revenues are increasing through tariff adjustments and enhanced toll collection.

Ex Post Evaluation of Exceptional Access under the 2009 Stand By Arrangement

The 2008 financial crisis hit hard the Romanian economy, and created external and domestic imbalances, including a rapid increase in domestic private credit and associated asset bubbles. Given the severity of the problems, at the beginning of 2009 the authorities requested an SBA to restore market confidence by addressing the economic imbalances and, along with reforms, to achieve medium-term fiscal sustainability. The authorities fully agree that the SBA implementation demonstrated that the program was well designed, while appropriate reform prioritization was central to achieving the program objectives. The large and front-loaded financing along with upfront fiscal actions helped quickly restore market confidence, with a successful return to private financial markets during the program period. Thanks to the European Bank Coordination Initiative, the banking system weathered the crisis well, and foreign banks committed to maintaining their exposure to their Romanian subsidiaries and capitalize them as needed. The fiscal consolidation process together with a comprehensive structural agenda made it possible to achieve medium-term fiscal sustainability and improve fiscal institutions. Moreover, the structural reforms, such as the public wage reform, pension reform, labor market reform, state-owned enterprise reform helped to put Romania in a better medium-term fiscal position and boost potential growth. The authorities consider the first SBA to have been appropriate and the measures implemented have restored macroeconomic stability and achieved an orderly adjustment of pre-crisis imbalances. Last but not least, the program embodied successful cooperation between the EU and the Fund.

In conclusion, my authorities concur that the first SBA and the current precautionary SBA will maintain the reform momentum, provide additional security against unforeseen shocks, 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.