International Monetary Fund

Romania and the IMF

Press Release:
IMF Completes Second and Third Review Under Stand-By Arrangement with Romania and Approves US$3.32 Billion Disbursement
February 19, 2010

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Romania: Letter of Intent and Technical Memorandum of Understanding

February 5, 2010

ROMANIA: LETTER OF INTENT (LOI)

Mr. Dominique Strauss-Kahn Bucharest, February 5, 2010
Managing Director
International Monetary Fund
Washington, DC, 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. While conditions remain difficult, we believe the worst of the crisis is now past and we expect modest positive growth in 2010. The comprehensive anti-crisis program supported by the Fund, the EU, and the World Bank has played a crucial role in normalizing financial conditions reversing economic imbalances, and setting the stage for economic recovery.

2. While there have been some challenges related to the uncertain political environment late last year, implementation of the IMF-supported program has continued to be strong (Tables 1 and 2):

- *Quantitative performance criteria and inflation consultation mechanism*. For end-September, all quantitative performance criteria and the continuous performance criterion on non-accumulation of external arrears were met, with the exception of the ceiling on general government domestic arrears. For end-December, once again all quantitative performance criteria were met except for the target on domestic arrears, for which final data are not yet available. Preliminary data suggest that arrears fell, but insufficiently to overcome overruns during the first part of the year, missing the end-December target by a small margin (0.1 percent of GDP). The indicative target on general government current primary spending was exceeded at both the end-September and end-December test dates. Inflation remained within the inner band of the inflation consultation mechanism throughout the period.

- *Structural benchmarks*. The structural benchmark on passage by parliament of new public compensation legislation was met before the end-October deadline; however, some components of the law fell short of the initial objectives. Implementing legislation in 2010 should rectify these shortcomings. A fiscal responsibility law was sent to parliament before the end-November benchmark date. The structural benchmark on passage of legislation to improve monitoring and control of state-owned enterprises (SOEs) was met in November 2009, ahead of the end-June 2010 deadline. Political difficulties prevented approval of pension reform legislation by the end-December target date. Revised legislation will be submitted to parliament in the coming weeks, and we expect legislative approval by end-June.

3. In view of this performance, we request completion of the second and third reviews under the Stand-By Arrangement. On the basis of the corrective measures being taken and the additional explanations given in this Letter, we request a waiver for the end-December performance criterion on general government arrears.

4. We believe that the policies set forth in the letters of April 4, 2009, September 8, 2009 and in this Letter are adequate to achieve the objectives of our economic program, but the government stands ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the European Commission with the necessary information for program monitoring.

Macroeconomic Framework for 2010

5. There are signs that economic activity is beginning to turn around. Key real macroeconomic variables are now growing on a monthly basis, and we expect economic growth to turn positive in the first quarter of 2010. For 2010 as a whole, growth is now forecast at around 1.3 percent, reflecting mainly the recovery in external markets. Unemployment will remain high, however, and economic stresses on firms and households will continue to weigh on banks' balance sheets. Despite the sharp downturn, inflation has remained relatively high. End-2009 CPI inflation was 4.7 percent, slightly above the upper bound of the National Bank of Romania's (NBR) inflation target range largely due to the impact of increases in excise duties and fuel prices. However, 2010 inflation is expected to ease to around 3½ percent by year-end on the back of prudent monetary policy implementation.

6. External financing pressures have eased faster than anticipated, as the current account adjusted more rapidly than expected in 2009 due to sharply lower imports, while net capital flows also held up better. In recent months, export demand has also begun to recover. As a result, net foreign assets exceeded the program target by some €5.1 billion at end-2009.

Fiscal Sector

7. In response to strong pressures in current expenditures that threatened to derail the fiscal performance in the second half of 2009, the government proposed in August a set of supplementary measures (including a two week unpaid furlough for most public workers) to reduce spending further. Despite prompt parliamentary approval, many components of the plan could not take effect until legal challenges were resolved in early November. However, enhanced revenue collections and underperformance on capital spending compensated for the excess spending in the third quarter, allowing the fiscal deficit target to be achieved. In the fourth quarter, partial implementation of the furlough and improved monitoring and control of expenditure both inside and outside the central government, along with some improvement in revenue collections, allowed the year-end deficit target to be met despite higher-than-programmed current expenditure.

8. The recently approved 2010 budget (a prior action for the review) is designed to achieve a fiscal deficit of 5.9 percent of GDP. This represents about 2½ percentage points of GDP adjustment (2 percent in structural terms). As anticipated in the September 2009 LOI, most measures to reach this deficit would be on the expenditure side (roughly 80 percent of the total adjustment from the baseline projection). We will implement measures to reduce the wage bill further, including a freeze on all but the lowest wages (0.3 percent of GDP in savings), a continuation of the replacement of only 1 of 7 departing workers and further cuts

in overtime and premia (0.2 percent of GDP), along with structural changes to reduce public sector employment (0.2 percent of GDP). Savings from implementation of the pension reform law due to a broader contribution base, better control on fraudulent disability pension claims, and fewer earlier retirements should yield another 0.1 percent of GDP. A freeze on goods and services, pensions (except the minimum social pension), and certain transfers, and some savings in goods and services due to reorganization of state agencies are expected to generate another 1.1 percent of GDP. On the revenue side, a turnover tax on medical distributors (0.1 percent of GDP) and repayments of net lending will contribute 0.6 percent of GDP in extra revenues. If these measures are not on track to deliver the expected consolidation, we agree to implement contingency measures to close any anticipated gap. To complement the fiscal consolidation, we are committed to improving public debt management in 2010. We will work to improve the maturity profile of public debt and build up a financial buffer in first half of the year to avoid seasonal financing pressures.

9. We have made progress in clearing the stock of domestic payments arrears, which proved much higher than was known at the time of our first letter of intent. The latest preliminary data (for December), indicate that arrears are now below the level of June 2009, but continue to be above the program targets. We have taken steps to improve monitoring and control mechanisms and will take further action on the advice of an upcoming IMF technical assistance mission. We have agreed to utilize initial revenues from new medical patient participation fees to pay down arrears in the medical sector. We will repay two-thirds of the remaining stock of arrears by end-2010, with full elimination of arrears now slated for end-April 2011. We request a rephasing of the corresponding performance criterion to reflect this more realistic objective. As outlined in the September LOI, we are conditioning guarantees and extra transfers to decentralized entities on their progress in reducing arrears. In addition, we will improve the repayment process of VAT refunds further per recommendations of the IMF technical assistance mission in August 2009.

10. We remain committed to structural reforms in the public sector to reduce long term expenditure pressures. We have already restructured around 100 state agencies, which should bring savings in the wage bill and goods and services spending in 2010. We have already sent the fiscal responsibility law to parliament and expect it will also be approved by end-March (structural benchmark). Building on IMF technical assistance recommendations, we will also adopt legislation (by emergency ordinance) to improve tax administration by end-April (structural benchmark) and to have it ratified by parliament by end-June 2010. To safeguard fiscal stability, we are preparing legislation to further improve financial relations with local governments (end-June structural benchmark).

11. We have made progress in improving the performance of SOEs and developing better monitoring mechanisms for financial results in public enterprises as outlined in our letter of September 8, 2009. We have also agreed on an indicative program target, beginning end-March 2010, on the operating balance of the ten largest loss-making public firms (see the accompanying TMU).

12. Implementing legislation for the unified wage law (adopted last year) will be agreed with IFIs over the coming months and is slated to be approved by parliament by end-September (structural benchmark). Revised pension reform legislation (consistent with the

agreement with the IFIs) will be submitted to parliament shortly and will be approved by end-June (structural benchmark). We have taken first steps in consolidating certain social benefits and are initiating work on a comprehensive reform to develop a more streamlined and transparent, means-tested social assistance system. To alleviate the immediate impact of the current crisis on the most vulnerable households, we will prepare in the coming months a temporary, targeted income supplement consistent with our overall fiscal objectives. We will consult with the World Bank, EC, and IMF before implementing the program. We will also begin developing, in consultation with the World Bank, comprehensive reforms of the public health system.

Financial Sector

13. The Romanian banking system has been able to sustain the protracted downturn in the economy and return to profit in the second half of 2009. Non-performing loans increased to 15.3 percent at end-December 2009, although the rate of increase is slowing, and the ratio of total provisions to loans in the doubtful and loss categories, on a gross basis, has remained stable at around 50 percent. As of end-December 2009, the average capital adequacy ratio remained at 13½ percent, with all banks having a ratio above 10 percent. The trend reflects the paid-in committed increases in capitalization in line with the expected capital needs for 2009.

14. Banks have been also broadly complying with their commitments made under the Bank Coordination Initiative in Vienna and Brussels. While individual bank exposures have fluctuated, as a group by end-December 2009 the nine banks had restored their March 2009 committed exposure to Romania. A new reporting format has been implemented that allows the NBR to better monitor exposures by including cross-border exposures to Romania at consolidated group level. All the committed capital increases were fully paid in as of September 30, as agreed under the program. There is also good progress toward increases in own funds that will enable them to maintain their capital adequacy ratio above 10 percent over the entire program period.

15. We remain committed to improving the safety net available to deal with financial distress. We intend to strengthen the resolution framework for problem banks, by upgrading our domestic legal norms in line with EU requirements. We will supplement the existing authority of the special administrator to implement promptly a broad range of measures, including purchase and assumption, sales of assets, and transfer of deposits while taking into account the provisions of EU legislation. We will also award the NBR the decision-making power with respect to the proceedings to deal with an insolvent credit institution by amending the bank insolvency regime to require NBR's authorization prior to the initiation of winding-up proceedings or liquidation proceedings. We expect to complete this process by end-March 2010 (structural benchmark). We will also abolish Subparagraph 3 of Article 4 of the DGF law, introduced by Ordinance 80/2009, which provides for automatic special administration regime upon activation of the DGF. The NBR as other EU central banks is ensuring that financial stability is maintained, including through contingency planning.

16. For deposit insurance, we will provide the same seniority to the DGF's claims as that of depositors (end-March 2010 structural benchmark). We will also further support financial

stability by gradually enhancing the funding regime of the DGF over the medium term. In this respect, we will ensure that reliance of the DGF on banks' contingent credit lines will be phased out by requiring increased accumulation of own resources. We intend to begin this process by increasing the effective contribution rate for 2011 (structural benchmark end-September 2010).

17. For overly indebted households, efforts that banks have implemented in a decentralized approach to rescheduling and restructuring have been broadly adequate to address the debt service pressures on the population, while preserving credit discipline. We will not seek to modify the current framework that allows banks to rely on their in-house expertise for the collection of their claims. We will encourage banks to continue their restructuring efforts and will monitor the results closely.

18. The NBR is continuing to improve the banking supervisory and regulatory framework, liquidity requirements have been further amended and improved in the definition of effective and necessary liquidity, and a reporting requirement has been established for liquidity ratios by currency as recommended in the 2008 FSAP Update. Provisioning requirements have been adjusted to allow up to 25 percent of collateral to be deducted and loan classification requirements for rescheduled or restructured loans have been modified with a view to preserve credit discipline, while encouraging loan workouts. We currently do not envisage further adjustments of the prudential framework. The NBR will continue to consult with Fund and EC staff prior to the introduction of key, new, or revised prudential regulations. Formally and permanently raising the minimum level of the capital adequacy ratio from 8 percent to 10 percent remains a medium-term objective. The NBR and the Ministry of Public Finance remain committed to adopting the necessary legal framework by the end of the program period for implementing comprehensive International Financial Reporting Standards (IFRS), with a view toward applying IFRS as of the beginning of 2012.

Monetary and Exchange Rate Policy

19. With fiscal policy back on sounder footing, the NBR gradually adjusted monetary policy over 2009, as inflation and exchange rate pressures abated, by reducing its reserve requirements and progressively lowering its policy rate, most recently by 50 basis points to 7.0 percent in February 2010. However, while inflation fell from 6.3 percent in 2008 to under 5 percent by September, the rate of slowdown stalled in Q4 2009, which caused the NBR to miss its target band on headline inflation by 0.2 percentage points at year-end (for reasons detailed in paragraph 5). Throughout the year, 12-month inflation remained high by regional standards as price developments in non-food items showed persistent inflationary pressures. Looking forward, the NBR foresees a moderation in inflation in 2010 to bring the CPI well within the target band. To this effect, the central bank will continue to prudently use its monetary policy instruments to anchor inflation expectations and reach the inflation targets of 3.5 percent in 2010 and 3 percent in 2011 (plus or minus 1 percentage point).

20. Better-than-anticipated net capital flows and faster-than-projected improvement in the current account due to better export performance and subdued domestic demand has led to sustained overperformance on the net foreign assets criterion at end-September and end-December. Given this situation, we propose a revision in the NFA targets for 2010 (see

TMU) to lock in half of the 2009 overperformance, while allowing for an appropriate degree of flexibility. The leu was under some downward pressure in late 2009, reflecting political uncertainties, but has since recovered to its highest level since 2008.

Program Modifications and Monitoring

21. The program will continue to be monitored through regular reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. The quantitative targets for end-March and end-June 2010 and continuous performance criteria are set out in Table 1; and the structural benchmarks are set out in Table 2. The understandings between the Romanian authorities and IMF staff regarding the quantitative performance criteria and the structural measures described in this Memorandum are further specified in the TMU attached to this Memorandum. We request that the second and third reviews be combined, and that disbursements under the original program be rephased to allow the portion of the disbursement related to the third review to be disbursed on February 19, 2010. Also, to cover the higher fiscal financing needs in 2010 relative to the original program target, we request that half of the disbursement for both the second and third reviews (SDR 2,175 million) be channeled directly to the government.

/s/	/s/
Sebastian Teodor Gheorghe Vladescu	Mugur Constantin Isarescu
Minister of Public Finance	Governor of the BNR

Attachments

Table 1. Romania: Quantitative Program Targets

	2008	2009						2010			
	Dec	March	June	Sept		Dec		March	June	Sept	Dec
	Actual	Actual	Actual	Revised Program	Actual	Program	Est.	Prog.	Prog.	Proj	Proj
I. Quantitative Performance Criteria											
1. Cumulative change in net foreign assets (mln euros) 1/3/	25,532	-3,500	-5,119	-8,720	-4,566	-10,000	-4,874	-2,000	-2,500	-2,000	-2,000
2. Cumulative floor on general government overall balance (mln lei) 2/	-24,655	-8,300	-14,456	-26,900	-25,563	-36,500	-36,101	-8,250	-15,540	-21,800	-31,900
3. Stock in general government arrears from the end of previous year (bn lei)	1.06	1.41	1.55	1.1	1.4	0.91	1.50	1.27	1.09	0.81	0.48
4. Ceiling on general government guarantees issued during the year (face value, bn lei)	0.0	…	0.02	7.7	0.7	7.7	2.1	12.0	12.0	12.0	12.0
II. Continuous Performance Criterion											
5. Nonaccumulation of external debt arrears	0	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)	8.3	8.7	7.9	7.7	…	6.5	…	6.5	6.0	5.75	5.5
Inner band (upper limit)	7.3	7.7	6.9	6.7	…	5.5	…	5.5	5.0	4.75	4.5
Center point	*6.3*	*6.7*	*5.9*	*5.7*	*4.8*	*4.5*	*4.7*	*4.5*	*4.0*	*3.75*	*3.5*
Inner band (lower limit)	5.3	5.7	4.9	4.7	…	3.5	…	3.5	3.0	2.75	2.5
Outer band (lower limit)	4.3	4.7	3.9	3.7	…	2.5	…	2.5	2.0	1.75	1.5
IV. Indicative Target											
7. General government current primary spending (excl. EU funds and social assistance, mln	92,327	22,149	43,238	63,725	63,878	81,015	85,637	32,900	65,100	97,500	131,300

1/ The December 2008 figure is a stock.
2/ The December 2008 figure is for the whole year.
3/ NFA targets for end December have been adjusted as actual disbursements fell short of projected levels by EUR 1 bn.

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

	Measure	Target Date	Comment
Quantitative performance criteria			
1.	Floor on net foreign assets	December, 2009	Met
2.	Floor on general government overall balance	September, 2009	Met
3	Floor on general government overall balance	December, 2009	Met
4.	Ceiling on general government guarantees	September, 2009	Met
5	Ceiling on general government guarantees	December, 2009	Met
6.	Ceiling on general government domestic arrears	September, 2009	Not met.
7	Non-accumulation of external debt arrears	December, 2009	Met
Quantitative Indicative Target			
	Ceiling on general government current primary spending	September, 2009	Not met.
	Ceiling on general government current primary spending	December, 2009	Not met.
Inflation consultation band			
	Inner band	December, 2009	Met.
	Outer band	December, 2009	Met.
Prior Action			
	Passage of an agreed 2010 budget	December 31, 2009	Met in January 2010
Structural benchmarks			
1.	Ratification by parliament of fiscal measures equivalent to 1.1 percent of GDP	August 31, 2009	Met in April 2009
2.	Passage of revised public compensation legislation	October 30, 2009	Partially met
3.	Presentation of fiscal responsibility legislation and implementation plan to parliament	November 30, 2009	Met
4.	Passage of revised pension legislation	December 31, 2009	Revised to end-June 2010
5.	Approval of legislation and internal regulations by ordinance necessary to implement tax administration reforms	April 30, 2010	
6.	Approval of institutional reforms measures to mitigate fiscal risks from local governments	June 30, 2010	
7.	Legislative changes to improve monitoring and control of SOEs	June 30, 2010	Met
8.	Passage of amendments to the banking and winding-up laws to enhance the bank resolution framework	March 31, 2010	
New Conditionality to be Proposed			
1.	Passage of Fiscal Responsibility Law	March 30, 2010	
2.	An indicative target on the floor for the financial balance of the largest SOE	March 30, 2010	
3.	Passage of implementing legislation for the organic wage law	September 30, 2010	
4.	Measures to enhance the funding regime of the deposit guarantee fund.	September 30, 2010	

ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

February 5, 2010

This Technical Memorandum of Understanding (TMU) updates and replaces the TMU dated September 8, 2009. It: (i) defines the variables subject to the quantitative targets specified in the Letter of Intent (LOI); (ii) describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets (Section I); and (iii) provides clarifications for some of the structural conditionality under the program (Section II). As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this Letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

1. For the purposes of the program, *the exchange rates* of the Romanian Leu (RON) to the euro is set at RON 3.9852 = €1, to the U.S. dollar at RON 2.8342 = $1, to the Japanese yen at RON 3.1419 = ¥100, and to the pound sterling at RON 4.1169 = £1, the rates as shown on the National Bank of Romania's (NBR's) website as of December 31, 2008. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of December 31, 2008.

2. For the purposes of the program, the *general government* includes the entities as defined in the 2010 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.

I. QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE CEILING, AND CONTINUOUS PERFORMANCE CRITERIA

A. Floor on the Net Foreign Assets

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

4. **NFA** of the National Bank of Romania (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.

5. **Gross foreign assets of the NBR** are defined to include the NBR's holdings of SDRs, the country's reserve position at the Fund, 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).

6. **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 Fund, but excluding (i) banks' foreign currency deposits against reserve requirements; and (ii) government foreign currency deposits at the NBR. This definition is meant to bring the concept of foreign liabilities closer to the balance of payment definition, on which the targets are based.

Floor on Cumulative Change in NFA from the Beginning of the Year (in mln. euros) 1/

	2009	2010 2/			
	December	March	June	September	December
	(Stock)	PC	PC	IT	IT
Cumulative change in NFA	20,658	-2,000	-2,500	-2,000	-2,000
Memorandum Item:					
Gross Foreign Assets	28,418	300	700	2000	2,800

1/ PC=performance criterion; IT=indicative target. Data for end-month.

2/ Flows in 2010 are relative to end-2009 stock.

7. NFA targets will be adjusted upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection. Program disbursements are defined as external disbursements from official creditors (World Bank and the EC) that are usable for the financing of the overall central government budget. The NFA targets will also be adjusted upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December, 2009 (€7,874.4 million), measured at program exchange rates.

External program disbursements – Baseline Projections (in mln. euros) [8]

	2010			
	March	June	September	December
Cumulative flows from end-December 2009	1,340	2,540	2,540	4,100

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

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 above, the authorities will complete a consultation with the Fund on their proposed policy response before requesting further purchases under the program. In addition, the NBR will conduct discussions with the Fund 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 above.

	2008	2009	2010			
	December (actual)	December (actual)	March	June	September	December
Outer band (upper limit)		6.5	6.5	6.0	5.75	5.5
Inner band (upper limit)		5.5	5.5	5.0	4.75	4.5
Center point	*6.3*	*4.7*	*4.5*	*4.0*	*3.75*	*3.5*
Inner band (lower limit)		3.5	3.5	3.0	2.75	2.5
Outer band (lower limit)		2.5	2.5	2.0	1.75	1.5

C. Performance Criterion on General Government Balance

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

Cumulative floor on general government balance	(In millions of lei)
End-December 2009 (actual)	-36,101
End-March 2010 (performance criterion)	-8,250
End-June 2010 (performance criterion)	-15,540
End-September 2010 (indicative target)	-21,800
End-December 2010 (indicative target)	-31,900

10. The budget deficit will be measured from above the line using the budget execution data. The Ministry of Public Finance (MPF) 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.

11. 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 2010, the Ministry of Public Finance will consult with IMF staff.

12. In the event that non-grant revenues exceed those projected under the program, the deficit target will be adjusted downward by one half of the surplus to allow for additional capital spending, while reducing the deficit further. The following table shows the accumulated projected non-grant revenue for 2010, to which the actual non-grant revenue will be compared.

Cumulative projected revenue of general government, net of EU funds	(In millions of lei)
End-December 2009 (actual)	151,508
End-March 2010 (projection)	37,800
End-June 2010 (projection)	77,600
End-September 2010 (projection)	119,500
End-December 2010 (projection)	161,800

13. In the event that current spending in the previous quarter exceeds the indicative target (defined below), deficit target for the next quarter will be adjusted downward by a corresponding amount.

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

14. The issuance of general government guarantees to the non-financial private sector and public enterprises will be limited during the program period. This ceiling may be adjusted upward by up to RON 4.3 billion relative to the original ceiling of RON 7.7 billion for

guarantees for financing the counterpart payments of investment projects financed by the EU or for guarantees on projects cofinanced by the EBRD, IFC, or EIB.

Ceiling on new general government guarantees issued from end-2008 until:	(In billions of lei)
End-December 2009 (actual)	2.1
End-March 2010 (performance criterion)	12
End-June 2010 (performance criterion)	12
End-September 2010 (indicative target)	12
End-December 2010 (indicative target)	12

E. Performance Criterion on Non-Accumulation of Domestic Arrears by the General Government

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

Stock in general government arrears from the end of previous year	(In billions of lei)
End-November 2009 (stock, actual)	1.40
End-March 2010 (performance criterion)	1.27
End-June 2010 (performance criterion)	1.09
End-September 2010 (indicative target)	0.81
End-December 2010 (indicative target)	0.48
End-April 2011 (indicative target)	0.00

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

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

G. Indicative Target on General Government Current Primary Spending

17. 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 and one-third of the state budget in the same category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables:

Cumulative change in general government current primary expenditures	(In millions of lei)
End-December 2009 (actual)	85,637
End-March 2010 (indicative target)	32,900
End-June 2010 (indicative target)	65,100
End-September 2010 (indicative target)	97,500
End-December 2010 (indicative target)	131,300

H. Monitoring of Public Enterprises

18. As of 2009, the Ministry of Public Finance, the Ministry of Labor and Social Protection, and other pertinent institutions have implemented a monitoring system of public enterprises. During the program period, information will be provided to document that sanctions—decline in remuneration and dismissal of management according to Ordinances 37/2008 and 79/2008—are imposed if the budgets and company targets for restructuring are not observed.

19. A quarterly indicative target for 2010 will be set on the aggregate operating balance (earnings before interest and tax), net of subsidies, of the following public enterprises: (1) C.N. Cai Ferate CFR; (2) S.N. Transport CFR Calatori; (3) CN a Huilei; (4) SC Termoelectrica; (5) C.N. de Autostrazi si Drumuri Nationale; (6) S.C. Metrorex; (7) S.N. de Transport Feroviar CFR Marfa S.A.; (8) SC Electrocentrale Bucuresti; (9) Societatea Comerciala Electrificare CFR S.A.; and (10) S.C. Administratia Nationala a Imbunatatirilor Funciare. The data shall be reported with operating results by firm. The targets for end-March and end-June 2010 will be RON -1381 million and -2619 million respectively.

I. Reporting Requirements

20. Performance under the program will be monitored from data supplied to the IMF by the NBR and the Ministry of Finance as outlined in Table 1. The authorities will transmit promptly to the IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Romania: Data Provision to the IMF

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts	Monthly, on the 25th day of the following month
Quarterly final data on general government accounts	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	Preliminary monthly, within the next month. Quarterly, within 55 days
Stock of the central government external arrears	Daily, with a lag of not more than seven days
Public debt and new guarantees issued by the general government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Preliminary monthly data will be reported to the IMF staff within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
From 2010, the operating balance, profits, arrears, and personnel expenditures of 10 largest public enterprises by total expenditures	Quarterly, within 55 days
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month

To be provided by the National Bank of Romania	
NFA data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data
Monetary survey data in the format agreed with IMF staff	Monthly, within 30 days of the end of the month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporates	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

II. Structural Conditionality: Specifications

A. Bank Resolution

21. Legal amendments to the bank resolution framework, drafted in consultation with the IMF, will be enacted by end-March 2010 and will include the following elements:

- Banking Law

  a) The credit institutions law will specify a clear trigger for the early and mandatory appointment of a special administrator based on a regulatory threshold.

  b) The special administrator will be granted new authority to implement promptly a broad range of restructuring measures, which shall include purchase and assumptions, sales of assets, and transfers of deposits and the write-down of capital to absorb losses.

  c) The law will authorize the National Bank of Romania to determine the specific powers and tasks of the special administrator among a broad set of powers set forth in the law, which may include broad managerial powers, including those of the Board of Directors, Directorate or Supervision Council

d) The law will provide that purchase and assumptions and sales of assets are not subject to the approval of the credit institution shareholders or of the general assembly of shareholders. To this effect, the law will carve out the application of provisions in the companies law that require the above mentioned approvals, such as when the transfer of assets is substantial.

e) The law will provide legal protection for the special administrator's good faith actions in the performance of his duties.

f) The law will provide greater certainty for bank resolution measures, including purchase and assumptions, sales of assets and transfers of deposits decided or carried out in respect of a credit institution under special administration so that these measures may not be suspended or reversed by litigation (including by means of avoidance powers under the winding-up or insolvency proceedings); it will also clarify that the above measures are not subject to creditors' or debtors' consent.

- Winding up Law

g) The initiation of winding-up proceedings of credit institutions, or of their liquidation under the companies law will require the NBR's prior approval.

h) The law will provide seniority in insolvency to depositors' claims and the same priority ranking to the Deposit Guarantee Fund.

B. Deposit Guarantee Fund

22. The reliance on credit lines in the financing of the Deposit Guarantee Fund will be phased out by increasing the financial resources of the Fund. To this end, the NBR will decide on a gradual reduction in the fees for the credit lines and an increase in the contribution rate to levels to be determined at the time of the 4th review (structural benchmark end-September 2010).

C. Public Wage Legislation

23. Following the organic public wage law approved in October 2009, an implementing legislation will be approved before end-September 2010 that will abide by the following principles:

D. It will ensure the respect of the quantitative targets for the public wage bill included in the organic public wage law and the proposed changes will be fully costed.

E. It will ensure that new salary grading structure is simplified and that pay will be linked based on job responsibility and qualification. The established new pay system will be benchmarked on private sector wages (through a salary survey) to ensure that public pay is broadly aligned with actual labor market conditions, within affordability constraints.

F. The regulation would phase in a limit of 30 percent on non-wage personnel expenditures with respect to total personnel expenditures and caps on individual bonuses for non-military personnel. For the purpose of this law, "stimulus" payments will be treated as bonuses.