**International Monetary Fund**

# **Romania:** Letter of Intent, and Technical Memorandum of Understanding

March 10, 2011

The following item is a Letter of Intent of the government of Romania, which describes the policies that Romania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Romania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Romania and the IMF

**Press Release**:
IMF Executive Board Approves New €3.5 Billion Precautionary Stand-By Arrangement for Romania, Completes Seventh and Final Review Under the Current Stand-By Arrangement and Approves €1 Billion Disbursement
March 25, 2011

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**ROMANIA: LETTER OF INTENT**

Bucharest, March 10, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. Our anti-crisis program, supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB), has continued to play a crucial role in stabilizing the Romanian economy, reversing imbalances, rebuilding confidence of international financial markets, and setting the stage for future sustainable economic growth. The economy has stabilized and is expected to recover in 2011 with around 1½ percent growth, due to continued strong exports, supported by gradually improving domestic demand, underpinned by planned improvements in absorption of EU funds. Inflation, driven by the recent VAT rate hike and high food and fuel prices, peaked at 8.0 percent at end-2010. During the course of 2011, inflation is expected to return to the NBR's target band. The current account deficit has shrunk considerably from 11.6 percent in 2008 to around 4.5 percent in 2010. Despite these improvements, recovery remains vulnerable to adverse developments in international financial markets, via rising risk premia and lower capital inflows, and downside risks to euro area recovery.

2. In view of our strong performance under the macroeconomic program supported by the Stand-By Arrangement (SBA), the Government of Romania and the National Bank of Romania (NBR) request completion of the seventh review under the SBA. We are considering treating as precautionary the final purchase available upon completion of this review. Given that the current SBA with the IMF (approved on May 4, 2009) has been successful in achieving its broad objective of realizing macroeconomic stability in the face of crisis, we would also like to end the current SBA – and request the simultaneous approval of a new 24-month SBA totaling SDR 3,090.6 million (€3.5 billion, 300 percent of quota). The new SBA will support our comprehensive economic program for 2011-12 to boost sustainable economic growth, continue adjustment, and cushion the effects of future shocks, should they materialize. Since Romania's international reserves position is comfortable and access to external financing is improving, our intention is to treat the new arrangement as precautionary. In conjunction with WB commitments of €400 million, and precautionary support of €1.4 billion under the EU's balance of payment financing facility, this arrangement will signal the international community's continued support for our policies.

3. We believe that the policies and measures set forth in this Letter are adequate to achieve the objectives of our macroeconomic program supported by the next SBA, but the Government and NBR stand ready to take additional measures as appropriate to ensure the achievement of its objectives. Romania will consult with the Fund on the adoption of measures that may become appropriate to achieve the objectives of the program, and in advance of revisions to the policies contained in this Letter, in accordance with the Fund's policies on such consultation. We will also provide the IMF and the European Commission (EC) with the necessary information for program monitoring.

## I. Performance under The Current SBA

### Seventh Review

4. Our performance for the seventh review of the SBA has been strong (Tables 1 and 2).

- *Quantitative performance criteria and indicative targets.* The end-2010 fiscal deficit target was met with a margin of ¼ percent of GDP, reflecting higher revenues than anticipated. The NFA targets for end-December and end-January were also met with significant margins. All other remaining end-December 2010 quantitative performance criteria were observed, with the exception of that on general government arrears for which a waiver was already granted on January 7, 2011. The indicative targets on loss-making state-owned enterprises and current spending were missed. Inflation remained within the inner band of the inflation consultation mechanism throughout the period.
- *Structural benchmarks.* The ordinance on high net wealth individuals was approved by end-December, as programmed. A full project plan to implement the integration of the accounting reporting system with the Treasury payment system is in place. We will shortly secure parliamentary ratification of the remaining amendments to the bank resolution framework, slightly delayed from the December 1, 2010. We will amend by ordinance the Deposit Guarantee Fund (DGF) law by end-July 2011 to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorized by the National Bank of Romania regarding the transfer of deposits, including purchase and assumption transactions, if such use would be less costly than the direct payment of deposit guarantees (structural benchmark reset from March).

### Review of Existing Program

5. Significant progress has been made under the existing program in achieving fiscal consolidation and safeguarding the financial sector. A structural fiscal deficit of almost 9 percent of GDP in 2008, which aggravated the initial impact of the global financial crisis, was halved by 2010. Measures taken in 2010 have also put the government finances firmly on path to reach the Maastricht deficit target in 2012. Financial sector measures ensured

adequate capitalization of banks and liquidity in domestic markets, securing banking sector stability. Excessive capital outflows were avoided, in part reflecting the European Bank Coordination Initiative, and an orderly adjustment of the current account was made possible without excessive exchange rate volatility. Structural reforms in tax administration, pensions, public wages and employment, and social benefits have placed public finances on a more sustainable medium-term path and have set the stage for more widespread improvements in the business climate.

## II. Objectives and Policies for The New SBA

6. Romania is poised to reap the benefits of the difficult adjustment measures implemented under the existing program. The new economic program aims to boost potential growth with a focus on structural reforms, while consolidating fiscal and financial stability. In this context, building on the significant achievements of the current SBA, the key objectives of the new program are to: (i) continue the fiscal adjustment process while extending its scope to attack problems of revenue and expenditure efficiency and arrears; (ii) continue fostering confidence, facilitating improved private capital flows and generating sustainable growth; (iii) boost growth potential through structural reforms and improved flexibility of the economy, which will also allow for continued competitiveness as Romania prepares to eventually join the Euro area.

### Macroeconomic Framework for 2011–12

7. After suffering a severe downturn in 2009-10, there are signs that economic activity is picking up. From around 1½ percent in 2011, growth is expected to gain momentum in 2012, reaching 4 to 4½ percent. Domestic demand will gradually become the main growth engine, supported by better absorption of EU funds. Growth in net external demand will slow in line with moderate growth of export markets, stabilizing the current account balance at around 5 percent of GDP. Increased investor confidence, coupled with planned privatization under the program, will bring renewed FDI and banking inflows.

### Fiscal Policy

8. For 2011, we are committed to the previously agreed cash fiscal deficit target of 4.4 percent of GDP (or within 5 percent in ESA terms). We have passed the 2011 budget in line with our previous commitments. On the revenue side, the main components of the tax system will remain unchanged. We will request technical assistance from the IMF and WB to provide us with a comprehensive review of the tax system with a view toward revenue-neutral tax simplification. Should the economic recovery create sufficient fiscal space, we will consider a gradual reduction in social contributions, the high incidence of which weighs heavily on competitiveness, employment creation, and labor market practices. On the spending side, the wage bill will be kept within the agreed limit, as a nominal wage increase is balanced by elimination of the thirteenth salary and the holiday bonus. We have also maintained a freeze in the pension point. Public employment reductions will continue with

the policy of replacing only 1 of 7 departing workers on average across the public sector. We remain committed to the implementation of the recently approved wage and pension reform legislation, which will generate significant savings in the coming years, while at the same time protecting the viability of the second pension pillar. Following recent action to incorporate *stimulente* into base wage, we will eliminate by government ordinance the legal basis of *stimulente* funds effective January 1, 2012 (structural benchmark end-June). To encourage tax collection efforts, performance bonuses may be granted to tax collectors within the 30 percent bonus limit (as defined in the implementing legislation) for sustained improvements in revenues. Further savings have been secured through the overhaul of the social assistance system. By end-July, we will improve the legislation to provide heating allowances to target the most vulnerable members of society, while generating significant savings for the budget. Health (¶14 and 15) and education reforms will continue to improve quality and generate savings. Within the budget envelope, we have allocated additional resources to investment in the first half of the year, so as to improve absorption of EU funds. If absorption improves sufficiently, we will work on solutions to create greater fiscal space for investment from mid-2011. In addition, we will implement a reporting system for the state-owned enterprises (SOEs) that have been recently added (or will be added in 2011) to the ESA definition of the general government.[1] Once we start receiving timely information, at the time of the next review, we will request that the performance criterion on general government overall balance be amended to add the deficit of these entities.

9. For 2012, we aim to bring the deficit down to within 3 percent of GDP (in both cash and ESA terms). This will require compliance with the fiscal responsibility law and continued expenditure restraint, including on the wage bill. We will strictly limit further *ad hoc* changes to the tax system to ensure predictability and stability. We have started preparing the medium-term Fiscal Strategy for 2012–14, an important step in implementing the Fiscal Responsibility legislation, and will use this process to improve budget planning and solidify our commitment to the Maastricht targets. We will strengthen the recently established Fiscal Council, by providing it with adequate funding, so as to ensure that it is fully staffed with appropriately skilled people.

10. We will conduct a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (structural benchmark, end-April 2011[2]). This exercise will ensure that they provide the Ministry of Public Finance (MOPF) with details of

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

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

all arrears and unpaid bills incurred as of end-2010[3], with no payments subsequently authorized for any bills not registered in this exercise. We will also develop an action plan by end-April 2011, including an improved commitment control mechanism and enforcement measures, to eliminate existing arrears and prevent the accumulation of new ones at both the general government level and SOEs. Over the next two years the period for paying bills after submission will be reduced. A forthcoming EU directive in this area will be transposed into Romanian law on a timely basis. At the central level, we have recently reduced arrears substantially and will keep state and social security sector arrears near zero as agreed previously (performance criterion). New legislation on local government finance that took effect on January 1, 2011 will also allow for greater control of local government arrears, for which an indicative target will be established. The first phase in the integration of the accounting reporting system with the Treasury payment system is complete (structural benchmark, March 15, 2011). The next phase, the design of the system, including the commitment control and reporting module for all levels of government, will be completed by end-September 2011.

11. We have improved our financing strategy and will continue to focus on extending the maturity of our domestic debt, building the yield curve, and consolidating the financial buffers, guided by the recently prepared debt management strategy, which will be updated and published annually. We are launching a "euro medium-term notes" program that will maintain our presence in the external markets under more flexible issuance procedures and will help us balance the financing between the domestic and external markets. We are firmly committed to raising financial buffers to around four months of financing needs during 2011 and maintaining them there. To enhance our capabilities, in 2011 we will conduct a formal review of our debt management strategy with the assistance of IMF, EC, and WB experts. We will also improve treasury information technology (IT) systems and strengthen senior staffing.

12. We will continue our efforts to improve tax administration and fight tax evasion. The ordinance relating to high net wealth individuals was approved by end-December 2010, meeting the structural benchmark. An IMF expert has assisted in its subsequent implementation. We will staff the newly created Individual Analysis Office by end-March and develop and implement a compliance risk strategy in accordance with best practices by August 2011. Separately, the government decision on indirect audit methods will be passed (prior action), and we will develop an organizational strategy and implementation plan for incorporating these methods into our compliance functions by June 2011. As agreed with the IMF and EC, we will institute simplified taxation for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to EUR 50,000 (structural benchmark, end-June 2011). We

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

have unified several tax forms on social contributions starting this year. We are planning further simplification of tax forms and the number of payments required with a view to providing a one-stop shop for tax payments and expansion of e-filing. We will continue our efforts to introduce IT systems and consolidate the IT department in ANAF to improve tax administration. We have also started preparing the ANAF restructuring plan and will have a draft submitted to Parliament by end-April 2011. We will also provide a central point for screening and referral of potential cases of tax fraud and strengthen guidelines for identification of tax fraud.

13. The accelerated absorption of EU funds remains a focal objective of the government. Over the coming year, we will focus on strengthening the administrative capacity of units managing the funds; modernizing and consolidating the legislative and regulatory framework for public investment and other fields relevant for EU fund absorption; and prioritizing investment to assure sufficient financing for key projects. The government will also move the EU structural funds coordination unit from the MOPF to the Prime Minister's office and strengthen its authority and staffing. We will conduct a comprehensive review of the existing investment portfolio (including EU and non-EU funded projects), which will prioritize and evaluate the existing portfolio of projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3-5 years), examine the viability of old projects, with low priority and non-performing ones discontinued, and will produce a database by June and a final report and an action plan by end-September 2011 (structural benchmark). We will create facilities for reallocating the capital budget during the year to those ministries with the best EU funds absorption performance and a track record of efficient project implementation.

14. The government will continue restructuring the health sector to ensure the quality functioning of the health care system within budgetary allocations going forward. We have reduced health payment arrears by end-December 2010 and continue implementing measures in line with our previous commitments. To achieve an appropriate balance between the need to preserve adequate healthcare services and to control costs, we have submitted legislation establishing a copayment system to Parliament; limited the number of contracted hospital in-patients by 10 percent relative to the 2010 levels; reduced the price markup paid by the government for drugs in the national programs (list C2); reduced the share of per-capita reimbursement of doctors from 70 to 50 percent. We are implementing a transparent and integrated IT system in the health sector to monitor and increase efficiency of health spending, where a significant number of questionable claims have already been uncovered. We have also asked the Court of Accounts to audit registrations of patients in primary care.

15. The following health sector measures agreed previously are currently under preparation: (i) clarifying the legislative framework for the claw back tax on drug suppliers; (ii) restructuring the hospital system; (iii) eliminating mandatory contracting with all hospitals, allowing competitive contracting with selected hospitals while ensuring transparency and oversight; (iv) providing indicative caps for quarterly services contracted with hospitals and physicians with the development of incentives for physicians who remain

within the ceilings; and (v) reforming, with assistance from the WB, the package of benefits insured by the government to exclude coverage of costly nonessential health services. We will also analyze and revise, with the assistance of the WB, the formula for the National Health House by the introduction of a mechanism whereby "money follows the patient." We will revise the list of compensated and free drugs approved by government decision 720/08, with a view toward modifying the list of these drugs and wherever possible moving to generics. For 2012, pharmaceutical costs of the most expensive drugs will be further controlled by applying strict drug use protocols and a new electronic prescription module for the National Health Information System, following strict procedures. Lastly, we will review hospital budgets and start implementing the hospital rationalization strategy with the objective of reducing the number of financed hospital beds (currently 135,200) to the EU per capita average by 2013, while also adapting acute beds accordingly. To reach this objective, by end-June 2011 we will reduce the number of beds to 133,000, and 129,500 by end-December 2011.

**Financial Sector**

16. The rise in non-performing loans slowed significantly during the final quarter of 2010, reaching 11.9 percent of total loans of the banking sector. As the economic recovery gains ground, and loan loss provisions stabilize over the first half of 2011, the banking sector as a whole is expected to return to profitability. The banks remain well capitalized, at 14.7percent, with all banks posting a solvency ratio above 11 percent at the end of 2010. The parents of the largest foreign subsidiaries maintained aggregate exposures under the European Bank Coordination Initiative (EBCI) at 98 percent at end-January 2011, well above the new target of 95 percent of end-March 2009 exposure. We intend to pursue discussions on an extension of the EBCI agreement, with a view toward gradually easing exposure commitments from banks as international market conditions improve.

17. We will maintain close vigilance over developments in the banking sector and continue to strengthen the financial safety net. The NBR, in conjunction with the DGF, will develop procedures for deploying the new restructuring powers, and will prepare contingency plans. We will also ensure that the DGF has ready access to liquidity to meet any potential shortfalls in funding, and to develop joint procedures, as agreed with the MOPF, for accessing the funds if necessary to help preserve depositor confidence and financial stability. The authorities will take the necessary measures to ensure that consolidation in the banking sector will deliver strong and well capitalized institutions with a shareholder base that can support them. The authorities will review the DGF, banking and the winding-up legislation to ensure their mutual consistency. To facilitate better bank access to NBR liquidity, the NBR will widen the range of assets acceptable as collateral for its refinancing operations to bonds issued locally by international financial institutions which are listed at the Bucharest Stock Exchange, as well as Eurobonds issued by the Government.

18. The NBR will prepare and release for consultation by end-June 2011 proposals for prudential filters that would preserve prudent bank solvency, provisions, and reserves, and enable the timely introduction of IFRS at the beginning of 2012. The authorities will ensure that the prudential treatment of debt-for-equity swaps does not result in a weakening of banks' financial positions[4] and impose requirements for banks to have in place methodologies for valuing the equity at the lowest value applicable according to the accounting treatment. We will monitor developments in foreign currency lending and take steps as needed to ensure that foreign currency credit is appropriately priced in order to reflect the risk of lending in foreign exchange to un-hedged borrowers. We will continue to consult with the IMF and EC staff before introducing or amending other aspects of the regulatory framework and make efforts to avoid adopting legislative initiatives, such as the current draft of the personal insolvency law or proposals for the debt collecting law, which could undermine debtor discipline. The current in-house banking executors shall have the possibility to join the liberal profession of public judicial executors without any formal restrictions and entry barriers such as professional admission licensing and/or exams as well as admission fees or taxes of any kind, and they shall become members of the above profession with full professional guarantees, rights, and obligations.

**Monetary and Exchange Rate Policy**

19. The NBR remains committed to bring inflation down to within the official target band of 3 percent ± 1 percentage point in 2011 and 2012. As under the existing program, progress towards these goals will be monitored using an inflation consultation clause (see TMU). The effects of last July's VAT rate increase on inflation have been roughly as expected. However, inflation in recent months was further boosted by food and fuel price pressures. After peaking around 8 percent, headline inflation is expected to gradually return to the NBR's target band in the second half of 2011. While existing slack in the economy would foster disinflation, risks are tilted to the upside, as food and energy prices may rise by more than expected and forthcoming SOE reforms may require increases in administered prices. Monetary policy easing may be resumed during 2011 provided major risks do not materialize and inflation remains close to the projected path.

20. Under the program, we anticipate increases in Gross International Reserves in 2011 (mostly reflecting multilateral disbursements) and 2012. They will provide improved confidence in the economy and allow for greater reserve coverage of short-term foreign

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

liabilities. A performance criterion will be established on Net Foreign Assets that is consistent with this projection for gross reserves accumulation. Reserve losses exceeding €2 billion in any 30-day period during the program will trigger consultation with IMF staff.

21. During the period of the SBA we will not, without Fund approval, introduce or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Moreover, we will not introduce or intensify import restrictions for balance of payments reasons.

**Growth and Flexibility Enhancing Structural Reforms**

*State-Owned Enterprises*

22. We are committed to deep-rooted reform of state-owned enterprises (SOEs), especially in critical growth generating sectors such as energy and transport. In recent years, many SOEs have become an increasingly substantial fiscal burden. In addition to requiring subsidies to cover considerable losses, they have accumulated arrears of more than 4 percent of GDP. The quality of service in many sectors is in need of significant improvements and weighs on growth by hindering further private sector development.

23. Implementing a comprehensive strategy addressing the viability of SOEs and reforming their governance will be vital. We will develop strategic action plans[5] by end-April 2011 for key firms (as specified in ¶20 of the TMU, structural benchmark) and end-July 2011 for all other firms that: (i) provides up-to-date information on the financial viability of each SOE with majority government ownership, and each *regii autonome* (autonomous institution, AI); (ii) classifies each as being in line for either liquidation, privatization, or retention (with restructuring as needed), (iii) outlines the steps to achieve closure, viability, or privatization; and (iv) lays out concrete plans to substantially reduce arrears (e.g. through payback, securitizations, swaps, etc.). We will implement a system to report main financial and economic indicators of all SOEs and AIs to the MOPF on a monthly basis. We will also amend ordinance 79/2008 to require that AIs and enterprises subordinated to local governments submit quarterly key financial and operational indicators to the MOPF. For key privatizations (¶25, 26)[6], an internationally recognized transaction advisor will be appointed by end-August 2011, proposals submitted by end-2011, and tenders made by mid-2012. To address problems in SOE governance, we will develop (in consultation with the WB) and approve legislation to improve governance in these firms, to require regular independent

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[5] The strategic action plans will be reviewed by the WB.

[6] In addition to those listed below, we will begin analysis for privatization of the government's remaining stake in Oltchim.

external audits, and to move financial control of SOEs from line ministries to the MOPF by end-September 2011.

24. Securing efficient energy provision is crucial for sustainable growth. The energy sector suffers from underinvestment due to the effects of the economic downturn, the dominance of undercapitalized state-owned firms with room for efficiency improvements, and the fact that adjustments have not been fully applied in regulated prices and tariffs (due to concerns about effects on consumers). To address pricing and regulatory deficiencies, we will: (i) take the necessary steps to restore the energy regulator's (ANRE) operational and financial autonomy in accordance with EU legislation (third energy package); (ii) present a roadmap for phasing out regulated prices in electricity and gas by September 2011; (iii) define the vulnerable consumers by end-2011 according to EU legislation and develop mechanisms to protect them (in conjunction with the Ministries of Finance and Labor); (iv) complete removal, according to EU directives, of regulated prices for non-households in electricity and gas before end 2013[7] and complete the process by end-2015; and (v) assure that new bilateral contracts signed by state-owned gas and electricity generators be made transparently and non-discriminately through OPCOM (electricity) and other competitive procedures (gas), and that prices in existing contracts will be adjusted to prevailing market rates as quickly as legally permissible.

25. Much needed capital and managerial know-how will be brought to the energy sector through minority private investors (via IPOs or sales of stakes to strategic partners) in the following firms, with government approval: (i) Petrom (sale of a 10 percent stake is already underway); (ii) Transelectrica (15 percent stake by end-2011); (iii) Transgaz (15 percent stake by end-2011); and (iv) Romgaz (15 percent stake by spring 2012). If we succeed with our strategy to form the two national champion companies we will introduce appropriate mechanisms to ensure there is no cross-subsidization, in conjunction with recommendations of the Competition Council. If the national champion strategy is not successful by end-2011, we will look for an alternative solution, including by privatizing majority stakes in some energy firms. In the meantime, to bring investment into the sector we will move ahead to prepare sales of minority or strategic stakes in individual firms slated to be included in the national champion companies (which could later be converted to stakes in the combined firms).[8] The tax administration, ANAF, will use continued enforcement procedures on the tax arrears of CNH, which will ultimately lead to the selling of viable assets, possibly applying insolvency procedures. Remaining coal assets will be liquidated in line with EU stated rules. In Termoelectrica, viable assets will be separated and the remaining operations closed.

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[7] By April 1, 2011 a calendar will be established for adjustments to reach the full Unitary Gas Cost (CUG) price formula by end-2011 for non-residential consumers.

[8] Among the firms slated to be included in the national champions where strategic investments will be sought are the energy complexes in Craiova, Turceni, and Rovinari.

26. Private sector growth is severely constrained by inadequate transportation infrastructure. Addressing this weakness will lower production costs, improve export possibilities, and make Romania a more attractive destination for investment. Full execution of Ministry of Transport investment plans (particularly those with EU co-financing) will be crucial (¶13). Following EU rules on state aid, state-owned transport firms must also be privatized or restructured to provide needed service improvements. Actions will include the following:

***Roads***

- CNADNR will boost its revenues in 2011 while eliminating or renegotiating non-performing contracts.
- The Ministry of Transport will seek to balance road and rail transportation by reducing road transport.

***Railways***

- We will extend the policy of standard costs in the railway system, particularly for railway infrastructure procurement and for repairing rolling stock. We will develop multi-annual plans for public procurement and investments in CFR Calatori and CFR Marfa, in line with transport and necessities programs and in connection with market evolution. In CFR Infrastructura, CFR Calatori and CFR Marfa we will continue to use fully depreciated assets. Restructured personnel will be provided with reintegration and training services.
- *Cargo-* A minority stake in CFR Marfa will be offered in order to attract a strategic investor by end-2011 with a view toward a full privatization when market conditions permit.
- *Passenger-* Efficiency of the passenger rail service will be increased through restructuring of CFR Calatori, including by modifying its passenger service contracts, better cost recovery (including allowing for higher tariffs), and significant reductions in its scope of service. A strategic plan will aim at a 15 percent reduction in losses and no accumulation of new arrears in 2011.
- *Infrastructure-* Service reductions will also significantly improve the financial outlook for CFR Infrastructura. We will close 1000 kilometers of railway lines by end-August and will develop plans for competitive tendering of public service obligations and infrastructure maintenance on lines for another 20 percent of the system or close them. A strategic plan will aim at a 25 percent reduction in losses and no accumulation of new arrears in 2011.

***Metropolitan transit***

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

***Air transport***

- We will complete an analysis for Tarom by end-April 2011, with a view toward seeking a strategic investor.

*Labor Markets*

27. We are making important legislative changes to increase the flexibility of the labor market, improve the efficiency of collective bargaining (while protecting the rights of workers and employers), and increasing labor force participation. We have finalized a draft law on amending the labor code and are processing the social dialogue code, which will consolidate the laws on trade unions, labor conflict resolution, employer association, collective labor contract, and Economic and Social Council. Both the amended labor code and the social dialogue code are expected to be approved by Parliament in the coming months. In addition, we will request that the International Labor Organization conduct a review of labor inspections to improve enforcement and address the large informal labor market in Romania. Improving the efficiency of social protection will remain a priority, especially in the area of social inspection.

*Business Climate*

28. Designed to improve the business climate, structural reforms in this program are growth-promoting. Infrastructure investment and efficiency will be boosted both from greater absorption of EU structural funds (¶13) and the restructuring, closing, or privatization of SOEs, especially in energy and transport (¶22–26). More broadly, steps to reduce tax compliance costs (¶12) and improve governance, as well as public procurement and contracting reforms, will reduce bureaucratic costs and impediments for the private sector. We will also undertake reforms in the agriculture sector—including by speeding up the surveying and registration of agricultural land—to improve food security and increase export prospects. We will work together with the EU to address concerns regarding the new public private partnership law.

**Program Monitoring**

29. The program will be monitored through quantitative performance criteria and indicative targets, structural benchmarks and consultation clauses, during quarterly reviews. Table 3 sets out specific quarterly targets that are to be observed under the SBA for the overall general government balance, guarantees provided by the general government, the change in arrears for the central government and social security system, CPI inflation, and net foreign assets. In addition, there will be indicative targets on the current primary expenditure of the general government, the operating balances and arrears of SOEs. We have also agreed with Fund staff on a prior action and structural benchmarks in Table 4. The first

review should be completed by end-June, 2011, and the second review by end-September, 2011.

**Safeguards**

30. Progress has been made by the NBR on the recommendations contained in the safeguards assessment performed under the May 2009 SBA. To evaluate this progress, we will authorize the National Bank's external auditors to provide IMF staff with all necessary information and to discuss directly with them any issues relevant to this process. We also commit to receiving a safeguards mission, and to provide that mission with all necessary information requested without delay. The safeguards assessment update should be completed by the time of the first review of the SBA end-June, 2011.

/s

Gheorghe Ialomiţianu
Minister of Public Finance

/s

Mugur Isarescu
Governor of the National Bank of Romania

Attachments

Table 1. Romania: Quantitative Program Targets for Seventh Review

| | 2008 | 2009 | | | | 2010 | | | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | March | June | Sept | Dec | March | June | Sept | Dec | | January | | March |
| | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Prog. | Actual | Prog. | Actual | Indicative |
| **I. Quantitative Performance Criteria** | | | | | | | | | | | | | |
| 1. Change in net foreign assets (mln euros) 1/ 2/ | 25,532 | -3,468 | -5,119 | -4,566 | -4,874 | 779 | -509 | -318 | -2,000 | -750 | 0 | 855 | 350 |
| 2. Floor on general government overall balance (mln lei) 3/ 4/ 5/ | -24,655 | -8,300 | -14,456 | -25,563 | -36,101 | -8,422 | -18,015 | 23,732 | -34,054 | -33,621 | … | … | -6,300 |
| 3. Stock in general government arrears (bn lei) | 1.06 | 1.41 | 1.55 | 1.4 | 1.50 | 1.76 | 1.8 | 1.57 | 0.48 | 1.13 | … | … | 0 |
| 4. Ceiling on general government guarantees issued since start of program (face value, bn lei) | … | … | 0.02 | 0.8 | 2.2 | 4.6 | 5.5 | 6.5 | 12.0 | 7.6 | … | … | 12.0 |
| **II. Continuous Performance Criterion** | | | | | | | | | | | | | |
| 5. Nonaccumulation of external debt arrears | 0 | 0 | 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) | … | … | 8.4 | 7.7 | 6.5 | 6.5 | 6.0 | 10.0 | 10.0 | … | … | … | 9.0 |
| Inner band (upper limit) | … | … | 7.4 | 6.7 | 5.5 | 5.5 | 5.0 | 9.0 | 9.0 | … | … | … | 8.0 |
| Actual/*Center point* | 6.3 | 6.7 | 5.9 | 4.8 | 4.7 | 4.2 | 4.4 | 7.8 | 8.0 | 8.0 | … | … | *7.0* |
| Inner band (lower limit) | … | … | 5.4 | 4.7 | 3.5 | 3.5 | 3.0 | 7.0 | 7.0 | … | … | … | 6.0 |
| Outer band (lower limit) | … | … | 4.4 | 3.7 | 2.5 | 2.5 | 2.0 | 6.0 | 6.0 | … | … | … | 5.0 |
| **IV. Indicative Target** | | | | | | | | | | | | | |
| 7. General government current primary spending (excl. EU funds and social assistance, mln lei) 3/ | 92,327 | 22,149 | 43,238 | 63,878 | 85,637 | 32,749 | 66,124 | 98,721 | 131,500 | 131,938 | … | … | 32,000 |
| 8. Operating balance (earnings before interest and tax) net of subsidies of 10 SOEs, defined in TMU (mln. lei) 3/ | | | | | | -1,081 | -2,333 | -3,801 | -4,000 | -5,542 | … | … | -750 |
| Memorandum Item: | | | | | | | | | | | | | |
| Revenue of general government, net of EU funds (mln. lei) 3/ | … | … | … | … | 151,508 | 36,355 | 74,669 | 116,091 | 157,950 | 159,141 | … | … | 40,100 |

1/ The December 2008 figure is a stock.
2/ Performance criterion for January 2011 and indicative target for March 2011 are relative to December 2010 target.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ In accordance with TMU, the end-September and end-December program targets were adjusted from the original target of -28,200 and -34,650 by one-half of the revenue over-performance.
5/ The target for March 2011 can be adjusted with higher or lower capital spending as defined in TMU.

Table 2. Romania: Performance for Seventh Review

| Measure | Target Date | Comment |
|---|---|---|
| **Quantitative performance criteria** | | |
| 1. Floor on general government overall balance | December 31, 2010 | Met |
| 2. Ceiling on general government guarantees | December 31, 2010 | Met |
| 3. Ceiling on general government domestic arrears | December 31, 2010 | Missed |
| 4. Non-accumulation of external debt arrears | December 31, 2010 | Met |
| 5. Floor on net foreign assets | January 31, 2011 | Met |
| **Quantitative Indicative Target** | | |
| 1. Ceiling on general government current primary spending | December 31, 2010 | Missed |
| 2. Floor on the operating balance of ten largest loss-making SOEs | December 31, 2010 | Missed |
| 3. Floor on net foreign assets | March 31, 2011 | Likely to be met |
| **Inflation consultation band** | | |
| Inner band | December 31, 2010 | Met |
| Outer band | December 31, 2010 | Met |
| **Structural benchmarks** | | |
| 1. Parliamentary ratification of amendments to the bank resolution framework | December 1, 2010 | Partially met |
| 2. Reform tax administration methodology for high net wealth individuals | December 31, 2010 | Met |
| 3. First phase to integrate the accounting reporting system with the Treasury payment system | March 15, 2011 | Met |
| 4. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions | March 15, 2011 | Likely to be missed, reset for July 31, 2011 |

Table 3. Romania: Quantitative Program Targets for New Program

| | 2010 | 2011 | | | |
|---|---|---|---|---|---|
| | Dec Actual | March Prog. | June Prog. | Sept Indicative | Dec Indicative |
| **I. Quantitative Performance Criteria** | | | | | |
| 1. Change in net foreign assets (mln euros) 1/ 2/ | 20,026 | 250 | 250 | 500 | 500 |
| 2. Floor on general government overall balance (mln lei) 3/ 4/ | -33,621 | -6,300 | -12,600 | -17,150 | -23,953 |
| 3. Stock of central government and social security arrears (bn lei) | 0.19 | 0.20 | 0.20 | 0.15 | 0.10 |
| 4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei) | 12.0 | 14.0 | 14.0 | 14.0 | 14.0 |
| **II. Continuous Performance Criterion** | | | | | |
| 5. Nonaccumulation of external debt arrears | 0 | 0 | 0 | 0 | 0 |
| **III. Inflation Consultation** | | | | | |
| 6. 12-month rate of inflation in consumer prices | | | | | |
| Outer band (upper limit) | … | 9.0 | 8.8 | 6.2 | 5.7 |
| Inner band (upper limit) | … | 8.0 | 7.8 | 5.2 | 4.7 |
| Actual/*Center point* | 8.0 | *7.0* | *6.8* | *4.2* | *3.7* |
| Inner band (lower limit) | … | 6.0 | 5.8 | 3.2 | 2.7 |
| Outer band (lower limit) | … | 5.0 | 4.8 | 2.2 | 1.7 |
| **IV. Indicative Target** | | | | | |
| 7. General government current primary spending (excl. EU funds and social assistance, mln lei) 3/ | 131,938 | 32,000 | 64,000 | 95,600 | 128,550 |
| 8. Operating balance (earnings before interest and tax) net of subsidies of key SOEs (as defined in TMU (bn. lei)) 3/ | -6.5 | -1.7 | -2.7 | -3.6 | -4.0 |
| 9. Stock of arrears of key SOEs (as defined in TMU (bn. lei)) | 18.8 | 19.5 | 19.5 | 19.0 | 18.0 |
| 10. Stock of local government arrears (bn lei) | 0.91 | 0.95 | 0.90 | 0.85 | 0.80 |
| Memorandum Item: | | | | | |
| Revenue of general government, net of EU funds (mln. lei) 3/ | 159,141 | 40,100 | 82,250 | 127,000 | 171,575 |

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to end-December 2010 stock.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ The target for March 2011 can be adjusted with higher or lower capital spending as defined in TMU.

Table 4. Romania: Conditionality for New Program

| Measure | Target Date | Comment |
|---|---|---|
| **Prior action** | | |
| The government decision on indirect audit methods will be passed (¶12). | | |
| **Quantitative performance criteria** | | |
| 1. Floor on general government overall balance | Quarterly | |
| 2. Ceiling on general government guarantees | Quarterly | |
| 3. Ceiling on central government and social security domestic arrears | Quarterly | |
| 4. Non-accumulation of external debt arrears | Continuous | |
| 5. Floor on net foreign assets | Quarterly | |
| **Quantitative Indicative Target** | | |
| 1. Ceiling on general government current primary spending | Quarterly | |
| 2 Ceiling on local government domestic arrears | Quarterly | |
| 3. Floor on the operating balance and arrears of key loss-making SOEs | Quarterly | |
| **Inflation consultation band** | | |
| Inner band | Quarterly | |
| Outer band | Quarterly | |
| **Structural benchmarks** | | |
| 1. Completion of a stocktaking of arrears and unpaid bills as of end-December 2010 for the entire general government and SOEs (¶10). | April 30, 2011 | |
| 2. Preparation of strategic action plans for key SOEs (as specified in TMU) (¶23). | April 30, 2011 | |
| 3. Introduction of a simplified taxation system for smaller taxpayers under the threshold with help from the IMF and EC, while requesting a shift in the VAT mandatory threshold from the EU Council of Ministers to €50,000 (¶12). | June 30, 2011 | |
| 4. Eliminate by government ordinance the legal basis of *stimulente* funds, effective January 1, 2012 (¶8). | June 30, 2011 | |
| 5. Amend legislation to allow the use of the deposit guarantee fund resources to facilitate bank restructuring, including purchase and assumption transactions (¶4). | July 31, 2011 | |
| 6. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan (¶13). | September 30, 2011 | |

## ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

March 10, 2011

1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the letter of intent (LOI), the key assumptions, methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2011 are listed in Tables 3 and 4 of the LOI, respectively.

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

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the* 2011 budget. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the LOI (¶8), this definition will be expanded at the time of the first review under the SBA to cover state-owned enterprises incorporated into the general government accounts under ESA.

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

### A. Floor on the Change in Net Foreign Assets

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

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

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

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

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

| | 2010 | 2011 | | | |
|---|---|---|---|---|---|
| | December (stock) | March PC | June PC | September indicative | December indicative |
| Cumulative change in NFA | 20,026 | 250 | 250 | 500 | 500 |
| *Memorandum Item:* Gross Foreign Assets | 32,432 | 1000 | 1000 | 1000 | 1000 |

[1]PC = performance criterion; data for end-month. Flows in 2011 are cumulative from the beginning of the calendar year (e.g., March 2011 figure is cumulative from January 1, 2011). The 2011 stocks are obtained by adding 2011 flows to end-2010 stock.

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | March | June | September | December |
| Cumulative flows from end of previous year | 1,500 | 1,650 | 2,050 | 2,050 |

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

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

| | 2010 | 2011 | | | |
|---|---|---|---|---|---|
| | December (actual) | March (target) | June (target) | September (indicative) | December (indicative) |
| Outer band (upper limit) | | 9.0 | 8.8 | 6.2 | 5.7 |
| Inner band (upper limit) | | 8.0 | 7.8 | 5.2 | 4.7 |
| Actual / *Center point* | 8.0 | *7.0* | *6.8* | *4.2* | *3.7* |
| Inner band (lower limit) | | 6.0 | 5.8 | 5.2 | 2.7 |
| Outer band (lower limit) | | 5.0 | 4.8 | 4.2 | 1.7 |

## C. Performance Criterion on General Government Balance

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

**Cumulative floor on general government balance**[1]

| | (In millions of lei) |
|---|---|
| End-December 2010 (actual) | -33,621 |
| End-March 2011 (performance criterion) | -6,300 |
| End-June 2011 (performance criterion) | -12,600 |
| End-September 2011 (indicative) | -17,150 |
| End-December 2011 (indicative) | -23,953 |

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

11. The budget deficit will be measured from above the line using the budget execution data. At the time of the first review the calculation of the 2011 budget deficit will be modified to be in line with the expanded definition of the general government which will include the following SOEs (the data is expected to become available at the end of 2011Q1)[1]: Compania Nationala a Huilei S.A., Compania Nationala de Atostrazi si Drumari Nationale, Fondul Proprietatea, Metrorex S.A., Regia Autonoma Administratia Fluviala a Dunarii de Jos Galati, Societatea Nationala a Carbunelui S.A., Societatea Nationala de Transport Feroviar de Calatori, Compania Nationala de Radiocomunicatii Navale Radio Constanta, Societatea Nationala de Transport Feroviar de Infrastructura, Termoelectrica S.A., Acvavalor S.A., Aeroportul Arad S.A., Aeroportul Iasi RA, Aeroportul International Baia Mare R.A., Aeroportul Satu Mare R.A., Aeroportul Stefan Cel Mare Suceava R.A., Aeroportul Transilvania – Tirgu Mures R.A., Aeroportul Tulcea, Aqua Calor S.A., Centrala Electrica de Termoficare Brasov S.A., Citadin S.A. Hundedoara, Dalkia Romania S.R.L., Edil Therma Hunedoara, Goscomloc S.A., Gospodarie Oraseneasca S.A., Rominservices Therm S.A., Societatea Nationala "Aeroportul International Mihail Kogalniceanu", T.S.P Ecoterm S.A., Termica S.A., Termloc S.A., Uzina Termica Comanesti S.A.

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

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

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

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

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

accumulated projected non-grant revenue for 2011, to which the actual non-grant revenue will be compared.

| Cumulative projected revenue of general government, net of EU funds[1] | (In millions of lei) |
|---|---|
| End-December 2010 (actual) | 159,141 |
| End-March 2011 (projection) | 40,100 |
| End-June 2011 (projection) | 82,250 |
| End-September 2011 (projection) | 127,000 |
| End-December 2011 (projection) | 171,575 |

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

15. The performance criterion for the general government balance for the first quarter of 2011 will be adjusted downward from -6,300 by the amount that capital spending (including EU funds-related spending) exceeds 5,740 million lei, up to a limit of -8,000 million. Likewise, the target will be adjusted upward by the amount that capital spending undershoots 5,740 million lei in the first quarter of 2011.

## 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 (performance criterion) | 14 |
| End-June 2011 (performance criterion) | 14 |
| End-September 2011 (indicative) | 14 |
| End-December 2011 (indicative) | 14 |

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

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

the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past due date by 90 days (in line with ESA95 definitions for expenditures).

| **Stock of central government and social security arrears** | (In billions of lei) |
|---|---|
| End-December 2010 (stock, actual) | 0.19 |
| End-March 2011 (performance criterion) | 0.20 |
| End-June 2011 (performance criterion) | 0.20 |
| End-September 2011 (indicative) | 0.15 |
| End-December 2011 (indicative) | 0.10 |

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

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

### G. Indicative Target on General Government Current Primary Spending

19. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables. The current spending target will be adjusted for the extra spending due to swap arrangement between local governments and public enterprises by an amount spent in the respective quarter.[1]

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

| **Cumulative change in general government current primary expenditures**[1] | (In millions of lei) |
|---|---|
| End-December 2010 (actual) | 131,938 |
| End-March 2011 (indicative) | 32,000 |
| End-June 2011 (indicative) | 64,000 |
| End-September 2011 (indicative) | 95,600 |
| End-December 2011 (indicative) | 128,550 |

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

### H. Indicative Target on Local Government Arrears

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

| **Stock in local government arrears** | (In billions of lei) |
|---|---|
| End-December 2010 (stock, actual) | 0.91 |
| End-March 2011 (indicative) | 0.95 |
| End-June 2011 (indicative) | 0.90 |
| End-September 2011 (indicative) | 0.85 |
| End-December 2011 (indicative) | 0.80 |

### I. Monitoring of Public Enterprises

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

| **Cumulative operating balance**[1] | (In billions of lei) |
|---|---|
| End-December 2010 (actual) | -6.5 |
| End-March 2011 (indicative) | -1.7 |
| End-June 2011 (indicative) | -2.7 |
| End-September 2011 (indicative) | -3.6 |
| End-December 2011 (indicative) | -4.0 |

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

22. A quarterly indicative target for 2011 is set on the stock of arrears of the public enterprises listed in ¶21 above. The data shall be reported at the firm level. The targets will be as follows:

| **Stock of arrears** | (In billions of lei) |
|---|---|
| End-December 2010 (actual) | 18.8 |
| End-March 2011 (indicative) | 19.5 |
| End-June 2011 (indicative) | 19.5 |
| End-September 2011 (indicative) | 19.0 |
| End-December 2011 (indicative) | 18.0 |

23. The quarterly indicative targets for the aggregate operating balance (¶21) and stock of arrears (¶22) for the public enterprises listed in ¶21 above will be revised at the time of the first review in accordance with the actions plans and audited end-2010 data (both of which will be available at that time).

## J. Reporting Requirements

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

**Romania: Data Provision to the IMF**

| Item | Periodicity |
|---|---|
| To be provided by the Ministry of Finance | |
| Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95 | Monthly, on the 25th day of the following month |
| Quarterly final data on general government accounts, including public enterprises as defined by ESA95 | Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th day past test date |
| The budget deficit of the general government using ESA95 definition | Quarterly, with a lag of three months |
| Preliminary data on below-the-line financing for the general government | Monthly, with a lag of no more than 35 days past the test date |
| Final quarterly data on below-the-line financing for the general government | Quarterly, no later than 45 days past the test date |
| Total accounts payable and arrears of the general government, including local governments | Preliminary monthly, within the next month. Quarterly, within 55 days |
| Stock of the central government external arrears | Daily, with a lag of not more than seven days |
| Public debt and new guarantees issued by the general government | Monthly, within one month |
| Preliminary monthly data on general government primary spending, net of EU disbursements | Preliminary monthly data will be reported to IMF staff within 25 days |
| Final quarterly data on general government primary spending, net of EU disbursements | Quarterly, within 35 days from the test date |
| The operating balance, profits, stock of arrears, and personnel expenditures of key public enterprises (as defined in ¶21 and 22) by total expenditures | Quarterly, within 30 days |
| Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU | Monthly, within three weeks of the end of each month |
| The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows. | Monthly, within two weeks of the end of each month |

| To be provided by the National Bank of Romania | |
|---|---|
| NFA data, by components, in both program and actual exchange rates | Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data |
| Monetary survey data in the format agreed with IMF staff | Monthly, within 30 days of the end of the month |
| The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans) | Monthly, 45 days after the end of each month |
| The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans) | Monthly, 45 days after the end of each month |
| The stock of short-term external debt of banks and corporate | Monthly, 45 days after the end of each month |
| Balance of payments in the IMF format currently used to report | Monthly, 45 days after the end of each month |
| Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency). | Monthly, 20 days after the end of each month |