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The Balance of Payments Programme for Romania. Second Review – Spring 2012

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The Balance of Payments Programme for Romania

Second Review - Spring 2012

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EXECUTIVE SUMMARY

1. **Despite a change in the governing coalition and the government, the joint EC/IMF/WB mission could complete the review of the implementation of the 2011-2013 precautionary follow-up programme**. Four days into the mission, the government of Prime Minister Ungureanu was ousted by a no-confidence vote, as the governing coalition fell apart. A new Prime Minister designate, Victor Ponta, was immediately appointed by President Băsescu. PM designate Ponta asked the mission to stay on and finish the review as originally planned. He quickly assembled a new parliamentary majority and his new government[1] was voted in on 7 May 2012. The next day, the new government approved the draft program documents at its first meeting. The mission could thus complete its work. Apart from meeting with President Băsescu and Prime Minister Ponta, the mission met with Deputy Prime Minister and Finance Minister Georgescu, Central Bank Governor Isărescu, other senior officials, representatives of labour and business organisations, and financial institutions. This was the second formal review on the EU's side and the fifth review of the Stand-By Arrangement (SBA) with the IMF. The next quarterly review is scheduled for late July/early August 2012.

2. **The mission concluded that the programme remains on track.**[2] The IMF's Executive Board completed its fifth programme review on 22 June 2012, upon which a sixth tranche amounting to SDR 430 mn (around EUR 516 mn) became available (in addition to the already available SDR 1.78 bn). Under the 2011-2013 Balance-of-payments (BOP) precautionary programme assistance, the EU could provide up to EUR 1.4 bn. In line with the precautionary nature of the programme, the Romanian authorities do not intend to draw on the available resources.

3. **This report provides a detailed assessment of compliance. The main findings of the mission can be summarised as follows.**

   - **Macroeconomic and financial situation**: After two years of deep recession, **growth** resumed in 2011 also helped by a bumper harvest. Following a cumulative contraction of more than 8% in 2009-10, GDP increased by 2.5% in 2011. Growth was mainly driven by investment and was also helped by a modest recovery in private consumption, while export growth weakened as the European crisis unfolded in the second half of 2011. Harsh winter conditions and persistent uncertainties in Europe continued to drag down economic activity in the first quarter of 2012 (-0.1% q-o-q SA), but confidence indicators point to a recovery later in the year. Nevertheless, the rate of growth for the year as a whole is projected to fall to about 1½ %. With the slowdown in export markets, domestic demand is expected to be the main driver of growth, with public investment, supported by improving EU funds absorption, playing a key role. **Inflation**, which had been running high for a prolonged period (above 7% since mid-2010), came down sharply in H2 2011 and reached 3.2% (y-o-y) at end 2011, close to the mid-point of the National Bank of Romania's (NBR) target of 3.0% ±1 percentage point. Inflation continued to recede in early 2012 reaching a historical low of 1.8% (y-o-y) in April. As temporary downward pressure on headline inflation stemming from volatile commodity prices is expected to dissipate gradually, inflation is projected to slightly accelerate through Q3 but afterwards to slow down and remain within the NBR's target for end-2012 of 3.0% ±1 percentage point. **Financial markets** recovered in early 2012 after having suffered from the deterioration in market sentiment towards emerging markets in the second half of 2011.

   - **Financial sector:** The Romanian banking sector has remained resilient, in spite of the ongoing deterioration in asset quality which has continued to influence banking sector financial results. After the losses registered at the end of 2011, banking sector profitability returned to positive territory in the first quarter of 2012, but remained low. Albeit with slight delays, programme conditionality in the financial sector was met. On the back of the tensions in the euro are sovereign debt markets, the close oversight of banks with parents from euro-area peripheral countries remains crucial.

   - **Public finance:** The general government deficit was 4.1% of GDP, below the cash deficit ceiling of 4.4% of GDP set for 2011. The deficit would also have respected the 5% of GDP accrual (ESA) deficit ceiling set for 2011, had it not been for court rulings that forced the government to take additional (one-off) spending commitments that brought the ESA deficit up to 5.2% of GDP. Taking into account the adjuster for capital spending, the cash deficit target for the first quarter of 2012 was met. Budget execution for the first four months shows that Romania remains on track to reach a deficit of below 3% of GDP in ESA terms in 2012. However, given the over-spending on capital in recent months, it was

[1] See http://www.gov.ro/cabinet__c64l2p1.html
[2] See http://ec.europa.eu/economy_finance/articles/financial_operations/2012-05-09-romania_en.htm

agreed to set aside an additional buffer of 0.1% of GDP. While staying safely within the 3% of GDP ESA deficit program target, the authorities have raised the cash deficit target to 2.2% of GDP (up from the original target of 1.9%). The resulting 0.3% of GDP will be used to restore the remainder of the 25% public wage cut implemented in July 2010 by granting an 8% wage increase in June 2012, followed by a second increase of 7.4% in December 2012. Pensioners will also be compensated for the additional 5.5% health insurance contribution levied on pensions below RON 740 in 2011 and in the beginning of 2012, which was found unconstitutional. Arrears have started to increase again, especially at local government level. Arrears over 90 days in the healthcare sector had been brought down to RON 17.9 mn (final data) at the end of 2011, and the revenues from the clawback tax will be used to pay the bills and thereby prevent a renewed accumulation in arrears in the future. Further progress was made with the integration of the accounting reporting system with the Treasury payment system in the Ministry of Public Finance. This will facilitate the move towards the ESA accounting system. Further progress was also made in terms of the prioritization of investment projects.

- **Energy & Transport:** Progress in the energy area, which had been slow, gathered momentum. Following the agreement on electricity price liberalisation reached during the previous mission, agreement was reached on a roadmap for gas price deregulation during this review. Regulated gas prices for companies will be phased out by end 2014. For households, prices will be gradually adjusted to reach market levels by end 2018. In the transport area, the authorities agreed on a multiannual contract with the railways infrastructure company, but this contract does not yet fully satisfy EU requirements. The remaining actions required to comply with programme conditionality in this area were clarified to the authorities.

- **Health sector:** The new government committed to continue the reform of the healthcare system. A new draft framework law is expected to be submitted for public debate by end June with a view to a final approval in Parliament by end October. Meanwhile, supporting reform measures are being prepared, including implementation of a negative list of reimbursed drugs, electronic prescription and the introduction of an electronic health card, as well as a revision of the co-payment law to simplify the rules and introduce a uniform, modest, flat fee.

- **EU funds absorption:** With absorption of EU funds having reached EUR 3.3 bn, the end-2011 programme target of EUR 2.1 bn was met. Cumulative absorption increased to EUR 4.3 bn by end-April 2012, meaning that another EUR 3.7 bn would have to be absorbed this year to reach the programme's end-2012 cumulative absorption target of EUR 8 bn. Significant efforts will still be needed to reach that goal. The authorities are fully aware of this and are committed to making their efforts to simplify procedures, to standardise tendering documents, and to improve assistance to project developers (beneficiaries).

- **Other structural reforms:** The restrictions on setting up retail shops have been abolished in early June 2012. Progress with enhancing the economic content of the Point of Single Contact (PSC) has been slower than expected and relevant deadlines were missed. Efforts will have to be stepped up to improve coordination and to enhance the economic content of the PSC. With regard to state-owned enterprises, the new corporate governance law is being implemented and the remaining restructuring plans are expected to be finalized by end-June. Regarding company restructuring and efficiency increases, the IMF SBA first quarter 2012 targets related to the operating balance and arrears of key SOEs were met. As to the strengthening of administrative capacity, the second set of quarterly progress reports on the implementation of the action plans to address the findings of the functional reviews was submitted to the Commission.

I. INTRODUCTION AND BACKGROUND

4. **The second balance-of-payments assistance programme with Romania started in spring 2011 and will expire in March 2013.** The EU can provide up to EUR 1.4 bn under this precautionary programme if it were to be activated. The IMF's SBA provides assistance of up to SDR 3,090.6 mn (300% of quota). Five tranches totalling SDR 1,780 million have already been made available, but have not been drawn on by the Romanian authorities in line with the programme's precautionary nature.

5. **Despite a change in government, a joint EU-IMF-WB quarterly review mission (24 April – 9 May 2012) remained in Bucharest and completed its work.** Four days into the mission, the PDL/UNPR/UDMR government led by Mihai Răzvan Ungureanu was ousted by a no-confidence vote in the parliament. The same day, president Traian Băsescu designated opposition leader Victor Ponta as the new prime minister. PM designate Ponta asked the EC/IMF/WB mission to stay in Bucharest and to pursue the review with the designated ministers. The new PSD/PNL/PC coalition government led by PM Ponta was voted in on 7 May 2012.

6. **The mission concluded that the programme remained on track.**[3] On the EU's side, it is the second formal review of the program commitments.[4] On the IMF's side, it is the fifth review under their SBA. Programme documentation (SMoU, MEFP and TMU) was updated (see separate programme documentation annex to this note).

II. MACROECONOMIC AND FINANCIAL DEVELOPMENTS AND OUTLOOK

II.1 Growth and inflation

Growth

7. **After two years of deep recession, growth resumed in 2011 also helped by a bumper harvest.** Following a cumulative contraction of more than 8% in 2009-10, GDP increased by 2.5% in 2011. The contribution of agriculture to growth was around 0.7 pp, also reflecting the fact that Romania has the highest share of agricultural output in GDP in the EU. Industrial production was strong in the first half of the year, responding to external demand, but weakened later in the year as export markets softened.[5] Construction recovered in the second half of 2011, recording growth for the first time since early 2009.

8. **Growth was mainly driven by investment and also helped by a modest recovery in private consumption, while export growth weakened as the European crisis unfolded in the second half of 2011.** For the first time since the second half of 2008 when the recession started, investment rose in the second half of 2011, with increases across the board. Growth for the year as a whole reached a robust 6.3%, albeit from a very weak basis. Held back by weak household balance sheets and disposable income,[6] private consumption grew only by 1.3%, less than initially projected. Exports started the year with a very strong growth (40% in Q1, FOB y-o-y), but slowed rapidly as demand in Europe weakened in the second half of 2011 (to 10% in Q4, FOB y-o-y). As approximately 70% of Romanian imports are export driven, imports showed a similar pattern in 2011, slowing from 26% in Q1 to 10% in Q4 (CIF, y-o-y). Overall, the contribution of external trade to growth was negative in 2011 (-0.8 pp).

9. **Harsh winter conditions and persistent uncertainties in Europe continued to drag down economic activity in the first quarter of 2012, but confidence indicators point to a recovery later in the year.** The flash GDP estimate for the first quarter indicates that the economy is now technically in recession with two

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[3] The cut-off date for the statistical data included in this report is 22 May 2012.

[4] See the Memorandum of Understanding of June 2011, as amended by the first Supplemental MoU (SMoU) of December 2011, and the Memorandum of Economic and Financial Policies (MEFP) at http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/pdf/ocp90_en.pdf, Annex 2 and http://ec.europa.eu/economy_finance/eu_borrower/mou/20110629-mou-romania_en.pdf. The mission also reviewed the commitments taken in the MEFP that was signed on 28 February 2012 and that can be found on http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/memorandum_28022012.pdf.

[5] Compared with 2010, in 2011 industrial production grew by 6.1% (y-o-y, SA) with increases registered in all industrial sectors.

[6] Non-performing loans (on account of households) continued to rise since the onset of the crisis.

consecutive negative quarterly GDP growth figures (-0.1% q-o-q SA in Q1 2012 after -0.2% in Q4 2011).[7] Industry performed better than expected in January, but harsh winter conditions dragged down production in February. For the first quarter as a whole, industrial output declined by 1.0% q-o-q. However, confidence in industry is holding up well, suggesting a slow recovery of the sector later in the year. Construction, after a revival in H2 2011, contracted by 8.2% q-o-q in 2012:Q1 as harsh winter conditions depressed activity. Despite weak confidence indicators, the government's drive to improve the country's infrastructure should support a recovery in this sector in 2012. Retail sales continued the positive trend that started at the end of last year and recorded a relatively strong increase (0.5% q-o-q in 2012:Q1) mainly driven by fuel and food sales. Private credit activity also held up relatively well, continuing to record positive (y-o-y) growth since the beginning of the year. In March, loans to the private sector increased by 7.4% in real terms y-o-y, primarily driven by lending to the corporate sector (up by 9.9% in real annual terms). After a small decline in March, the economic sentiment indicator for Romania continued to increase in April and moved closer to its long-term trend, indicating a recovery later in the year.

10. **Despite the expected recovery later in 2012, the rate of growth for 2012 as a whole is projected to decline from 2.5% in 2011 to about 1½ percent.** This represents a minor downward revision relative to the projections made during the previous review held in January/February 2012 (Table II-1). Domestic demand is expected to be the crucial driver of growth in 2012 with public investment, supported by improving absorption of EU funds, playing a key role. Although households and corporates are expected to continue to adjust their balance sheets, the projected increase in employment and the partial restoration of public sector wages, coupled with lower inflation, should support real disposable income. Private consumption is thus expected to continue to grow at the same pace as last year (1.3%). While further fiscal consolidation, in particular a continued reduction in public sector employment through the 1-in-7 rule,[8] will keep the pace of government consumption slow, it will not act as a major drag on growth in 2012 (in comparison to 2011 when public consumption dropped by 3.5%). Public investment, also supported by EU funds absorption, is expected to be an important growth driver given the plans to modernise the country's public infrastructure. Private investment is, however, likely to be weaker than earlier anticipated as some of the investments initially planned for early 2012 are likely to be delayed to the second half of 2012 or 2013 due to the persistent uncertainties in international financial markets. As in 2011, credit activity is expected to continue improving modestly in 2012, as credit institutions continue to repair their balance sheets after a long period of deterioration in asset quality.

Table II-1: Romania - Macroeconomic framework

	2010	2011	2012	2013
	(percentage change, unless otherwise indicated)			
Nominal GDP, bn RONs	522.6	578.6	606.7	648.2
Real GDP growth	-1.6	2.5	1.4	2.9
Total employment	-0.3	-0.9	0.4	1.1
Unemployment rate (Eurostat definition)	7.3	7.4	7.2	7.1
HICP inflation (average)	6.1	5.8	3.1	3.4
HICP inflation (year-end, quarterly)	7.8	3.4	3.5	3.3
Current account balance (% of GDP)	-3.9	-4.1	-5.0	-5.0
Net international investment position, in % of GDP	-63.8	-61.6	n.a.	n.a.

Source : Commission services. Spring 2012 forecast.

11. **With about 70% of Romania's exports going to the EU, slowing exports are expected to be a drag on growth in 2012.** Weaker external demand will lead to a slowdown in exports, while imports will decrease less, being supported by domestic demand.[9] The resulting increase in the trade deficit is expected to lead to a widening of the current account deficit to 5% of GDP in 2012.

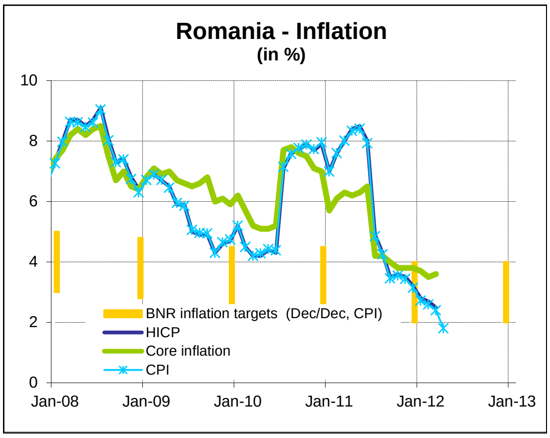
[7] On a year-on-year basis, GDP grew in Q1 2012 by 0.3% (unadjusted).
[8] The 1-in-7 rule provides that one person is hired in the public sector for every seven that leave.
[9] Export growth is forecast to slow down from 19.6% in 2011 to 9.7% in 2012 (y-o-y, value terms). A somewhat weaker deceleration of growth is forecast for the value of imports, from 18.4% in 2011 to 11.7% in 2012 (y-o-y), leading to a widening of the trade deficit.

12. **Risks to the 2012 growth forecast are tilted to the downside.** The main downside risks to the growth forecast for 2012 include: (i) continuing uncertainties in financial markets and negative sovereign debt market developments in the euro-area periphery could increase financing costs and hold back investment and export growth; and (ii) possible additional needs for repairing household balance sheets, coupled with tighter credit standards for consumer lending may result in lower-than-expected private consumption. Upside risks include a potentially stronger contribution of investment than foreseen in the baseline in case of a significant improvement in the absorption of EU funds.

Inflation

13. **The annual rate of inflation fell to its lowest level since EU accession, but there remain upside risks to the medium-term inflation outlook.** Annual inflation rate (CPI) stood at 3.1% in December 2011, close to the mid-point of the NBR's target of 3.0% ±1 percentage point set for end-2011 (Figure II-1).[10] It continued to recede in early 2012 and fell to 1.8% (y-o-y) in April, below the euro area average, partly on account of a favourable base effect from higher food prices in 2011. Although the temporary downward pressure on headline inflation stemming from volatile commodity prices will gradually reverse, inflation is projected to remain within the NBR's target for end-2012.[11] Higher-than-expected adjustments of administered prices, further depreciation of the leu's exchange-rate – as a result of continuing uncertainty in international markets, and unanticipated further rises in commodity prices could push inflation above the current forecast.[12] There are currently no strong upward wage pressures given the weak economy, but the prospective restoration of public sector wages will exert a marginal upward pressure.[13] Conversely, a slower-than-expected recovery of the economy would have disinflationary effects.

Figure II-1: Romania - Inflation



Note: core inflation = HICP excluding energy and unprocessed food.
Source: Eurostat, Ecowin.

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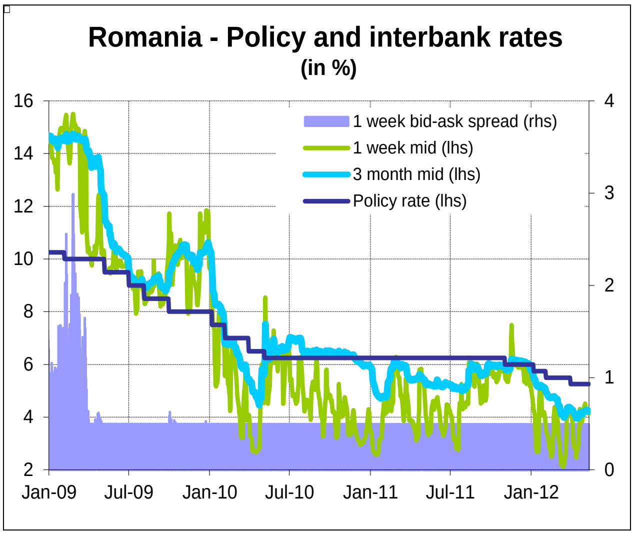
[10] The NBR set the end-year inflation targets at 3.0% ± 1 percentage point for both 2011 and 2012.
[11] In particular, annual inflation in the (unprocessed) food category may be pushed higher in the second half of 2012 due to a base effect resulting from a good crop in summer 2011.
[12] While the planned 5% electricity price increase for June 2012 was included in the EC Spring Forecast, planned adjustments to the electricity consumption basket in 2012 and 2013 were not included due to the difficulty to identify the exact price increase. Planned increases in gas prices were not included as the gas roadmap had not yet been adopted.
[13] The recent government decision to increase public sector wages by 8% in June and an additional 7.4% in December was not included in the EC Spring Forecast exercise; however, based on the NBR's estimations these increases should have a marginal impact on headline inflation, around 0.2-0.3%. Therefore, the year-end inflation target for 2012 is still expected to be met.

II.2 Monetary policy and exchange-rate developments

Monetary policy

14. **The NBR lowered the policy rate** in four steps by a cumulative 100 basis points to 5.25% in the fourth quarter of 2011 and the first quarter of 2012, in view of a more benign inflation outlook (Figure II-2). This followed a prolonged period of stable key interest rates since spring 2010. In the first months of 2012, interbank interest rates hovered well below the NBR's key policy rate, suggesting improved liquidity conditions although, overall, the market remains segregated. The impact of the increase in *ex post* real interest rates, due to the very sharp drop in inflation, on monetary conditions was counterbalanced by the weakening of the leu since mid-2011.

Figure II-2: Romania - Policy and interbank interest rates



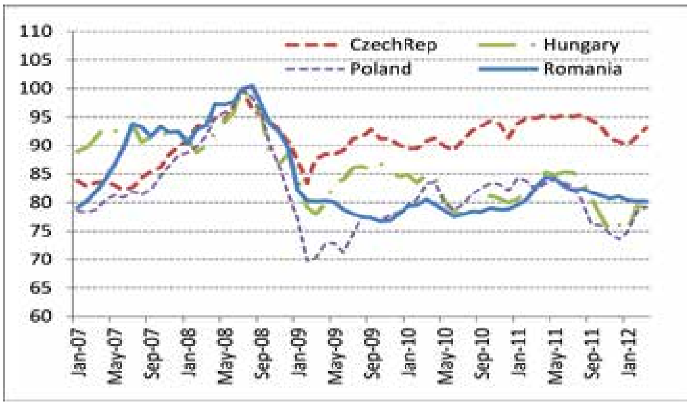
Source: NBR, Ecowin.

15. **Although short-term price pressures eased markedly and available data indicate a decline in inflation expectations, the medium-term inflation outlook remains challenging for monetary policy**. While headline inflation is expected to remain within the NBR target band throughout the projection horizon, the upside risks to this outlook call for continued prudence in the conduct of monetary policy, in order to continue to effectively anchor inflation expectations.

Exchange-rate developments

16. **The exchange rate depreciated slightly in early 2012**. During the first four months of 2012, the leu depreciated by just over 2% against the euro. A more visible depreciation occurred in May, bringing the cumulative depreciation against the euro since end-2011 up to around 3.5% (Figure A3 in the Annex). The weakening of the leu reflected a combination of different factors, including a decline in autonomous capital inflows against the background of weakening activity in the euro area, heightened political uncertainty, and increased risk aversion in international financial markets due to concerns regarding some peripheral euro area economies. Nonetheless, the leu's exchange rate against the euro has remained broadly stable since 2009 in comparison with regional peers (with a floating exchange rate regime). The real exchange rate, calculated using unit labour costs (ULC), weakened by some 20% at the onset of the financial crisis in 2008 and has broadly stabilised since then (Figure II-3).

Figure II-3: Real effective exchange rate



REER: ULC deflated, index July 2008 = 100.
Source: Commission services.

II.3 Financial-market and banking-sector developments

17. **The increase in impaired assets continued to weigh on banking sector developments in the first quarter of 2012.** The still ongoing deterioration in asset quality coupled with the adverse developments in the euro area continued to put strain on the Romanian banking sector. After the losses registered at the end of last year, banking sector profitability returned to positive territory, but remained meagre (return on equity stood at 1.6% at end-March 2012). The share of non-performing loans (90 days overdue) edged up to 15.9% at end-March 2012 compared to 14.3% at end-2011 (Table II-2). This increase was mainly the corollary of tighter supervisory enforcement and more forceful recognition of NPLs by banks at the beginning of 2012. Against the backdrop of several capital increases towards the end of 2011 and in the first months of 2012, the capital adequacy ratio of the system stood at 14.5% at end-March 2012, only 0.05 percentage points

Table II-2: Banking sector – Financial soundness indicators

(%)	2009				2010				2011				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Capital Adequacy													
Capital Adequacy Ratio	13.2	13.5	13.7	14.7	15.0	14.3	14.6	15.0	14.9	14.2	13.4	14.5	14.5
Leverage Ratio	6.8	6.9	7.0	7.6	8.1	7.9	7.9	8.1	8.0	7.8	7.5	7.9	8.5
Ratio of level 1 own funds*	11.4	11.9	12.0	13.4	14.2	13.4	13.8	14.2	14.5	13.6	12.9	13.9	13.6
Asset quality													
NPLs (90 days overdue)	4.0	4.7	6.5	7.9	9.1	10.2	11.7	11.9	12.7	13.4	14.2	14.3	15.9
NPLs (60 days overdue)	9.4	11.8	14.2	15.3	17.2	17.8	20.2	20.8	22.0	21.9	23.0	23.3	25.6
Profitability													
Return on assets (after tax)	-0.3	0.1	0.3	0.3	0.6	-0.2	-0.2	-0.2	0.5	0.1	-0.3	-0.1	0.2
Return on equity (after tax)	-2.9	0.6	3.2	2.9	6.0	-1.6	-2.1	-1.7	5.0	0.6	-3.4	-1.4	1.6
Liquidity													
Immediate liquidity	33.1	33.6	34.7	35.3	37.1	35.9	36.7	37.8	37.2	36.3	36.4	37.2	37.6

Note: Preliminary data for end-March 2012. As of 2012, the ratio of level-1 own funds is calculated as the ratio between level-1 own funds and the risk-weighted exposure to credit, operational and market risk.
Source: NBR, Commission services.

lower than at end-2011.[14] Meanwhile, the ratio of level-1 own funds (i.e. level-1 own funds to risk weighted exposure to credit, operational and market risk) remained above 13%. However, further pressures on solvency, especially on the capitalisation of smaller credit institutions are to be expected going forward. The liquidity conditions at system level improved slightly in the first quarter of 2012, inter alia, due to the higher volume of NBR refinancing operations.

18. **The close oversight of banks with parents from euro-area peripheral countries continues to remain of utmost importance.** Against the backdrop of a mild deleveraging in the first months of 2012, the combined market share of banks with majority Greek capital accounted for roughly 13.0 % of the total assets of the banking sector at end-March 2012. Notwithstanding the deterioration in asset quality, the Greek banks operating in Romania managed to maintain reassuring solvency positions in comparison to the system-wide capital adequacy and continued to receive capital support from their parents when needed. Furthermore, on the back of additional ECB financing to parent banks (from the two rounds of 3-year LTROs), liquidity pressures have eased slightly in recent months.

II.4 Balance-of-payments

19. **The balance-of-payments position improved in the first quarter of 2012 notwithstanding a disappointing start on account of harsh winter conditions.** The current account deficit of about EUR 0.5 bn in 2012:Q1 was considerably (by 44%) lower than in the same quarter last year. Deficit reducing factors were the increasing surplus of current transfers (up by 52%) and a decreasing (down by almost 25%) deficit in the income balance. They outweighed the increase in the trade deficit (+13% compared to 2011:Q1) caused by stalling export growth while imports kept increasing (the harsh winter conditions drove energy imports up). Financing the current account deficit has become more difficult. Capital inflows linked to FDI are still very low (EUR 0.4 bn in Q1 2012), and corporates' access to foreign credit has been impaired (only 50% short-term roll-over). Remittances from abroad decreased in January-February 2012, but improved

[14] Preliminary data are for end-March 2012.

again in March. It may be too early to infer changes for the yearly forecast. The NBR projects the current account deficit to be 4.5% of GDP in 2012, flat on the previous two years, and 4.8% in 2013, while the Commission projects a 5% of GDP current account deficit in both 2012 and 2013.[15]

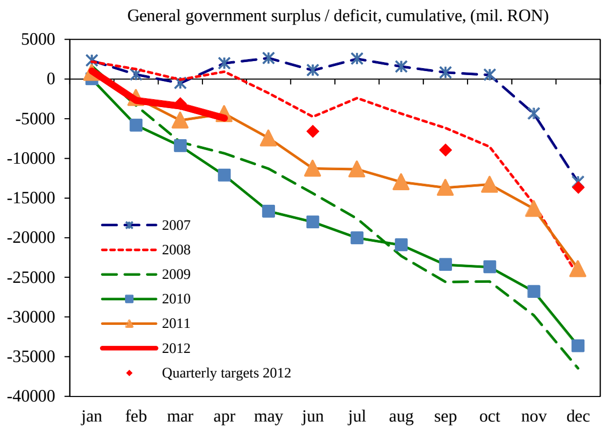
III. POLICY IMPLEMENTATION AND CONDITIONALITY

III.1 Fiscal policy; consolidation and governance reforms

20. **The general government deficit in 2011 was lower than the target on cash basis and slightly in excess of the target on an accrual basis.** The 4.1% of GDP general government deficit in cash terms came out below the 4.4% of GDP target set for 2011. The deficit would also have respected the 5% of GDP accrual (ESA) deficit ceiling set for 2011, had it not been for court rulings that forced the government to take additional (one-off) spending commitments that brought the ESA deficit up to 5.2% of GDP.

21. **The authorities have met the cash deficit target for the first quarter of 2012 (corrected by the capital adjuster).** The cash deficit for the first quarter of 2012 was RON 3.38 bn or 0.6% of GDP (Figure III-1). While the IMF quarterly target of a cash deficit of RON 3.1 bn was exceeded, the authorities had been given an adjuster on capital expenditure which allowed them to increase the deficit for the first quarter by the amount of capital expenditure that they spent above the capital expenditure ceiling of RON 1.45 bn. Adjusting the quarterly deficit target for this amount brings it to RON 4.55 bn, RON 1 bn above the actual deficit. The capital adjuster, however, is introduced to allow for a faster implementation of the annual investment target. What was spent additionally in the first quarter should come out of the total budgetary allocation for capital expenditure and therefore less would have to be spent on investment in the second part of the year to fit under the annual ceiling.

Figure III-1: General government surplus/deficit



Source: Romanian authorities, Commission services.

22. **Budget execution for the first four months shows that Romania remains on track to reach a deficit below 3% of GDP in ESA terms in 2012, but increased vigilance is needed especially with regard to capital spending.** On the revenue side, tax revenue was lower than expected due to underperforming VAT and profit tax revenue but non-tax revenue was better than expected as the government collected more royalties on petroleum products than planned. There has been significant over-spending on the expenditure side, particularly on capital, interest, subsidies and, to a lesser extent, on goods and services. Subsidy payments were higher than projected as agricultural subsidies were paid out in April rather than in June as originally planned. Higher-than-projected spending on capital can be attributed mainly to local governments and the National Road Company. While part of it can be explained by an attempt to bring capital spending forward within the year in order to avoid the usual acceleration in spending at the end of the year, concerns remain that spending pressures could build up in the second half of 2012 and thus lead to slippages, particularly by local governments that are not well controlled by central government. To counter this risk, it was decided to set aside an additional buffer for capital spending equivalent to 0.1% of GDP, while at the same time strengthening the monitoring of the capital budget and eliminating low-performing investment projects. Nevertheless, capital spending will need to slow down significantly in the coming months in order to remain within the allocated budget for the year as a whole. Moreover, expenditure control does not appear

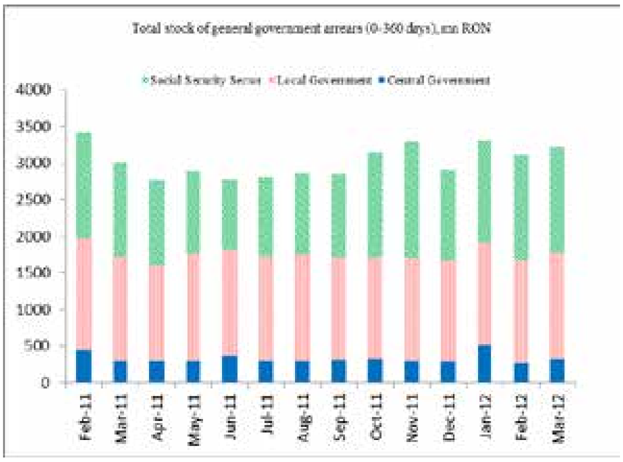
[15] Since the Commission uses national accounts and the NBR uses balance of payments data for calculating the current account, the two measures are not directly comparable. During 2007-2011, the differences between the current account deficits according to the two methodologies were within a range of 0 – 0.5% of GDP.

to be as tight as in the past. The authorities will need to resist the temptation for fiscal slippages in order to keep the budget on track to reaching the programme deficit target for this year.

23. **While remaining firmly committed to reaching a deficit below 3% of GDP in ESA terms in 2012, the authorities decided to raise the cash deficit target from 1.9% to 2.2% of GDP.** The resulting 0.3% of GDP will be used to grant an 8% wage increase in the public sector in June and a second one, by 7.4%, in December, thereby completing the restoration of the remainder of the 25% wage cut of 2010, as stipulated by the Constitutional Court. The cost of this measure will amount to about RON 858.5 mn or 0.1% of GDP in 2012. In addition, pensioners will be compensated for the additional 5.5% health insurance contribution levied on pensions below RON 740 in 2011 and the beginning of 2012, thereby abiding by the Constitutional Court rulings on this issue (the impact of this measure in 2012 is estimated at RON 985 mn or 0.2% of GDP). As the full impact of both measures will only take place in 2013 (the total impact of these measures would be RON 5.7 bn in 2013 or 0.9% of GDP), the authorities will need to come up with credible compensation measures for the 2013 budget in order to ensure a minimum structural adjustment of 0.5% of GDP as required by the Stability and Growth Pact and the programme.

24. **Arrears have started to increase again, particularly at local government level.** The stock of arrears (up to 360 days) has increased from RON 3.1 bn at end-February to RON 3.2 bn (or 0.5 % of GDP) at end-March, of which the arrears at local government level grew from RON 1.4 bn at end-February to RON 1.5 bn at end-March (Figure III-2). Arrears over 90 days have continued to increase since the beginning of the year, reaching RON 914 mn at end-March, of which RON 794 mn are accounted for by local governments. The rise in the stock of local government arrears are due: (i) to a weak enforcement by local authorities of the local public finance law; (ii) to possible under-funding of rural communes which saw cuts in transfers from the State budget; and (iii) higher-than-planned expenditure ahead of the June local elections. While central government allocated an additional RON 600 mn to local governments to help pay back arrears in April, their origin is not well understood. Therefore, the authorities will undertake an in-depth analysis in the next months. Arrears over 90 days in the health sector have been eliminated, but the authorities need to monitor and limit overdue bills from the Health House to hospitals in order to prevent a renewed accumulation. The clawback tax, which yielded RON 282 mn in the first quarter of 2012, will be used to pay the unregistered bills revealed in the stocktaking exercise of last year. Moreover, the authorities have started to make the preparations for gradually reducing the contractual payment period in the health sector from the current 210 days to 60 days in order to comply with the late payment directive (EU Directive 2011/7/EU). They will include the necessary financing for reducing the payment period in the 2013-2015 update of the Medium Term Fiscal Strategy and will include RON 1 bn for this purpose in the 2013 budget on which discussions will start during the next review mission.

Figure III-2: Stock of general government arrears



Source: Romanian authorities, Commission services.

25. **The finance ministry made further progress with integrating the accounting reporting system into the treasury payment system, so as to allow for a switch to accrual reporting on a timely basis.** The new system would also allow the finance ministry to control spending commitments and thereby avoid the accumulation of new arrears. A working group was set up to finalize the design of the system and the tender for the software provider is expected to be held by end-June.

26. **Progress was made with prioritizing investment projects.** The authorities have finalised the portfolio of all government investment projects and are now in a position to start eliminating projects for which funding cannot be secured over a 3-5 year time horizon. The database for investment projects was improved by including local government projects that are co-financed from the state-budget.

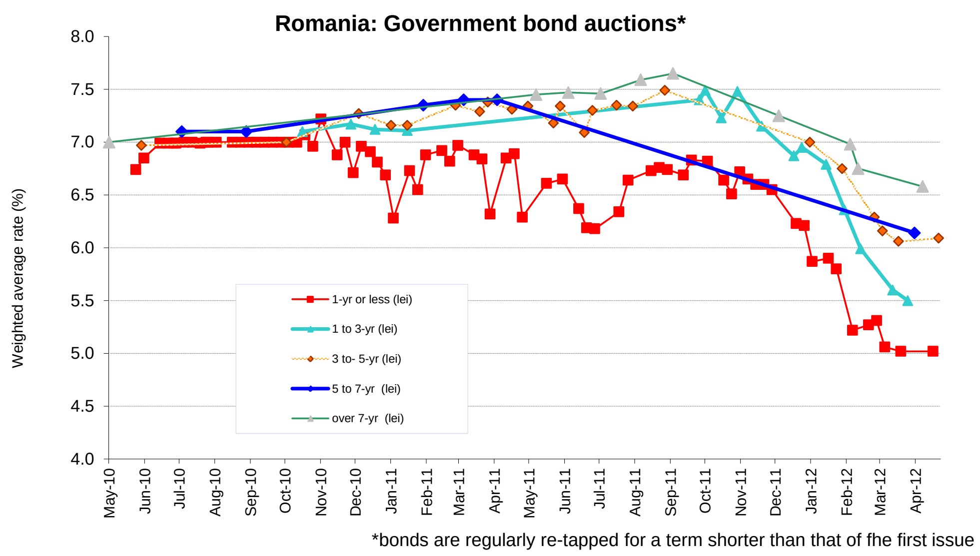
III.2 Financing situation and requirements

27. **The public debt management has improved**. In line with the public debt management strategy, the Debt Management Office (DMO) has broadened the range and lengthened the maturities of its debt instruments (Figure III-3).[16] The average remaining maturity of government debt at end-2011 was 2.6 years for domestic debt and 5.8 years for external debt. Further progress in extending the maturity and optimising the currency composition of public debt are the main priorities of the government. The authorities would like issuances mainly to bear 2 to 5-year maturities. A 7-year benchmark tenor was launched in May and last year's 10-year bond was reopened in March. This would allow for a diversification of the demand side towards real money investors such as pension funds and for the creation of reference rates for mortgage loans denominated in RON. Regarding liquidity, the goal is to build up a cash buffer that covers 4 months of financing needs.

28. **The yearly review of the debt management strategy has been somewhat delayed.** The publication of the updated Debt Management Strategy (2012-14) was planned in March 2012 but it has been delayed to allow for significant improvements planned by the new management. The annual review of the debt management strategy is now expected to be published in July 2012. The treasury has requested technical assistance in this area form the World Bank. It has also conducted informal peer reviews with national debt agencies in the EFC subcommittee on bonds.

29. **Recent developments in debt management are encouraging.** The DMO managed to issue a record RON 18 bn in bills and bonds in January and February 2012, nearly twice the amount announced, while also benefiting from lower yields. In this way the financing needs for this year have been frontloaded. Borrowing costs have declined on the back of the recent interest rate cuts and improving liquidity conditions on the domestic market in Q1 2012 (Figure III-3). In May 2012, the DMO tapped 4-year and 1-year bonds at the respective average yields of 6.09 % and 5.02%. Since the beginning of 2012, 60% of issuances bore short-term maturities and 40% medium-to-long-term maturities, which is a good performance compared to the 70% short-term/30% long-term allocation planned in the debt management strategy.

Figure III-3: Romania - Government bond auctions



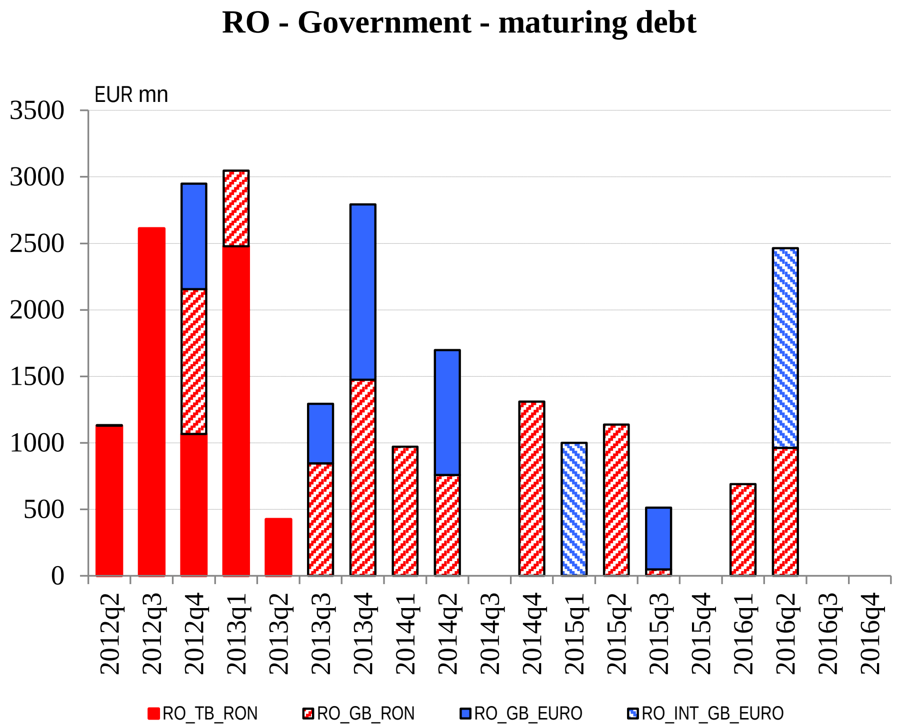
Note: RON-denominated issuances only.
Source: Bloomberg.

[16] See the government's debt strategy at http://discutii.mfinante.ro/static/10/Mfp/buletin/executii/Strategy2011_2013.pdf.

30. **The EMTN dollar-denominated issuance was a success**. A 10-year USD denominated bond was issued in January 2012 collecting USD 1.5 bn at an average yield of 6.875%. Demand totalled nearly USD 7 bn. The amount tapped covers about three quarters of the EUR 1.5 bn euro-denominated debt maturing this year (out of which EUR 0.8 bn is issued locally). With the retapping of this bond for USD 0.75 bn in February, Romania secured the financing needed to cover this year's foreign-currency denominated redemptions.

31. **In 2012, total government financing needs are projected to amount to some RON 66.4 bn.** This includes about RON 13.6 bn on account of the targeted 2.2% of GDP cash deficit, and some RON 53 bn on account of refinancing needs for debt falling due on the domestic market (RON 45.6 bn) and external markets (EUR 700 mn), as well as principal repayments of external loans and of loans contracted by local authorities (Figure III-4). Taking into account issuances until mid-May (RON 33 bn as of 11 May), some RON 33.4 bn need to be raised to cover maturing debt securities this year and the deficit financing.. The treasury's cash buffer, aimed to cover four months of financing needs, should provide a cushion in case market conditions were to worsen.

Figure III-4: Romania: Maturing government debt



Note: RO_TB_RON = Romanian Treasury bill denominated in RON (issued on the domestic market)
RO_GB_RON = Romanian Government bond denominated in RON (issued on the domestic market)
RO_GB_EURO = Romanian Government bond denominated in EURO (issued on the domestic market)
RO_INT_GB_EURO = Romanian Government bond denominated in EURO (issued on the international market)

Source: Bloomberg

32. **If the authorities follow sound macro-economic policies and remain credible to investors, their capacity to service the official debt will remain strong.** Repayments peak in 2013-2015 (i.e. just after the end of the current programme), reaching on average about EUR 4.5 bn or about 2½% of GDP annually (Table III-1). The current level of foreign-exchange reserves (EUR 33.5 bn as of end-May) should allow for smooth repayment. However further deterioration in international markets, a slowdown in Romania's export markets, continuing uncertainties in Greece, and domestic political uncertainties could pose major challenges to Romania.

Table III-1: Romania, financial assistance repayment obligations

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EU (bn EUR)										
principal	0.0	0.0	0.0	0.0	1.5	0.0	1.2	1.4	1.0	0.0
interest	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
total	**0.1**	**0.2**	**0.2**	**0.2**	**1.7**	**0.1**	**1.3**	**1.5**	**1.0**	**0.0**
IMF (bn EUR)										
principal	0.0	1.5	4.6	4.7	1.4	0.1	0.0	0.0	0.0	0.0
interest	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
total	**0.3**	**1.8**	**4.9**	**4.8**	**1.4**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL										
bn EUR	**0.4**	**2.0**	**5.1**	**5.0**	**3.1**	**0.2**	**1.3**	**1.5**	**1.0**	**0.0**
% of GDP	**0.3**	**1.4**	**3.3**	**2.9**	**1.6**	**0.1**	**0.5**	**0.6**	**0.4**	**0.0**
Forex reserves (bn EUR)	33.2	33.5	33.8	32.7	30.4					
Gross international reserv	37.2	37.5	37.3	35.6	33.4	-	-	-	-	-

Source: Commission services, IMF.

III.3 Financial sector policies

33. **After the recent enhancements to the bank resolution framework, the authorities committed to further strengthen the exchange of information between the NBR and the Deposit Guarantee Fund (DGF).** With a slight delay, the government amended Ordinance 99/2006 to introduce bridge-bank powers and other stabilisation measures in January 2012 (the original program deadline was end-November 2011). Authorities also amended Ordinance 39/1996 on the Deposit Guarantee Fund (DGF) to ensure that the DGF can contribute to the financing of bank resolution measures (i.e. purchase and assumption transactions, bridge banks) as stipulated in the amended Ordinance 99/2006. Furthermore, a joint working group chaired by the NBR supervision department was set up between the NBR and the DGF. Moreover, as foreseen in the February 2012 MEFP,[17] the two institutions signed a memorandum of understanding to ensure that the DGF receives timely information on vulnerable institutions. The NBR and the DGF should agree by end-May 2012 on the set of relevant financial information as well as the necessary internal arrangements to provide this information to the DGF. This will be verified in the July-August review mission.

34. **The authorities committed to foster the cleaning up of bank balance sheets and to closely monitor bank practices regarding restructured loans.** Authorities committed to amend the fiscal code by end-June 2012 to ensure that tax treatment no longer constitutes a disincentive for the sale of receivables by credit institutions to asset recovery companies incorporated in Romania. The unfavourable fiscal treatment has been a significant impediment to the development of this market in Romania. Authorities have analysed several options (including accounting measures) to remove the disincentives that hamper the development of the domestic market for impaired assets. After consultations with stakeholders, academia and accounting specialists, the authorities concluded that amendments to the fiscal code represent the best option to achieve the desired outcome. The finance ministry is expected to shortly finalise these amendments and to send them to EC/IMF staff for comments. Furthermore, given the ongoing restructuring of loans, the NBR committed to closely oversee bank practices to ensure that the provisioning regime and credit risk assessment of restructured loans remain prudent and in line with international good practices, so that banks do not "evergreen" their loan portfolios.

35. **Following several delays, authorities committed to enact the law on winding up insurance**

[17] See MEFP at http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/memorandum_28022012.pdf

undertakings by-end October 2012. The new law aims at ensuring the consistency among the law on the bankruptcy of insurance undertakings, the general law on insolvency and the law on the insurance business and insurance supervision. The draft law amending Law 503/2004 was approved by the government in January 2012 and subsequently sent to Parliament. However, it was not adopted due to the lack of quorum, hence the delay. The authorities will try to enact this law by end-October 2012.

36. **The authorities committed to assess the experience with the recently introduced prudential filters on provisions, solvency and reserves and with the measures aimed at discouraging foreign-exchange lending to unhedged households**. To prevent a large release of loan-loss provisions due to the less-demanding provisioning requirements under the International Reporting Standards (IFRS) (compared to the hitherto applicable Romanian Accounting Standards, RAS), the authorities introduced at the beginning of 2012 prudential filters on loan-loss provisions, solvency and reserves. Due to the application of the filters on loan-loss provisions, the total prudential provisions covered roughly 99% of NPLs at the end of March 2012. The NBR committed to prepare an assessment of the experience with the application of these prudential filters as well as proposals for the permanent arrangements (including possible adjustments) that will apply in 2013. These will be shared with the EC and IMF staff and subsequently released for consultation with the banking community by end-July 2012. Furthermore, the NBR committed to assess, by end-October 2012, the impact of the recently-introduced measures on foreign-exchange lending to households.

III.4 Structural issues and reforms

Functional reviews

37. **The second set of quarterly progress reports on the implementation of the action plans (based on the recommendations from the functional reviews) was submitted to the Commission in mid-April**. The Commission sent feedback on the implementation of the actions plans to the authorities. Although progress to date is limited, the quarterly reports do allow for a closer follow-up on the implementation and for a strengthening of the coordination process.

38. **As the initial deadline was not met for a number of actions, a new template for monitoring the action plans' implementation status was designed by the General Secretariat of the Government (GSG).** The new template, developed with World Bank assistance**,** will request information on the implementation status, success indicators (baseline and target), corrective actions in case the implementation is delayed, and the possibility to split the implementation into sub-activities for a better understanding and follow-up. This new template should be used in the next set of progress reports that are due in mid-July 2012. The Commission agreed with the new, more detailed, implementation tables as they should help identify progress and bottlenecks in a timely manner.

Product market reforms and state-owned enterprises

39. **The roadmap for the liberalisation of electricity prices was adopted in March 2012 and the electricity law was sent to Parliament.** The new government agreed to publish the electricity roadmap by 30 June 2012. According to this roadmap, the main features of which were agreed during the January/February 2012 mission, the share of electricity sourced from the market will be progressively increased (starting from September 2012) to reach complete deregulation for non-households by end-2013. For households, starting in July 2013, prices will be adjusted gradually to reach market levels by end-2017. The electricity roadmap outlines individual steps of this reform and provides deadlines for the adoption of further measures to protect vulnerable households. The authorities committed to report on progress on a quarterly basis starting in October 2012.

40. **Agreement has been reached on a roadmap for liberalising gas prices.** The authorities committed to adopt a gas roadmap by mid-June and to publish it by end-June 2012. Regulated gas prices for corporates (non-households) will be increased starting in December 2012 and will converge to average European prices by end-2014 in a broadly linear fashion. Prices for corporates will be fully liberalized in January 2015, unless a large gap was to remain between the average European price and the import price (which could endanger market stability). In that case, adjustment will continue until end-2015. For households, regulated gas prices will be increased starting in July 2013 and converge to international gas prices no later than December 2018. The gas roadmap should include measures to protect vulnerable households. The key elements of the roadmap will be included in the gas legislation.

41. **While preparations for the renegotiation of gas transit agreements with Russia are underway, negotiations have yet to be started.** As the Inter-Governmental Agreements (IGAs) provide for a priority access for Russia to the so-called 'transit' gas pipelines, they are not in line with the Second and Third EU Energy Packages that stipulate non-discriminatory access. Romania has denounced the IGAs with the Russian Federation at the end of 2011 in order to prepare for the renegotiation of these IGAs and the related commercial agreements. In November 2011, the European Commission adopted a decision to refer Romania to the Court of Justice for non-compliance with the Gas Regulation but it has not yet sent this referral to Romania. The authorities agreed to share the draft mandate for negotiations with the European Commission in May 2012 before sending it to their Russian counterparts.

42. **Similarly, the necessary investments to create the capacity for reverse flows of gas on the Hungarian and Bulgarian borders are also still to be implemented.** The reverse flows (that is, the capacity to pump gas through the existing pipelines from Romania to these countries) can only become operational once the IGAs are re-negotiated as currently access to gas pipelines can only be granted with approval of Gazprom.

43. **Coordinated auctions of capacities of the electricity inter-connectors at the borders with Hungary and Bulgaria were not improved by May 2012 as required by the Electricity Regulation.** While there has been an increase in the number of daily auctions, the capacities traded remain very limited and trading is not guaranteed throughout the day. In the context of the European Council's request of 4 February 2011 to complete the internal energy market by 2014, Romania committed to join the regional electricity market of Hungary, Slovakia and the Czech Republic that will start its operations in the third quarter of 2012. To this end, Transelectrica, the energy market operator OPCOM and the National Energy Regulatory Agency (ANRE) sent a letter asking to join the initiative but no decision has so far been taken on Romania's participation.

44. **In order to ensure more transparency and competition in the gas market, the authorities committed to speed up the creation of an effective gas trading platform.** The authorities named the electricity trading exchange (OPCOM) as the operator and requested it to develop the platform, with the aim of beginning operations on 1 January 2013.

45. **Legal and regulatory barriers to the export of gas were not lifted by April 2012.** The Commission had already launched an EU pilot procedure in April 2011 in connection with an implicit export ban on domestically-produced gas. In December 2011, the Romanian Parliament adopted with an overwhelming majority a law introducing an explicit gas export ban. The President sent the law back to Parliament for re-examination arguing that it violated EU rules, and the law is still in the Parliament.

46. **The authorities have started to define future tax, royalty and regulatory measures for oil and gas exploitation**. They reported that an inter-ministerial committee to prepare (in consultation with the oil and gas industry) a draft package of tax, royalty and regulatory measures for the oil and gas sector had been established and had started discussions. The package, currently under preparation, is expected to cover two parts: (i) a levy to capture part of the windfall profits that would accrue to firms, resulting from the liberalization of gas prices, as specified in the roadmap; and (ii) a new oil and gas regulatory and taxation regime for the period 2015-24, to be prepared by end-2012.

47. **Progress in reforming the transport sector is uneven.** In line with programme conditionality, the authorities reported on the progress made in closing down or leasing out loss making rail lines. In order to reach their goal of bringing the total railway network under management of the railway infrastructure company CFR Căi Ferate (CFR) down to 15,500 km, approximately 550 line kilometres would be leased or closed by mid-2012. The new multi-annual contract for 2012-2015 that was signed in February 2012 between the Ministry of Public Transport and CFR is not fully in line with EU requirements, as set out in Directive 2001/14/EC[18] on the allocation of railway infrastructure capacity. It does not provide incentives to CFR to reduce: (i) unit costs and access charges; and (ii) delays and traffic disruption (by means of a performance scheme). Directive 2001/14/EC also requires the introduction of incentives to reduce delays and traffic disruption.. Currently, such incentives do not seem to exist in Romania. As required, CFR submitted a business plan, but it does not clarify its marketing strategy and information on its financing

[18] Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001 on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:075:0029:0046:EN:PDF.

sources is incomplete. The authorities agreed to revise the business plan. While, as requested, a new national rail regulatory authority (Railways Supervisory Council) was created, concerns remain as to whether it has sufficient powers to obtain the necessary data and to overrule decisions on access charges. Furthermore, Romania does not yet use competitive tendering for passenger services, as set out in the Regulation 2007/1340/EC on public passenger transport services by rail. The authorities committed to submit, by December 2012, a government-commissioned study on the promotion of competitive tendering of public service obligation contracts.

48. **Measures are being taken to restructure key state-owned enterprises (SOEs), to increase their efficiency and to reduce their arrears.** The quarterly quantitative indicative targets for key SOEs (covered by the IMF's SBA) relating to the floor on the operating balances and to the stock of arrears of key SOEs for the first quarter of 2012 were met. The finance ministry created a directorate to monitor the financial performance and restructuring of the SOEs that are subordinated to the central government. Progress with improving the performances of these companies has been slow overall. Restructuring plans for selected SOEs have been submitted and quantitative targets related to their balance sheets and expenditures have been established. The authorities committed to submit the outstanding revised business plans (through line ministries) by end-June 2012 for all SOEs with more than 20 employees or a turnover of more than RON 1 mn in 2010.

49. **Corporate governance reforms are being pursued and private managers are being brought into key SOEs, albeit with some delays.** The authorities have begun to implement the requirements of the new corporate governance law.[19] Board and CEO appointments for a number of large SOEs that were scheduled for this spring have been delayed and are now planned for the second half of 2012.[20] The authorities committed to publish all appointments, thereby ensuring transparency.

Public procurement

50. **The program conditionality requiring a functional review on public procurement has been dropped as an alternative way to foster and monitor public procurement reforms has been established.** Public procurement reforms are now being followed closely through the inter-services working group set up by the Secretary General of the European Commission in April 2012. In this respect, the recommendations of the Deloitte evaluation carried out at the request of the European Commission services, and in particular the roadmap of reforms, are being duly implemented by the Romanian authorities and are being closely monitored by the Commission services.

51. **Due to the absence of public-private partnership projects, there is no experience yet with the working of the new arrangements between the two authorities (ANRMAP and UCPPP) that oversee public procurements involved in such projects.** In view of this, the deadline for their joint report on this was postponed until end-2012.

Point of Single Contact

52. **Progress in enhancing the contents of the Point of Single Contact (PSC) is still slow and the coordinating body has not yet been created.** The intermediate deadlines were only partially met. Progress with making information on administrative procedures available and the completion of forms possible online is slow. The number of existing procedures listed on the publicly available portal only increased by 10 (from 35 to 45) in the first quarter of 2012 while the number of competent authorities enrolled increased by two (from 17 to 19), pointing to the need to clarify the institutional aspects and to speed up the process. The authorities' new strategy is to create by end-June an autonomous coordinating body subordinated to the prime minister with the aim to speed up the process of enrolment of the procedures and to better mobilise

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[19] The law on corporate governance in state-owned enterprises adopted in December 2011 is an important step to address inefficiencies. The new legislation requires regular independent external audits, quarterly publication of financial data, reinforcement of OECD principles on corporate governance and strengthening the rights of minority shareholders. The new legal basis also facilitates the reconstitution of the boards of directors and hiring of private management in large SOEs with more than 20 employees or a turnover of more than RON 1 mn.

[20] Board and CEO appointments for Oltchim, Hidroelectrica and Electrica Furnizare by end-June; board appointments for Nuclearelectrica, Romgaz, and Oltenia Energy Complex by end-September; CEO appointments at the latest by end-October, 2012; and board and CEO appointment for Transgaz by end-2012. The board selection process for CFR Călători and CFR Căi Ferate has also been launched.

the competent authorities. The new body will identify key priority areas based on a sector analysis and will organize the process in such a way as to attain the objective of making the PSC fully operational by end-2012.

Retail trade restrictions

53. **Albeit with some delays, restrictions on setting up retail shops have been abolished.** The legal provisions requiring economic needs tests and the involvement of the competitors in the authorisation procedure of opening of large surface retail shops had to be abolished to bring the Romanian legislation in line with the Services Directive. An earlier attempt to abolish these restrictions in February 2012 in line with the commitments under the programme stranded on legal grounds. The new government overcame these hurdles and abolished the economic needs test on 6 June 2012.[21]

Labour market and social policy issues

54. **The new labour code appears to improve the functioning of the labour market in Romania.** Since the introduction of the new labour code (1 May 2011), the share of fixed-term contracts in the newly concluded contracts increased substantially, reflecting the less restrictive conditions for this type of contracts. Despite these positive developments, the new labour code remains restrictive in several areas. The regulation of fixed-term labour contracts and overtime arrangements remains relatively rigid compared to other EU countries. Additional time (until October 2012) was given to the authorities to meet the remaining programme conditions (widening the use of fixed-term labour contracts and extending the period for which overtime can be compensated with paid hours). The new government has yet to consider these issues in detail.

55. **Collective bargaining is becoming more decentralised as a result of the implementation of the social dialogue code.** Although the social dialogue code entered into force on 10 May 2011, its implementation effectively took place in December 2011 when the consultation process with social partners on a definition of sectors relevant for conclusion of sectorial labour contracts was closed. The new definition of sectors is reducing the requirement for registration and extension of labour contracts at the sector level. As a result, collective bargaining is becoming more decentralized, moving from the national and sector levels to groups of firms or individual firms.

Absorption of EU funds

56. **As already established during the January/February review mission, Romania met the end-2011 target for the absorption of EU funds**. With absorption at end-2011 reaching EUR 3,275 mn, the EUR 2,100 mn programme target was comfortably met. During the April/May mission, no specific programme conditionality on EU funds was due. However, the mission reviewed progress and plans to boost the absorption rate in order to achieve the 2012 year-end target of EUR 8 bn (implying an additional absorption of EUR 4,725 mn in 2012). Based on the latest data (end-April 2012), Romania's certified a total expenditure (on a cumulative basis starting from 2007) of EUR 4,330 mn to the Commission (Table III-2). To reach the EUR 8000 mn target for 2012, an additional EUR 3,670 mn expenditure needs to be certified in the rest of the year. The Structural and Cohesion Funds[22] (SCF) accounted for EUR 1,444 mn or 7.5% of the total 2007-2013 period allocation of EUR 19,213 mn (Figure III-5). Absorption of Agricultural Funds was much better with EUR 2,886 mn or 36% of the total period allocation of EUR 8,124 mn having been absorbed.

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[21] The ordinance is published in the official monitor at http://www.monitoruloficial.ro.

[22] In the data received for end-April 2012 from ACIS (Authority for the Coordination of Structural Instruments), the amounts reimbursed by the managing authorities to the final beneficiaries was EUR 1,639 mn. However, this amount was not entirely certified to the Commission as it takes time between the payment to the beneficiary and the reimbursement by the Commission (sometimes several months). The amount of payments under the structural and cohesion funds certified to the Commission for the end of April 2012 was EUR 1,444 mn.

Table III-2: Romania: Cumulative absorption of EU Funds

Romania: cumulative absorption of EU funds (in mn. Euro)

Date	**EAFRD (a)**	% of total EAFRD funds	**SCF (b)**	% of total SCF funds	**Grand total (= a+b)**	% of total available funds	**End-year target***	**Distance from target****
Dec-11	€ 2,209	27.2%	€ 1,066	5.5%	€ 3,275	12.0%	€ 2,100	€ 1,175
Apr-12	€ 2,886	35.5%	€ 1,444	7.5%	€ 4,330	15.8%	€ 8,000	-€ 3,670

Legend

EAFRD: European Agricultural Fund for Rural Development

SCF: Structural and Cohesion Fund

Total EAFRD funds	€ 8,124	(x)
Total SCF funds	€ 19,213	(y)
Total Funds	€ 27,337	(z=x+y)

* Absorption targets for, respectively, end-2011 and end-2012.

** A positive figure means the target was overachieved and a negative figure that there is still a shortfall.

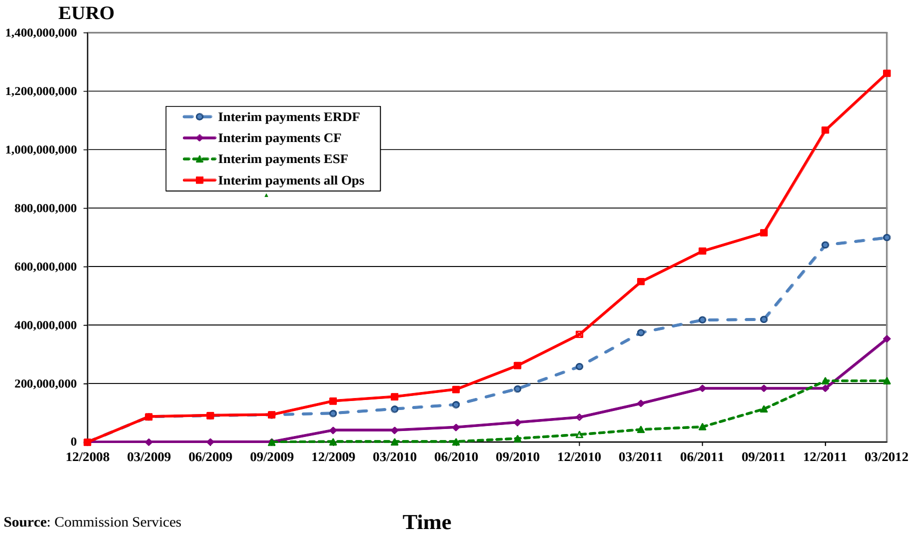
Source: Commission services

57. **The new government decided to maintain the previous government's EUR 6 bn absorption target for 2012.** Compared to the implied additional absorption of EUR 4.7 bn to meet the programme target, the authorities are in fact aiming to absorb an additional EUR 6 bn in 2012. The new government maintained this objective despite the fact that the initially-planned absorption for Q1 2012 was only partially realised. Setbacks occurred due to harsh winter conditions in February and a temporary payment suspension for one operational programme. The additional EUR 6 bn in 2012 would comprise EUR 3.5 bn in SCF and EUR 2.5 bn from the EAFRD and the Fisheries Fund. This more ambitious target is motivated by the desire to avoid the risk of decommitment (loss) of SCF money in 2013. [23]

58. **The authorities' efforts to boost EU funds absorption continue.** The progress report on the Priority Action Plan (PAP) implementation for the first quarter of 2012 has just been finalised at technical level and will shortly be submitted to the government. The Ministry of European Affairs' current actions to improve absorption include: (i) simplification of the procedures, (ii) standardisation of the tendering documents (the initial deadline of end-April 2012 was missed); and (iii) improved assistance to, and direct relations with, the beneficiaries. Despite these efforts, delays in implementing measures remain frequent. The MoU for receiving technical expertise from EBRD has not yet been completed. Moreover, due to lengthy recruitment procedures, only 29 out of the 254 new staff allocated to implementing institutions have been hired.

[23] According to DG REGIO, as of end-April 2012, Romania's decommitment risk for SCF was EUR 1.1 bn for 2012 as only EUR 400 mn had been absorbed by end-April out of the EUR 1.5 bn that would have to be absorbed in 2012 to avoid decommitment, while the cumulative decommitment risk for SCF was EUR 7.66 bn for 2013.

Figure III-5: Structural and Cohesion Funds (SCF) - all operational programmes



Source: Commission Services

Healthcare reforms

59. **The new government intends to introduce a major healthcare reform with a view to putting the heath care system on a sustainable financial footing**. Reforms aim at eliminating major inefficiencies and persistent budgetary shortfalls. A modified draft of the healthcare framework law is expected by end-June 2012. Following public consultations between June and September, approval by Parliament will be sought by end-October. A key element would be to define a basic-benefits package which would be financed by public funds. The top-up for medical services not covered by the basic package would be financed by private sources.

60. **At the same time, short-term measures to improve both the financing and quality of health services are being implemented**. In the context of the move towards a basic-benefits package, non-essential drugs (negative list) have been identified and with the introduction of revised therapeutic protocols necessary for the implementation of this negative list on 15 May, such drugs no longer benefit from public reimbursement,. In order to better control the reimbursement list for drugs, the authorities created the legal framework for conducting health-technology assessments of new drugs and will avoid the introduction of any new drug without such an assessment. With the start of the new IT drug prescription module in June 2012, monitoring of new prescription rules will effectively be possible. The distribution of electronic patient cards will start this year. Together with the supporting IT system, this should allow for better fraud control and monitoring of spending. The first one million electronic health cards will be distributed in August 2012, and it is expected that all patients will be covered by end-2013. As the recently-adopted copayment law turned out to be very difficult to implement, the authorities committed to revise the law with a view to introducing a simple and modest flat-fee, as was originally intended. The revised law would apply to ambulatory and stationary healthcare services via an emergency ordinance by mid-June 2012, with implementation to start shortly thereafter.

61. **There is a risk of further arrears accumulation in acute-care hospitals, and efforts to reduce excess bed capacity and enhance service quality should be accelerated.** With regard to acute-care hospitals, it is too early to assess the impact of the largely accomplished decentralisation process of hospitals (transfer of hospital management to local authorities). It is yet unclear what the budget implications of this decentralisation process will be, in particular whether it would lead to more arrears at local government level. Currently the actual costs of hospital treatments are not yet properly assessed. The current diagnoses-related groups (DRG) system does not seem to correctly reflect the cost structure of Romanian hospitals.

The Ministry of Health is planning to evaluate actual hospital costs in a pilot project. Moreover, there is too much focus on in-hospital treatment due to the not well refined DRG system (10-15% of patients are admitted without justification). To reduce costs, incentives to push for a shift of in-hospitalisations to day care must be developed.. In addition, the current legal framework to implement quality control and hospital accreditation could be improved by significantly reducing the current 5-year delay for accrediting hospitals.

62. **Finally, to increase revenues and decrease costs, exemptions from contributing to public health insurance should be reviewed and the costly national health programs should be rationalised.** Additional efforts on the revenue side include increasing the number of contributors to public health insurance, as current exemptions to contribute are too broad.[24] Finally, measures should be undertaken to: (i) rationalise the national health programs in order to re-align their focus towards prevention and health promotion; and (ii) transfer most of the resources to the funding of the basic-benefits package.

[24] Exemptions from health contributions cover: i) children up to 18 years of age or up to 26 years of age if they are students, ii) spouses or ascendants with no own revenue and who are under the care of an insured person, iii) all insured people with revenue under the minimum threshold, iv) handicapped people, v) those affected by diseases included in the national health programmes, etc.

LIST OF ABBREVIATIONS

ACIS	Authority for the Coordination of Structural Instruments
ANRE	Autoritatea Nationala de Reglementare in domeniul Energiei
ANRMAP	Autoritatea Nationala pentru Reglementarea si Monitorizarea Achizitiilor Publice (www.anrmap.ro) / National Authority for Regulating and Monitoring Public Procurement
BET	Bucharest Exchange Trading
BoP	Balance of Payments
CDS	Credit Default Swap
CIF	Cost Insurance Freight at the importer's border
DGF	Deposit Guarantee Fund
DRG	Diagnosis Related Groups
EAFRD	European Agricultural Fund for Rural Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EMTN	Euro Medium Term Note
ESA	European System of Integrated Economic Accounts
FDI	Foreign Direct Investment
FOB	Free On Board at the exporter's border
GDP	Gross Domestic Product
GSG	General Secretariat of the Government
HICP	Harmonised Index of Consumer Prices
IFRS	International Financial Reporting Standards (www.ifrs.org)
IGAs	Intergovernmental Agreements
ILO	International Labour Organisation (www.ilo.org)
IMF	International Monetary Fund (www.imf.org/external/country/rou/index.htm, www.fmi.ro)
LFS	EU Labour Force Survey
LoI	Letter of Intent
LTRO	Longer Term Refinancing Operation
MAEur	Ministry of European Affairs
MEFP	Memorandum of Economic and Financial Policies
MoH	Ministry of Health
(S)MoU	(Supplemental) Memorandum of Understanding
NBR/BNR	National Bank of Romania/ Banca Naţională a României (www.bnr.ro)
NPL	Non-Performing Loans
OECD	Organisation for Economic Cooperation and Development
PAP	Priority Action Plan
PC	Partidul Conservator (www.partidulconservator.ro)
PDL	Partidul Democrat Liberal (www.pdl.org.ro)
PNDI	National Programme for Infrastructure Development / Programul Naţional de Dezvoltare a Infrastructurii
PNL	Partidul National Liberal (www.pnl.ro)
PPP	Public-Private Partnership
PSC	Point of Single Contact
PSD	Partidul Social Democrat (www.psd.ro)
Q-O-Q (q-o-q)	Quarter-on-quarter
RAS	Romanian Accounting Standards
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROBOR	Romanian Interbank Offered Rate
ROE	Return on Equity
RON	ROmanian New lei (leu/lei)
SA	Seasonally Adjusted
SBA	Stand-by Agreement
SCF	Structural and Cohesion Funds
SDR	Special Drawing Rights

SOE	State-Owned Enterprise
TMU	Technical Memorandum of Understanding
UCPPP	Unitatatea Centrală pentru Coordonarea Parteneriatului Public-Privat
UDMR	Uniunea Democrată Maghiară din România (www.udmr.ro)
UNPR	Uniunea Naţională pentru Progresul României (www.unpr.eu)
ULC	Unit Labour Cost
USL	Uniunea Social Liberală (Social-Liberal Union)
WB	The World Bank (www.worldbank.org)
YOY (y-o-y)	Year-on-year

ANNEX 1: Key economic indicators

Table A1: Romania - Overview, 2007-2013

Key Economic Indicators

	2007	2008	2009	2010	2011	2012*	2013*
Gross Domestic Product	*(annual percentage change, unless otherwise indicated)*						
Nominal GDP (in bn RON)	416	515	501	523	579	607	648
Real GDP	6.3	7.3	-6.6	-1.6	2.5	1.4	2.9
Private Consumption	11.9	9.0	-10.1	-0.4	1.3	1.3	2.6
Public Consumption	-0.1	7.2	3.1	-4.4	-3.5	0.8	2.5
Gross fixed capital formation	30.3	15.6	-28.1	-2.1	6.3	4.7	6.4
Exports	7.8	8.3	-6.4	14.0	9.9	2.9	5.8
Imports	27.3	7.9	-20.5	11.9	10.5	4.0	7.4
Contribution to GDP growth							
Domestic demand	15.9	11.9	-15.0	-1.6	1.8	2.1	3.6
Inventories	0.0	-3.5	1.4	0.0	1.4	-0.1	0.4
Net exports	-9.6	-1.0	7.0	0.0	-0.8	-0.6	-1.1
Prices							
HICP inflation (average)	4.9	7.9	5.6	6.1	5.8	3.1	3.4
HICP inflation (year-end, quarterly)	6.8	6.9	4.5	7.8	3.4	3.5	3.3
NBR target	n.a.	4.0	3.5	3.5	3.0	3.0	2.5
Labour market							
Total employment	9364.8	9365.9	9181.0	9049.1	9087.0	9127.2	9229.1
Unemployment rate (registered, year-end)	4.1	4.4	7.8	6.9	5.1	*5.1*	n.a.
Unemployment rate (LFS, year-end)	6.2	5.8	7.5	7.3	7.7	*7.6*	n.a.
General Government Accounts	*(in percent of GDP, cash)*						
Total revenues	30.6	32.2	31.4	32.3	31.4	32.5	32.7
Total expenditures	32.8	37.0	38.7	38.7	35.6	34.7	34.5
Current	29.4	32.1	34.8	35.1	31.7	31.1	30.9
Capital	3.5	5.0	4.4	3.7	3.9	3.7	3.6
Govn deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.1	-2.2	-1.8
Govn deficit, ESA95 definition	-2.9	-5.7	-9.0	-6.8	-5.2	-2.8	-2.3
Gross debt, general govn, ESA95 definition	12.8	13.4	23.6	30.5	33.3	34.6	34.6
Balance of payments	*(in percent of GDP)*						
Current account balance **	-13.6	-11.4	-4.2	-3.9	-4.1	-5.0	-5.0
Trade balance	-13.9	-13	-6	-5.2	-5.1	-6.2	-5.9
Capital and financial account balance	12.8	11.1	3.6	4.2	4.1	n.a.	n.a.
FDI balance	5.7	6.7	3.0	1.8	1.4	n.a.	n.a.
Net international investment position	-47.1	-53.4	-62.2	-63.8	-61.6	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	25.3	26.0	28.2	32.6	33.2	n.a.	n.a.
Gross external debt	47.0	51.8	68.6	74.6	72.2	n.a.	n.a.
Monetary and exchange rate developments							
Broad money M3 (annual % change, end of the period)	33.7	17.5	9	6.9	6.6	n.a.	n.a.
NBR policy rate (in %, end of period)	7.50	10.25	8.00	6.25	6.00	*5.25*	n.a.
Exchange rate (lei/euro, end of period)	3.58	4.01	4.24	4.23	4.33	*4.44*	n.a.
REER (Unit Labour Costs deflator, % change)	19.7	7.9	-17.1	0.1	3.9	n.a.	n.a.
Financial market & banking sector developments							
Private credit growth (y-o-y)	60.4	33.7	0.9	4.7	6.6	*10.0*	n.a.
Capital Adequacy							
CAR	13.8	13.8	14.7	14.7	14.5	*14.5*	n.a.
Leverage ratio	7.3	8.1	7.6	8.1	7.9	*8.5*	n.a.
Ratio of level 1 own funds	10.7	11.8	13.4	14.2	13.9	*13.6*	n.a.
Asset quality							
NPLs (90 dpd)	-	2.8	7.9	11.9	14.1	*15.9*	n.a.
NPLs (60 dpd)	4.0	6.5	15.3	20.8	23.3	*25.6*	n.a.
Profitability							
ROA (after tax)	1.0	1.6	0.3	-0.2	-0.1	*0.2*	n.a.
ROE (after tax)	9.4	17.0	2.9	-1.7	-1.4	*1.6*	n.a.
Liquidity							
Immediate liquidity	38.7	34.4	35.3	37.8	37.2	*37.6*	n.a.

Note: * Forecasts or *latest values*

Note: ** Current account and trade balances are reported based on the Spring Commission forecast using national accounts data.

Source : Commission services, Eurostat, National authorities

Table A2: Romania: General government accounts, 2007-2013

	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Proj	2013 Proj
			(in percent of GDP, cash projection)				
TOTAL REVENUES	30.6	32.2	31.4	32.3	31.4	32.5	32.7
Profit tax	2.5	2.5	2.4	1.9	1.8	2.0	2.0
Income and wage tax	3.5	3.6	3.7	3.4	3.3	3.5	3.6
VAT	7.5	7.9	6.8	7.5	8.3	8.4	8.4
Excises	3.0	2.7	3.1	3.3	3.3	3.4	3.3
Social insurance contributions	9.3	9.5	9.6	8.7	8.8	8.5	8.7
Non fiscal revenue	1.9	3.1	3.1	3.8	3.2	2.9	2.9
Other fiscal taxes	1.9	2.0	2.0	2.6	1.6	1.4	1.4
Revenue from capital	0.9	0.8	0.8	0.9	1.2	2.4	2.4
TOTAL EXPENDITURES	32.8	37.0	38.7	38.7	35.6	34.7	34.5
Current expenditures	29.4	32.1	34.8	35.1	31.7	31.1	30.9
Personnel expenditures	6.2	8.9	9.3	8.2	6.6	6.7	7.1
Goods and services	6.2	6.3	5.7	5.7	5.5	5.4	5.2
Interest	0.7	0.7	1.2	1.4	1.5	1.7	1.7
Subsidies	1.7	1.5	1.4	1.3	1.1	0.9	0.8
Transfers	14.7	14.7	16.7	18.2	16.6	15.8	15.8
Social Assistance	9.2	10.5	12.8	13.1	11.8	11.1	10.8
Other transfers	5.5	4.1	3.9	5.1	4.8	4.7	5.0
Other	0.0	0.0	0.4	0.3	0.4	0.5	0.3
Capital expenditures	3.5	5.0	4.4	3.7	3.9	3.7	3.6
Other expenditure (net lending)	0.0	-0.1	-0.5	-0.1	-0.1	0.0	0.0
Government deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.1	-2.2	-1.8
Government deficit, cash definition including PNDI						-2.4	-2.0
Government deficit, ESA95 definition*	-2.9	-5.7	-9.0	-6.8	-5.2	-2.8	-2.3
Gross debt, general government, ESA95 definition	12.8	13.4	23.6	30.5	33.3	34.6	34.6

* The ESA95 deficit for 2011 includes the one-off item regarding the payment of obligations related to court decisions which became definitive in 2011.
Source: Romanian authorities, European Commission

Table A3: Romania - Monetary indicators, 2007-2012

Romania - Key Monetary Indicators (2007-2012)
(in millions of lei (RON), unless otherwise indicated; end of period)

	2007	2008	2009	2010	2011	Mar-12	2012
Broad money (M3)	**148,116**	**174,028**	**189,630**	**202,763**	**216,208**	**216,070**	...
Intermediate money (M2)	148,044	173,629	188,013	199,586	212,059	214,078	...
Money market instruments	72	399	1,617	3,177	4,149	1,992	...
Narrow money (M1)	79,914	92,549	79,361	81,605	85,835	84,963	...
Currency in circulation	21,442	25,287	23,968	26,793	30,609	30,879	...
Overnight deposits	58,473	67,262	55,394	54,812	55,226	54,084	...
Time deposits**	68,129	81,080	108,652	117,982	126,224	129,115	...
Money and credit (Annual percentage change, eop)							
Broad money (M3)	33.7	17.5	9.0	6.9	6.6	10.1	...
- NFA contribution	...	-10.7	5.0	0.7	-1.4	5.8	...
- NDA contribution	...	28.2	4.0	6.2	8.0	4.3	...
Intermediate money (M2)	...	17.3	8.3	6.2	6.2	11	...
Narrow money (M1)	...	15.8	-14.2	2.8	5.2	9.3	...
Currency in circulation	...	17.9	-5.2	11.8	14.2	17.7	...
Overnight deposits	...	15.0	-17.6	-1.1	0.8	5.0	...
Time deposits**	...	19.0	34.0	8.6	7.0	12.1	...
p.m. Credit to private sector	60.4	33.7	0.9	4.7	6.6	10.0	...
Interest rates (In percent, eop)							
Robor, 3 m*	8.27	15.59	10.43	6.25	6.30	4.50	4.30
Robor, o/n	7.55	12.13	10.16	3.03	5.22	2.92	...
NBR policy rate***	7.50	10.25	8.00	6.25	6.00	5.25	...
NBR credit facility rate***	12.00	14.25	12.00	10.25	10.00	9.25	...
NBR deposit facility rate***	2.00	6.25	4.00	2.25	2.00	1.25	...
Exchange rates							
Lei per euro (end of period)*	3.6	4.0	4.2	4.2	4.3	4.4	4.4
Lei per euro (average)*	3.3	3.7	4.2	4.2	4.2	4.4	4.4
Real effective exchange rate (percentage change)							
HICP based	8.4	-4.9	-7.6	2.2	3.2	-5.5	...
ULC deflator based	19.7	7.9	-17.1	0.1	3.9	-3.0	...

Source: NBR, Commission services
Note: * Data for 2012 based on technical assumptions of the Commission services Autumn 2011 forecast
** Maturity of up to two years.
*** Data for Jan-2012 includes most recent NBR's policy rate cut that took place on 3 February 2012.

Table A4: Romania - Gross external financing requirements and sources, 2010-2012

(In billions of euros, unless otherwise indicated)

	2010	2011					2012					Total
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	2011-12
	Act	Act	Act	Act	Act	Act	Act	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**38.2**	**9.1**	**9.2**	**11.2**	**9.7**	**39.2**	**11.2**	**9.3**	**9.8**	**9.8**	**40.1**	**79.3**
I.A. Current account deficit	5.5	1.0	2.4	1.6	0.9	6.0	0.5	1.9	1.9	1.9	6.2	12.2
I.B. Short-term debt	21.0	5.8	4.3	5.5	6.3	21.9	8.1	5.4	6.4	5.2	25.1	47.0
Public sector	4.6	1.9	0.8	1.2	2.0	5.9	3.1	1.0	1.2	0.6	5.9	11.8
Banks	11.2	2.9	2.6	3.3	3.0	11.9	3.9	2.9	3.7	3.2	13.7	25.6
Corporates	5.2	1.0	0.9	1.0	1.3	4.1	1.1	1.5	1.5	1.4	5.5	9.7
I.C. Maturing medium- and long-term debt	11.3	2.0	2.5	4.1	2.6	11.1	2.3	2.5	1.9	3.0	9.7	20.8
Public sector	1.7	0.2	0.3	0.7	0.5	1.8	0.4	0.9	0.2	0.4	2.0	3.9
Banks	3.2	0.2	0.8	2.0	0.6	3.6	1.3	0.6	0.6	0.5	3.0	6.6
Corporates	6.4	1.5	1.3	1.4	1.5	5.7	0.6	0.9	1.1	2.0	4.6	10.3
I.D. Other net capital outflows 1/	0.4	0.4	0.0	-0.1	-0.1	0.2	0.3	-0.5	-0.4	-0.3	-0.9	-0.7
II. Total financing sources	**33.9**	**8.5**	**10.1**	**8.6**	**7.7**	**35.0**	**12.0**	**8.2**	**10.4**	**9.0**	**39.5**	**74.5**
II.A. Foreign direct investment, net	2.2	0.5	0.4	0.6	0.4	1.9	0.4	0.7	0.7	0.7	2.6	4.5
II.B. Capital account inflows	0.2	0.1	0.1	0.0	0.2	0.4	0.4	0.1	0.1	0.1	0.7	1.1
II.C. Short-term debt	23.2	6.7	6.4	5.8	5.7	24.6	8.0	5.8	7.0	5.3	26.1	50.6
Public sector	5.4	2.6	1.7	0.7	1.3	6.3	3.3	1.0	1.2	0.6	6.1	12.4
Banks	12.5	2.6	3.3	3.5	2.9	12.3	3.7	3.2	4.1	3.2	14.2	26.5
Corporates	5.3	1.5	1.5	1.5	1.4	5.9	1.0	1.5	1.8	1.5	5.8	11.7
II.D. Medium- and long-term debt	8.2	1.3	3.2	2.2	1.4	8.1	3.2	1.6	2.5	2.9	10.1	18.3
Public sector	2.3	0.3	1.7	0.2	0.6	2.7	2.1	0.2	0.9	0.3	3.5	6.2
Banks	2.3	0.7	0.6	1.2	0.6	3.0	0.8	0.5	0.6	0.5	2.4	5.5
Corporates	3.7	0.3	1.0	0.8	0.3	2.4	0.3	0.8	1.1	2.0	4.3	6.6
Errors and Omissions	-0.2	-0.8	0.4	0.7	0.4	0.8	0.8	0.0	0.0	0.0	0.8	1.3
III. Increase in gross reserves	3.5	1.0	2.1	-1.4	-0.8	0.8	1.7	-0.6	0.4	-1.2	0.3	1.2
IV. Financing Gap	**8.0**	**2.4**	**0.7**	**0.4**	**0.8**	**4.4**	**0.1**	**0.5**	**-0.1**	**-0.4**	**0.1**	**4.4**
V. Program financing	**8.0**	**2.4**	**0.7**	**0.4**	**0.8**	**4.4**	**0.1**	**0.5**	**-0.1**	**-0.4**	**0.1**	**4.4**
IMF 2/	4.3	0.9	0.0	0.0	0.0	0.9	0.0	0.0	-0.6	-0.9	-1.5	-0.7
Purchases	4.3	0.9	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.9	-1.5	-1.5
Others	3.7	1.5	0.7	0.4	0.8	3.5	0.1	0.5	0.5	0.5	1.6	5.1
European Commission	2.2	1.2	0.2	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	1.4
World Bank	0.0	0.0	0.3	0.0	0.4	0.7	0.0	0.0	0.0	0.0	0.0	0.7
EIB/EBRD/IFC	1.5	0.3	0.3	0.4	0.4	1.4	0.1	0.5	0.5	0.5	1.6	3.0
Memorandum items:												
Rollover rates for amortizing debt ST (in percent)												
Public sector	118	133	210	62	68	108	106	100	100	100	103	105
Banks	112	91	124	105	97	104	95	110	110	100	103	104
Corporates	101	156	162	154	112	143	91	105	115	105	105	121
Rollover rates for amortizing debt MLT (in percent)												
Public sector	135	130	526	27	106	149	525	21	360	67	170	160
Banks	71	319	71	60	103	84	62	90	100	100	81	83
Corporates	58	20	74	59	18	42	50	90	100	100	92	64
Gross international reserves 3/	36.0	…	…	…	…	37.3	…	…	…	…	37.7	…
Coverage of gross international reserves												
- Months of imports of GFNS (next year)	7.2	…	…	…	…	7.0	…	…	…	…	6.5	…
- Short-term external debt (in percent)	118.6	114.1	108.2	106.6	103.2	103.2	…	…	…	…	91.1	…

Source: Romanian authorities and IMF staff estimates.

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

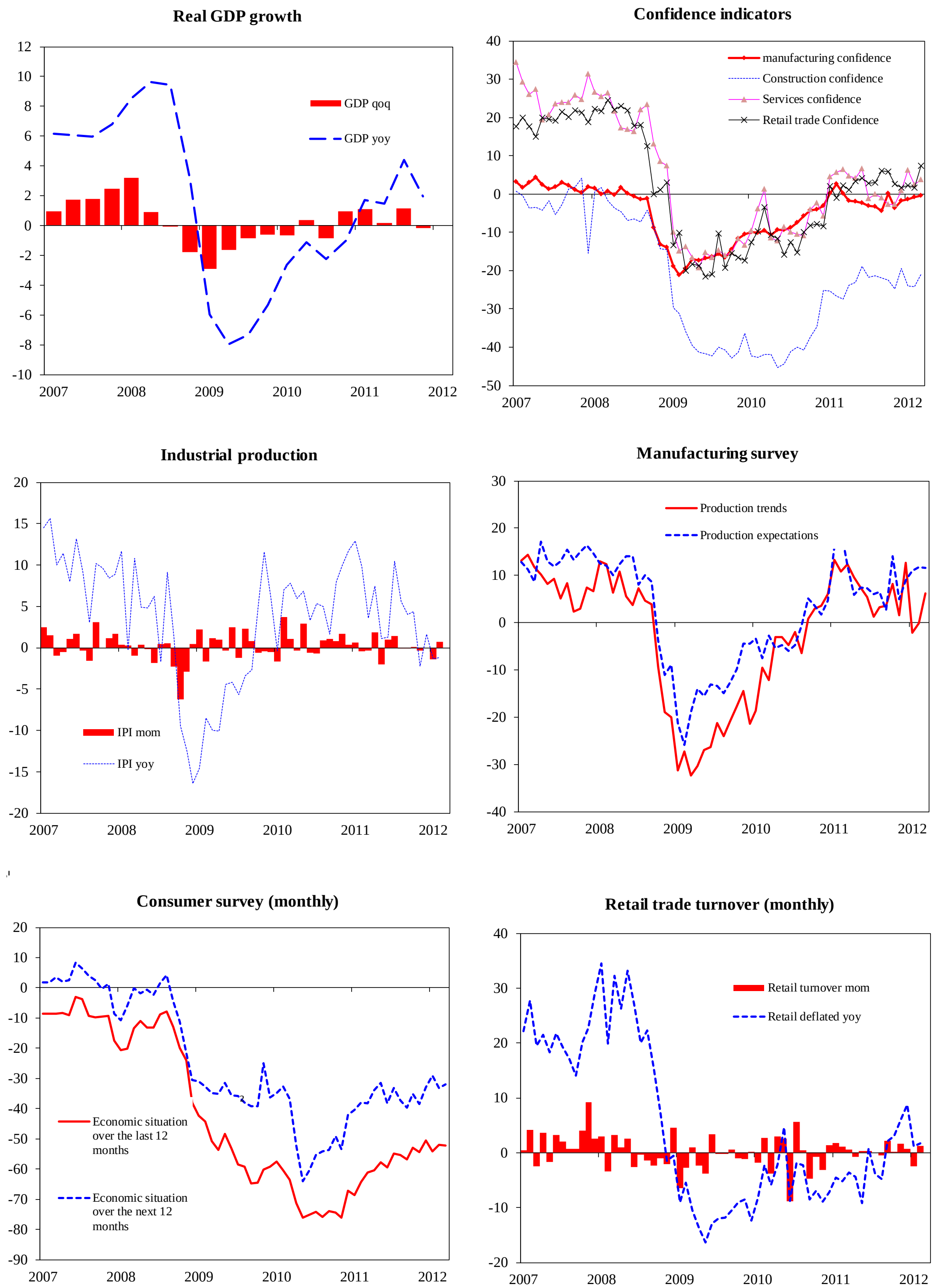
2/ Last disbursement of the previous program is treated as precautionary

3/ Operational Definition

Table A5: Romania - Key labour market indicators, 2007-2011

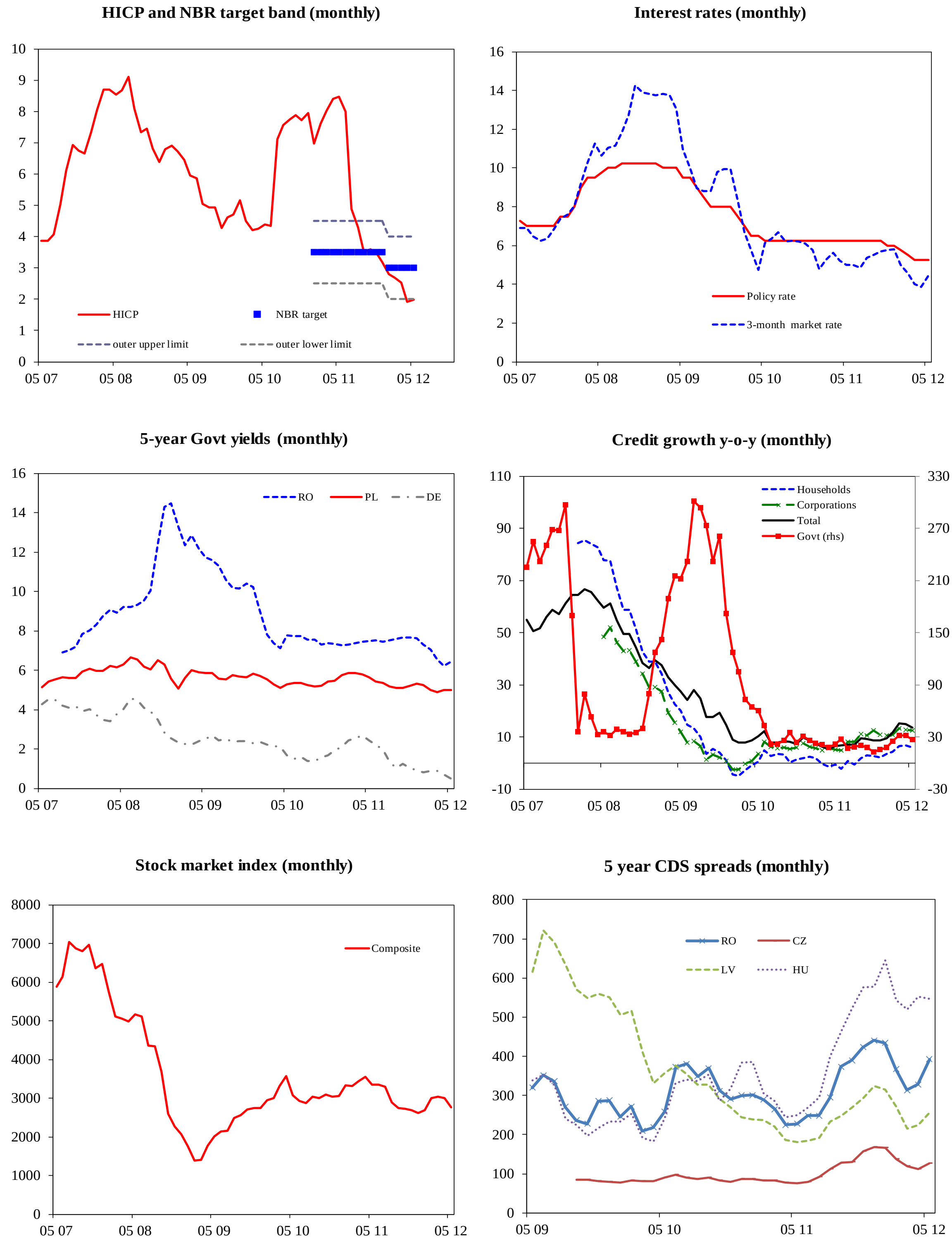
Romania	2007	2008	2009	2010	2011	2011Q1	2011Q2	2011Q3	2011Q4	2011-2010
1 - **Population** (total, 1000 pers.)	21551	21517	21484	21447	21384	21414	21414	21354	21354	-0.3 %
2 - **Population** (working age:15-64, 1000 pers.)	15046	15042	15028	14999	14967	14989	14989	14946	14946	-0.2 %
3 - **Labour force** (15-64, 1000 pers.)	9483	9457	9485	9547	9480	9438	9521	9551	9411	-0.7 %
4 - **Activity rate** (% of population 15-64)	63.0	62.9	63.1	63.6	63.3	63.0	63.5	63.9	63.0	-0.3 pps
Young (15-24)	30.5	30.4	30.9	31.2	31.1	30.2	31.1	32.3	31.0	-0.1 pps
Prime age (25-54)	1.0	78.3	78.5	79.5	79.1	78.9	79.3	79.6	78.8	-0.3 pps
Older (55-64)	42.4	44.2	43.9	42.5	41.5	41.6	42.2	41.8	40.6	-0.9 pps
Nationals (15-64)	63.0	62.9	63.1	63.6	63.3	63.0	63.5	63.9	63.0	-0.3 pps
Non-nationals (15-64)	66.9	62.9	64.7	:	:	:	:	:	:	
Male	70.1	70.6	70.9	71.5	70.7	70.5	70.5	71.1	70.8	-0.8 pps
Female	56.0	55.2	55.4	55.8	56.0	55.4	56.6	56.7	55.1	0.2 pps
5 - **Employment rate** (% of population 15-64)	58.8	59.0	58.6	58.8	58.5	58.0	58.8	59.1	57.9	-0.4 pps
Young (15-24)	24.4	24.8	24.5	24.3	23.8	23.1	24.3	24.5	23.1	-0.6 pps
Prime age (25-54)	74.6	74.4	73.7	74.4	74.1	73.7	74.3	74.7	73.7	-0.3 pps
Older (55-64)	41.4	43.1	42.6	41.1	40.0	40.0	40.5	40.5	39.0	-1.1 pps
Low-skilled (15-64)	40.3	41.0	42.0	43.0	40.5	39.8	40.7	41.5	40.0	-2.5 pps
Medium-skilled (15-64)	63.9	63.5	62.2	62.2	62.3	62.1	62.9	62.8	61.4	0.1 pps
High-skilled (15-64)	85.8	85.7	84.1	82.4	82.2	82.9	82.9	81.1	81.8	-0.2 pps
Nationals (15-64)	58.7	59.0	58.5	58.8	58.5	58.0	58.8	59.1	57.9	-0.3 pps
Non-nationals (15-64)	0.1	0.1	0.1	:	:	:	:	:	:	
Male	64.8	65.7	65.2	65.7	65.0	64.6	65.1	65.4	64.8	-0.8 pps
Female	52.8	52.5	52.0	52.0	52.0	51.5	52.5	52.8	51.1	0.0 pps
6 - **Employed persons** (15-64, 1000 pers.)	8843	8882	8805	8822	8754	8676	8697	8810	8833	-0.8 %
7 - **Self employed** (% of total employment)	21.2	20.8	20.8	21.7	20.8	20.8	21.2	21.0	20.4	-0.8 pps
8 - **Temporary employment** (% of total employment)	1.6	1.3	1.0	1.1	1.6	1.4	1.9	1.8	1.1	0.5 pps
9 - **Part-time** (% of total employment)	8.6	8.6	8.5	9.7	9.4	9.4	9.4	9.5	9.1	-0.4 pps
10 - **Unemployment rate** (harmonised:15-74)	6.4	5.8	6.9	7.3	7.4	7.5	7.2	7.2	7.7	0.1 pps
Young (15-24)	20.1	18.6	20.8	22.1	23.7	23.6	21.8	24.1	25.4	1.6 pps
Prime age (25-54)	5.8	5.1	6.1	6.6	6.4	6.6	6.3	6.2	6.5	-0.2 pps
Older (55-64)	2.3	2.5	3.0	3.3	3.7	3.9	4.0	3.1	3.8	0.4 pps
Low-skilled (15-64)	8.6	8.6	8.9	7.2	8.6	8.7	8.4	8.2	9.0	1.4 pps
Medium-skilled (15-64)	6.9	6.0	7.3	8.3	8.2	8.5	7.9	7.8	8.4	-0.2 pps
High-skilled (15-64)	3.0	2.7	4.4	5.4	5.2	4.5	4.6	5.9	5.6	-0.3 pps
Nationals (15-64)	6.8	6.1	7.2	7.6	7.7	7.8	7.5	7.5	8.0	0.1 pps
Non-nationals (15-64)	:	:	:	:	:	:	:	:	:	
Male	7.2	6.7	7.7	7.9	8.2	8.4	7.7	8.0	8.5	0.3 pps
Female	5.4	4.7	5.8	6.5	7.1	7.1	7.2	6.9	7.3	0.6 pps
11 - **Long-term unemployment rate** (% of total unemployment)	50.0	41.3	31.6	34.9	41.9	39.8	41.7	41.4	44.6	7.0 pps
12 - **Worked hours** (average actual weekly hours)	41.1	41.0	40.7	40.7	40.7	39.9	41.2	41.5	40.3	0.1 %
13 - **Indicator board on wage developments** (% change)										
Compensation per employee	22.0	31.9	-6.8	1.6	3.8	3.2	3.4	7.6	0.7	2.2 pps
Real compensation per employee based on GDP deflator	7.5	14.5	-10.6	-2.8						2.8 pps
Hourly labour costs (Eurostat labour cost index)	21.0	20.6	11.8	6.0	7.1	4.5	7.2	7.9	8.9	1.1 pps
Wage and salaries	22.8	36.3	-6.6	3.8	4.7	2.3	4.4	7.5		1.0 pps
Labour productivity (GDP/person employed)	5.9	7.3	-4.9	-0.1	7.0	4.5	4.7	9.4	9.4	7.1 pps
Nominal unit labour costs	15.2	22.9	2.9	7.9	1.7	0.9	1.9	3.9	0.3	-6.2 pps
14 - **Sectoral breakdown of unit labour costs**										
Business economy	21.0	20.6	11.8	6.0	7.1	4.5	7.2	7.9	8.9	1.1 pps
Industry (except construction)	18.2	22.4	14.2	7.3	6.9	4.5	7.3	7.6	8.3	-0.3 pps
Manufacturing	19.4	21.1	13.6	7.4	7.6	5.2	8.3	7.9	9.1	0.2 pps
Construction	24.5	20.0	11.2	2.3	5.3	0.1	5.4	6.7	9.0	3.0 pps
Trade, transport and communication	27.9	20.5	11.7	4.1	8.3	6.9	8.2	8.4	9.5	4.1 pps
Information and communication	19.1	26.3	10.7	14.6	7.4	7.5	9.7	4.4	7.9	-7.3 pps
Financial and insurance activities	27.1	4.0	8.8	5.1	5.3	1.4	4.0	6.7	9.2	0.3 pps
15 - **Sectoral breakdown of compensation per employee**										
Total industries	22.0	31.9	-6.8	1.6	3.8	3.2	3.4	7.6	0.7	2.2 pps
Agriculture and fishery	2.3	25.1	-1.5	-13.5	-9.1	-23.0	-5.5	2.7	-10.6	4.4 pps
Industry excluding construction	27.6	36.8	-12.4	10.2	11.1	16.8	11.2	10.3	6.3	1.0 pps
Manufacturing	27.6	36.3	:	:		:	:	:	:	
Construction	7.0	37.9	-19.7	-1.9	7.6	3.0	8.3	12.5	6.6	9.5 pps
Trade, transport and	12.7	29.6	-9.3	16.2	6.7	5.3	7.1	8.3	5.9	-9.5 pps
Finance and business services	41.9	13.3	-17.2	2.0	10.0	0.6	10.2	1.1	28.0	8.0 pps
Non-market related services	27.6	34.3	10.1	-14.5	-7.7	-7.8	-10.6	3.9	-16.5	6.8 pps

Figure A1: Romania - Key economic indicators, 2007-2012



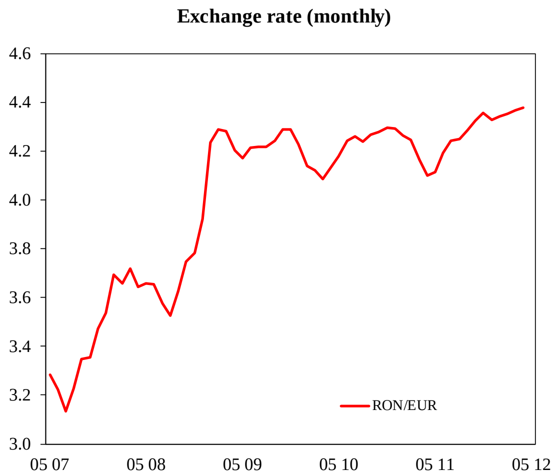
Source: European Commission, Romanian authorities

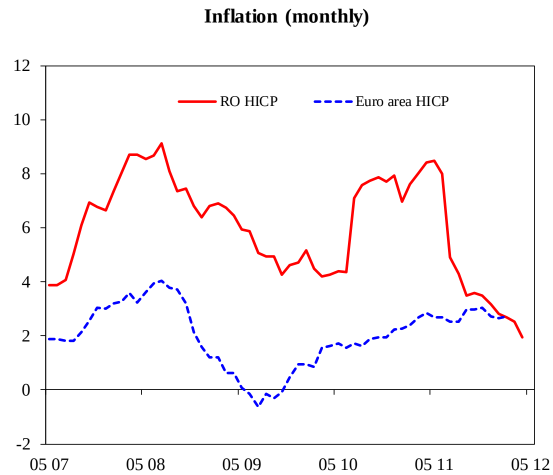
Figure A2: Romania - Monetary and financial market indicators, 2007-2012

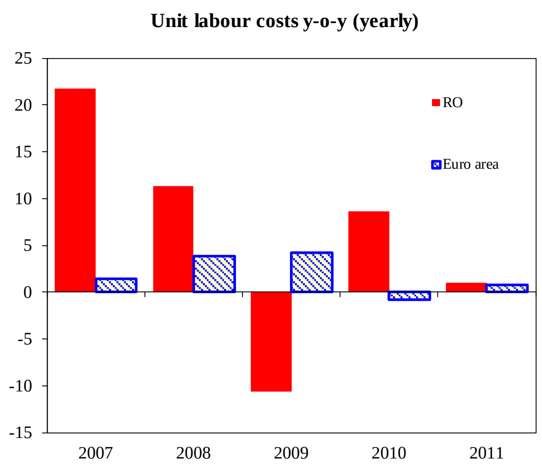


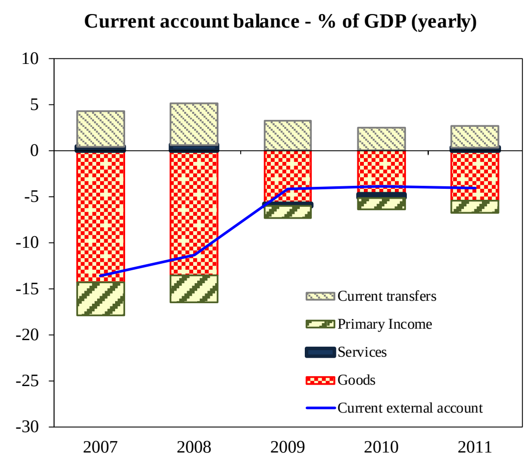
Source: European Commission, Romanian authorities

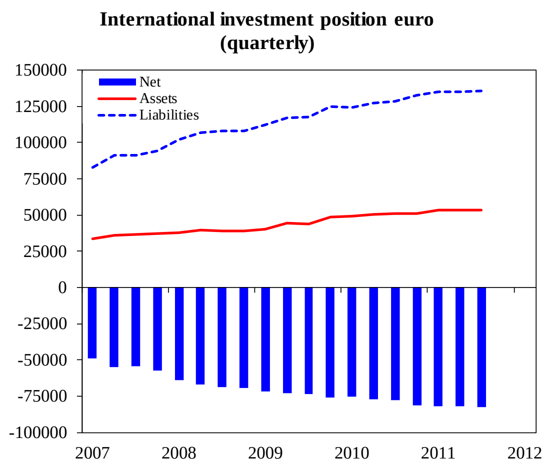
Figure A3: Romania - Price and competitiveness indicators, 2007-2012

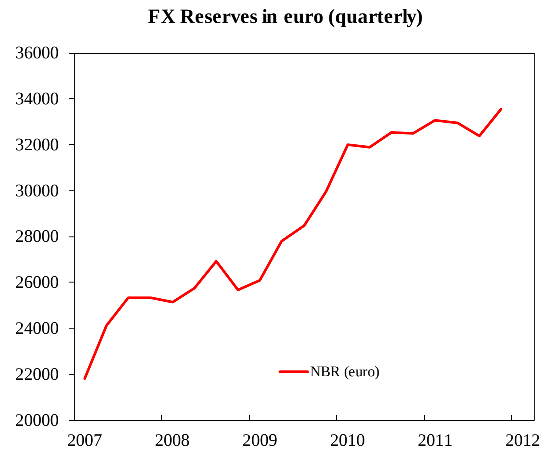






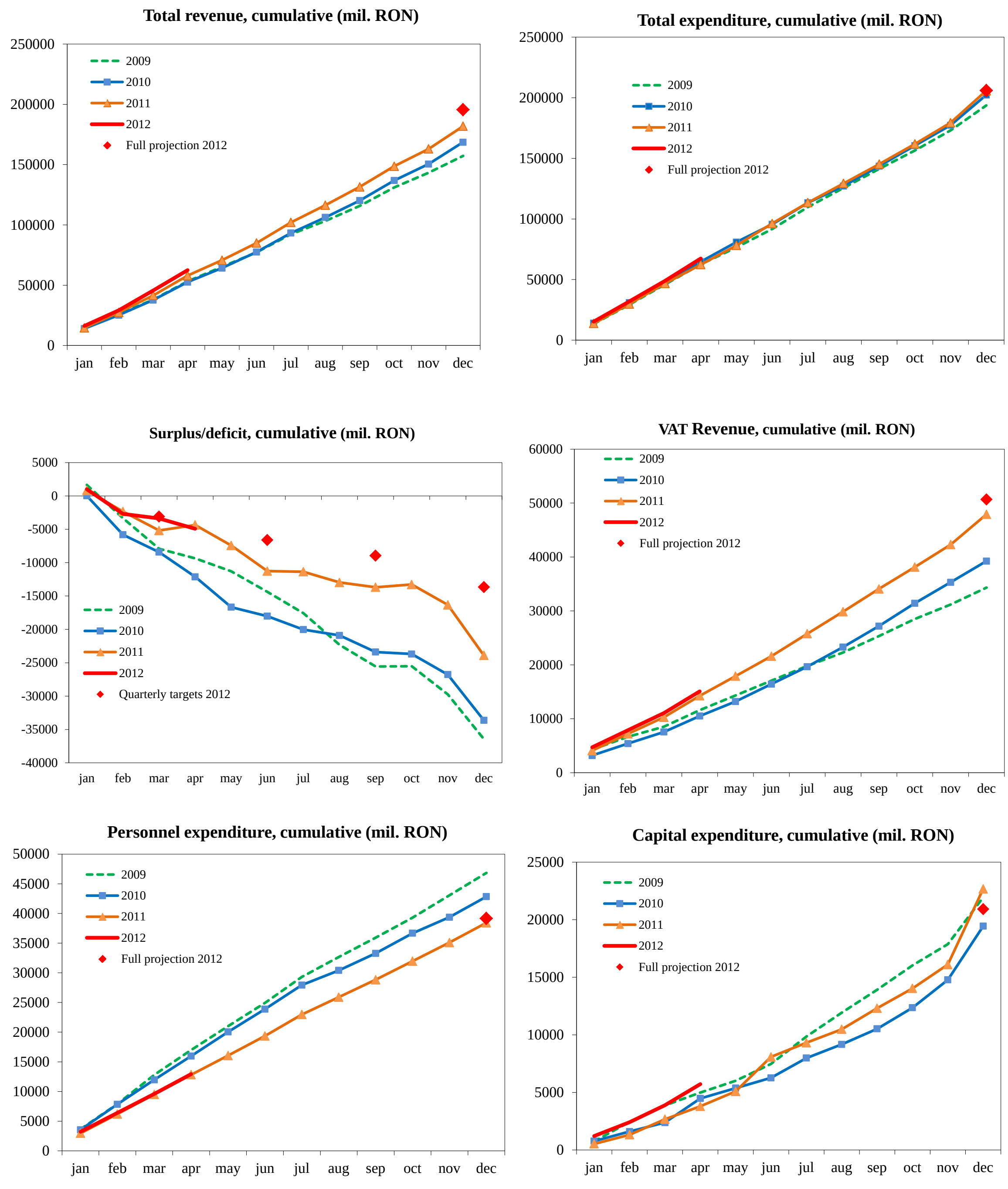






Source: European Commission, Romanian authorities

Figure A4: Romania - Budgetary execution, 2009-2012



Source: European Commission, Romanian authorities

ANNEX 2: PROGRAMME DOCUMENTS

Letter of Intent

Bucharest, June 8, 2012

Mr. Olli Rehn
Vice-President of the European Commission
responsible for Economic and Monetary Affairs and the Euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Ms. Margrethe Vestager Hansen
Minister for Economic Affairs and the Interior
Slotsholmsgade 10-12
1216 København K
Denmark

Dear Mr. Rehn,
Dear Ms. Vestager Hansen,

1. The Council of the European Union (Council Decision 2011/288/EU of 12 May 2011) decided to make precautionary medium-term financial assistance of up to EUR 1.4 billion available to Romania to support the continuation of the economic, fiscal and financial system reforms that we had started to implement under the previous Balance-of-Payments program (2009-2011) as well as structural reforms to increase the resilience and growth potential of Romania's economy.
2. We reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). Although further progress is needed in some areas, our track record remains strong and our previous efforts in economic stabilization and reforms are bearing fruit. Economic growth turned positive in 2011 and despite a marked slowdown in Europe, it is projected to remain positive in 2012. Nevertheless, the Romanian economy remains vulnerable to turbulence in international financial markets. Therefore, it will be essential to continue our efforts to consolidate public finances and implement an ambitious reform agenda. The Memorandum of Economic and Financial Policies (MEFP), second Supplemental Memorandum of Understanding (SMoU) and Technical Memorandum of Understanding (TMU) spell out in details the measures that we plan to take in the coming period.
3. In view of our strong performance under the program supported by the IMF and the EU, the Government of Romania and the National Bank of Romania (NBR) request completion of the second EU review. We stand ready to

take additional measures as appropriate to ensure achievement of its objectives. We intend to continue to treat the program as precautionary.

4. We shall consult with the IMF and the European Commission (EC) before modifying measures contained in the attached program documents or before adopting any new measure of relevance to the program, and shall continue to provide the IMF and the EC with all the necessary information for program monitoring.

5. We authorize the IMF and the EC to publish the Letter of Intent, its attachments, and the related staff reports. This letter is being copied to Mme. Lagarde.

Sincerely,

/s	/s
Florin Georgescu Deputy Prime Minister and Minister of Public Finance	Mugur Constantin Isărescu Governor of the National Bank of Romania

Attached: Memorandum of Economic and Financial Policies (MEFP); Technical Memorandum of Understanding (TMU); the second Supplemental Memorandum of Understanding (SMoU) will be transmitted later upon official signature.

Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

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

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

Fiscal Policy

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

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

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

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

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

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

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

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

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

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

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

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

8. We continue our efforts to prepare and implement comprehensive ***reforms of the healthcare system***. We aim to produce a new draft framework law by end-June (structural benchmark), with public debate between July and September and parliamentary approval by end-October. The reform will address the persistent budgetary shortfalls in the healthcare system and enhance service quality. Over the medium term, given that public healthcare

spending in Romania as a share of GDP is among the lowest in the EU, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy, while factoring in the costs of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services and to raise additional resources.

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

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

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

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

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

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

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

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

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

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

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

· The administrative measures designed to reduce ***the number of small taxpayers registered for VAT*** purposes are expected to produce the desired results starting with July. We maintain the commitment to reduce by 20 percent in the number of these taxpayers.[25] Following the revised provisions of the Fiscal Code to facilitate the cancellation of firms' registration for VAT purposes, 11,000 small taxpayers have been removed or have voluntarily deregistered from VAT system since end-2011.

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

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

- We will proceed with ***ANAF restructuring*** and modernization to increase the capacity and efficiency of the administration, including with the technical assistance from the IMF. We aim to consolidate to 8 regional directorates by mid 2013 and 47 local tax offices, down from current 221, by the beginning of 2015. We will approve (by end-2012) a multiannual project with the World Bank to support the modernization.

- We are strengthening ***tax enforcement efforts*** by increasing our capacity for risk analysis and audit, and by improving the inter-operability with the Customs Authority and the Financial Guard. We have intensified audit actions, and redesigned the monitoring system for intra-community acquisitions (Traffic Control system). We will improve the procedure for transmitting the referrals for tax crimes and we will enhance the cooperation between ANAF, the Police and the Prosecutor's Office. By July 1, we will create a central unit for fighting intra-community fraud, with a focus on high-risk areas. We will also implement the centralized transmission of the garnishments within the enforcement proceeding and the introduction of an electronic system for monitoring of the enforcement results.

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

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

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

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

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

14. We have compiled an investment portfolio of all government projects to ensure proper monitoring and prioritization. This portfolio will be used to focus on those projects where funding can be fully secured within a medium-term horizon (3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. We have improved the investment portfolio database to include state-budget co-financed projects at the local government level. The Ministry of Regional Development and Tourism and the Ministry of Environment and Forests are committed to ensure that execution spending under the PNDI does not exceed RON 1 billion in 2012 and RON 1 billion in 2013, and no new PNDI projects will be signed.

15. Local market conditions for public debt financing have been positive so far this year, and we took advantage of this to front load our financing for the year and to further build our buffers, which represent an essential protection against economic shocks. We have also continued to build the lei yield curve and to extend the

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

Financial Sector

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

17. To continue to strengthen our ability to respond to any potential difficulties in the banking system, the NBR, Deposit Guarantee Fund (DGF), and Ministry of Public Finance (MOPF) will coordinate the implementation for operational preparedness plans and the arrangements for the newly acquired bank resolution powers. The details of the contingency planning framework will be shared with and agreed with the IMF and EC staff by end-June along with detailed plans for potentially vulnerable banks. Based on the Memorandum of Understanding, the NBR and the DFG will agree by end-May on the set of relevant financial information as well as the necessary internal arrangements to provide this information to the DGF. The NBR will continue to examine closely bank practices, for example in applying the new IFRS, so as to ensure that the loan-loss provisioning and assessment of credit risk of restructured loans remain prudent and in line with good international practices. Analysis of the experience of

applying the prudential filter and the proposals for the permanent prudential arrangements that will apply in 2013 will be released for consultation with the industry by end-July. We will continue to share information on a timely basis with IMF and EC staff.

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

Monetary Policy

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

20. In view of the favorable inflation outlook, we have lowered the policy rate by 100 basis points in four steps since November with little negative impact on the exchange rate, while inflation expectations have fallen. However, the ongoing instability in international financial markets and the attendant risks of excessive volatility in capital flows and the exchange rate, together with other inflation risks, require a continued prudent monetary policy stance, supported by a consistent macroeconomic policy mix. We will keep banks’ reserve requirement ratios unchanged in the coming months and will act judiciously on the monetary policy rate. We will also continue regular repurchase operations as needed to ensure adequate liquidity in the banking system.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

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

22. For the ***energy sector***, we plan to enhance the pricing and regulatory framework by undertaking the following steps:[26]

- We have submitted to Parliament legislation to transpose the **EU Third Energy Package** into Romanian legislation. The draft electricity law provides for an appropriate unbundling regime, the definition of vulnerable consumers, and financial and operational independence of the energy regulator (ANRE). We expect Parliamentary approval by mid-June. For gas, we will approve our draft legislation by end-June.

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

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

investment in this sector in line with the regulatory framework. For households, ANRE will gradually increase the share of electricity sourced from deregulated market by electricity supply companies starting July 1st, 2013, reaching 100 percent by end 2017 according to the approved electricity roadmap in March 2012.

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

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

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

- The process to terminate or renegotiate ***bilateral energy contracts*** of SOEs concluded outside of OPCOM has advanced in recent months. Three bilateral contracts expired or were terminated in late 2011. Those contracts that could not be legally terminated were renegotiated to increase prices, shorten contract durations, lower volumes, and make contract terms more transparent and public. Nine of 10 companies agreed in the negotiations that concluded on April 23, 2012. We have scheduled another round of negotiations in May in view of the EC announcement on April 25, 2012 of in-depth investigations to assess if Hidroelectrica sold electricity at preferential tariffs in breach of EU state aid rules. We will keep the IMF, EC and WB regularly informed of the progress of the renegotiations. Key elements of the contracts, including average price, duration and volume, will be published within 30 days after finalization. All new bilateral contracts of SOEs will be made transparently and nondiscriminatorily through OPCOM (electricity) and other competitive procedures (gas), and terms of the contracts will be published. As soon as the new gas trading platform is operational, all bilateral gas contracts will be traded through it.
- The Ministry of Administration and Interior, together with the MOPF, will ensure prompt application of Emergency Ordinance 69/2011 on subsidies for ***district heating***. While municipalities have allowed for some increase in end-consumer prices in 2011, large subsidy needs remain which municipalities only paid partially. To date, only one operator filed a complaint under the provisions of the Emergency Ordinance, though the harsh winter conditions in the first quarter of 2012 likely led to the accumulation of further unpaid bills to thermal energy operators. We will continue to monitor, and report to the IMF, EC, and WB on a quarterly basis, the financial situation of the district heating system and ensure prompt application of the provisions of the emergency ordinance.

State-Owned Enterprises

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

24. With the notable exception of the sale of a 15 percent stake in Transelectrica in March, the privatization agenda continues to experience significant delays. After selecting a winning bidder for the full privatization of

Cuprumin, the signing of the purchase agreement within the required time frame failed. The sale of the remaining public shares in Oltchim has been postponed until September 2012 due to technical problems. Our performance on hiring transaction and legal advisors has been mixed:

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

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

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

26. In addition, we will continue our privatization efforts in the following companies with a goal of public tenders by early 2013: (i) We now plan majority privatization of Electrica (including Electrica Furnizare and the three distribution companies) and the sale of Electrica's remaining shares in the already-privatized electricity distribution and supply companies; (ii) the new energy producer Hunedoara, to be created by July 2012 by merging the power plants in Paroşeni and Mintia and the four viable mines of CNH (majority privatization); (iii) the new energy producer Oltenia to be created by mid-May 2012 by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni (majority privatization);and (iv) Elcen Bucuresti (majority privatization). Efforts on other companies will also continue. We place the highest priority on the privatization of the Oltenia Energy Complex, in view of its large investment needs and critical role in Romania's energy security. We will continue our dialogue with the City of Bucharest in order to find a mutually acceptable solution to the closely linked companies Elcen Bucuresti and Radet. For all privatized companies, the government will closely monitor implementation of investment commitments.

27. We continue our actions to resolve the financial situation of Termoelectrica. We took Electrocentrale Bucharesti, Electrocentrale Mintia, and Electrocentrale Paroseni out of Termoelectrica and placed them directly under the Ministry of Economy. However, other valuable assets remain to be extracted, which we intend to place

into a new entity, Electrocentrale Group. The remaining part of the company will be placed into voluntary liquidation by early September. We will submit to the trade register a legal proposal signed by the Termoelectrica's Board, based on an instruction from the Ministry of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012.

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

Other Structural Reforms

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

30. We are committed to easing entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. There was a delay in the elimination of barriers to establishing large surface retail stores, originally expected in February 2012. We will now approve the corresponding legislative amendment

by emergency ordinance by early June 2012. We are undertaking with the World Bank a Report on Observance of Standards and Codes (ROSC) on corporate insolvency systems and creditor rights. We expect the report from the World Bank in the coming months and will draft an insolvency code thereafter.

Table 1. Romania: Quantitative Program Targets

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

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

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

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

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

Table 2. Romania: Performance for Fifth Review

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

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

Technical Memorandum of Understanding

June 2012

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

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

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the 2012 budget*. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the MEFP [¶3] and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat and successful implementation of the monitoring system being undertaken by the Ministry of Public Finance (MOPF).

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

A. Floor on the Change in Net Foreign Assets

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

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

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

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

Floor on cumulative change in NFA from the beginning of 2011 and 2012 (in mln. euros)1

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

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

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

External program and MOPF disbursements–Baseline projections (in mln. euros)[1]

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

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

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

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

Inflation consultation band

	2010	2011				2012			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.

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

C. Performance Criterion on General Government Balance

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

Cumulative floor on general government balance[1]

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

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

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

12. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government, which will include the following SOEs: C.N. de Autostrãzi si Drumuri Nationale din România SA, Fondul Proprietatea SA[27], Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui Ploiesti SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, SC Termoelectrica

[27] Subject to confirmation from Eurostat.

SA, Societatea Nationala Aeroportul International Mihail Kogalniceanu, SC Electrificare SA, CN Administratia Canalelor Navigabile Constanţa SA , SC CN Romarm, Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, Societatea de Transport Maritim si de Coasta CFR Ferryboat SA, SC Avioane Craiova SA, SC Petromin SA, SC Constructii Aeronautice SA, SC Sanevit 2003 SA, SC Uzina AutoMecanica SA Moreni, SC Terom SA, SN Plafar SA, and SC Nicolina SA.

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

+ (i) net external financing, excluding valuation gains and losses;

+ (ii) change in net domestic credit from the financial system, excluding valuation gains and losses from deposits denominated in foreign currency and including adjustments for;

+ (a) received EU funds not yet spent (advance payments);

+ (b) claims of the government on EU funds;

+ (c) property fund obligations not yet paid;

+ (iii) change in the stock of issued government securities, net of valuation changes;

+ (iv) net changes in other financing;

of which: (a) temporary financing for EU projects;

(b) reimbursement payments from EU for the EU projects

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

15. The performance criterion for the general government balance for end-June 2012 (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount that capital spending (including spending related to EU funds and arrears reduction plans, but excluding the works executed under the contracts from the PNDI) exceeds lei 15,230 million, respectively, up to a limit of lei 1,800 million. The performance criterion for the general government balance for end-June 2012 and end-September (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount of a bridge bank loan for arrears clearance of CFR Infrastructura, up to a limit of lei 900 million.

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

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

Ceiling on new general government guarantees issued from end 2008 until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (actual)	6.5
End-March 2012 (actual)	7.0
End-June 2012 (performance criterion)	14.0
End-September 2012 (performance criterion)	14.0
End-December 2012 (indicative)	14.0

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

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

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

Stock of central government and social security arrears	(In billions of lei)
End-December 2010 (actual)	0.19
End-March 2011 (actual)	0.15
End-June 2011 (actual)	0.11
End-September 2011 (actual)	0.10
End-December 2011 (actual)	0.09
End-March 2012 (actual)	0.12
End-June 2012 (performance criterion)	0.06
End-September 2012 (performance criterion)	0.04
End-December 2012 (indicative)	0.02

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

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

G. Indicative Target on General Government Current Primary Spending

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

Cumulative change in general government current primary expenditures[1]	(In millions of lei)
End-December 2010 (actual)	131,938
End-March 2011 (actual)	30,670
End-June 2011 (actual)	62,578
End-September 2011 (actual)	94,133
End-December 2011 (actual)	128,317
End-March 2012 (actual)	30910
End-June 2012 (indicative)	64,800

End-September 2012 (indicative)	99,000
End-December 2012 (indicative)	133,700

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

H. Indicative Target on the Execution of the PNDI Program

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

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

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

I. Indicative Target on Local Government Arrears

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

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

J. Absorption of EU Funds

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

K. Monitoring of Public Enterprises

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

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

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

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

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

Floor on cumulative operating balance[1]	(In billions of lei)
End-March 2012 (preliminary)	-0.4
End-June 2012 (indicative)	-2.2

End-September 2012 (indicative)	-2.7
End-December 2012 (indicative)	-3.2

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

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

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

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

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

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

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

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

L. Private Management for Key SOEs

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

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

A. Reporting Requirements

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

Romania: Data Provision to the IMF and EC

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95	Monthly, on the 25th day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25th day past the test date
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th day past test date
The budget deficit of the general government using ESA95 definition	Quarterly, with a lag of three months
Preliminary data on below-the-line financing for the general government	Monthly, with a lag of no more than 35 days past the test date
Final quarterly data on below-the-line financing for the general government	Quarterly, no later than 45 days past the test date
Total accounts payable and arrears of the general government, including local governments	Preliminary monthly, within the next month. Quarterly, within 55 days
Stock of the central government external arrears	Daily, with a lag of not more than seven days
Public debt and new guarantees issued by the general government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Preliminary monthly data within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
Preliminary data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, within 30 days
Final data on the operating balance, profits, stock of	Quarterly, end May for the previous year and end-

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

To be provided by the National Bank of Romania

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

Financial soundness indicators[28]	Monthly, 45 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly
The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence

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

TMU's ANNEX

Measures to Improve Performance of SOEs under Monitoring

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

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

S.C. Electrificare CFR S.A.

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

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

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

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

- Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and

Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;Sign contract with privatization consultant for majority privatization to strategic investor by mid-June 2012;

· Send notification to DG Comp for envisaged state-aid scheme aiming at arrears reduction, based on the prudent private seller test prepared by privatization consultant, by mid-June 2012;
· Negotiate with Ministry of Public Finance, Ministry of Internal Affairs and Ministry of Economy arrears cancellation schemes for (power plants and Oltchim-Electrica) by end-June 2012;
· Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
· Continue to scrap and valorify 3000 depreciated cars by end-August 2012;
· Pre-qualify bidders for majority share of Marfa by mid-September 2012 and complete privatization by end-October 2012;
· Implement integrated system for assets and management remuneration by end-November 2012;
· Reinforce continuously efforts to collect outstanding invoices, including by giving notice on contracts and taking legal measures against companies with substantial arrears.

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

· Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;
· Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
· Sign contract with consultant to hire private management and board members by end-June-2012;
· Identify, together with the Ministry of Public Finance, possibilities to grant compensation amounting to 300 mil lei to balance the income and expenditure budget for 2012 by end-June 2012;
· Identify, together with the Ministry of Public Finance and the Competition Council financing possibilities for renewing and repairing old rolling stock by end-June 2012;
· Scrap and valorify 100 depreciated cars by end-December 2012;
· Begin implementing recommendations of consultant hired to evaluate the necessary services and related costs for achieving the minimum social package by mid-September 2012;
· Appoint new board members and private management by end-September 2012;
· For 2012, after the taking over of the subsidiaries, the number of personnel should not exceed the 2011 level;
· Increase 2012 revenues by 6 percent over 2011 from activities connected to public railway transport, in particular by renting all publicity spaces available;
· Implement a pilot plan on replacing REGIO trains in classical composition (locomotives and cars) by leasing EMU/DMUs by end 2012.

S.C. Metrorex S.A.

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

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

- Finalize and implement remaining 2 internal management control standards standards by end-June 2012;
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points:
  - Sign the contract by end-June 2012;
  - Ensure that 50 percent of the fixed control points are functional by end-December 2012;
  - Finalize and take over the information system by end-March 2013.
- Quantify lost revenue from delay in implementing fixed control points and identify offsetting revenue or expense measures.

C.N. Tarom S.A.

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

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

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

C.N. Poşta Românã S.A.

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

S.C. Oltchim S.A.

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

C.N. a Huilei S.A

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

Start CNH liquidation by end-September 2012.

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

Submit to the trade register a legal proposal signed by Termoelectrica's Board, based on an instruction from the Ministery of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012;

Sign contract with consultant to hire CEO for Electrocentrale Galati by mid-June 2012;

Merge Electrocentrale Deva and Electrocentrale Paroseni with viable mines from CNH to create Hunedoara by end-July 2012;

Place remaining part of Termoelectrica into voluntary liquidation in early-September 2012;

Appoint legal advisor for majority privatization of new energy company Hunedoara by end-August 2012; appoint transaction advisor for majority privatization by end-October 2012, with view to complete privatization by end-2012/early 2013.

S.C. Electrocentrale Bucuresti S.A.

Continue exploring various strategies for clearing outstanding payments between Elcen Bucuresti and Radet Bucuresti and Radet Constanta, in conjunction with the Ministry of Economy and the municipalities of Bucharest and Constanta, even if this might imply a full waiver of penalties, by end-July 2012;

Appoint transaction advisor by end-September 2012;

Publish prospectus by end-November 2012, with view to conclude privatization by end-2012/early 2013.

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

Sign contract with consultant to hire private management of the new Complexul Energetic Oltenia by mid-May;

Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni and publish merger in Official Gazette by mid-May 2012;

Select new board members by end-September 2012 and new management by end-October 2012;

Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by end-September 2012;

Appoint transaction advisor by fall 2012;

Publish prospectus for privatizations by late 2012, with view to conclude privatization offer by end-2012 or shortly thereafter;

Continue reduction of underground operation of SNLO with aim to terminate it by end-March 2013.

S.C. Hidroelectrica S.A.

Renegotiate bilateral contracts to market conditions, following announcement of EC investigation into contracts, by end-May, 2012. If conclusion not possible, cancel contract where legally permissible;

Select new management team and board members by end-June 2012;

Publish prospectus by end-June 2012; with view to conclude IPO by mid-October 2012.

S.C. Electrica S.A. including subsidiaries

Keep remaining 3 distribution subsidiaries in separate companies as merging them could lead to competition restrictions;

Select new management team and board members for Electrica Furnizare by end-June 2012;

Appoint investment bank for privatizations of the five regional service companies by mid-June 2012;

Publish prospectus for privatizations of the five regional service companies by mid-August 2012, with view to conclude privatization by end-October 2012;

Sell shares in already-privatized electricity distribution and supply companies according to Electrica's strategy;

Appoint legal advisor and transaction advisors for the majority sale of remaining parts of Electrica (including Electrica Furnizare and the three distribution companies) by end-October 2012 with a view to concluding the privatization by end-2012/early 2013;

File for liquidation for all Electrica-Serv companies for which privatization failed immediately thereafter;

Reduce personnel of Electrica in parallel to privatization of subsidiaries and own supply activity.

Second Supplemental Memorandum of Understanding (SMoU)

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE EUROPEAN COMMISSION

AND

ROMANIA

The present supplemental memorandum of understanding updates the specific Economic Policy Criteria contained in the original memorandum of understanding signed in June 2011 as amended by the first supplemental memorandum of understanding signed on 27 December 2011.

The memorandum of understanding may be amended upon mutual agreement of the parties in the form of an Update. The Update will become effective after the completion of the internal procedures required under the Laws of Romania.

Done in Bucharest on   June 2012 and in Brussels on   June 2012 in five originals in the English language.

ROMANIA Represented by	**EUROPEAN UNION** Represented by EUROPEAN COMMISSION
[Signed]	*[Signed]*
Victor Ponta Prime Minister	*Olli Rehn* Vice-President of the European Commission
[Signed]	
Florin Georgescu Deputy Prime Minister and Minister of Public Finance	
[Signed]	
Mugur Isărescu Governor of the National Bank of Romania	

ANNEX

ROMANIA

MEMORANDUM OF UNDERSTANDING

ON

SPECIFIC ECONOMIC POLICY CONDITIONALITY

(SECOND SUPPLEMENTAL MEMORANDUM)

June 2012

With regard to Council Decision (EU) n° 2011/289/EU of 12 May 2011 granting mutual assistance for Romania, this second update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) details the general economic policy conditions as embedded in the Implementing Council Decision (EU) n° 2011/288/EU of 12 May 2011 providing precautionary EU medium-term financial assistance for Romania.

This second supplemental Memorandum of Understanding updates the specific economic policy criteria contained in annex 1 to the original Memorandum of Understanding[29] as amended by the first supplemental Memorandum of 27 December 2011.

For the duration of the EU/IMF financial assistance programme the Romanian authorities will take all the necessary measures to ensure a successful implementation of the programme. In particular, they commit to:

- Consult with the European Commission and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

To facilitate programme monitoring, the authorities will provide the European Commission and the IMF with:

- All information required to monitor progress during programme implementation and to track the economic and financial situation.

[29] The signatures on the "Memorandum of Understanding between the European Union and Romania" were completed on 29 June 2011.

Annex 1: Specific Economic Policy Criteria

A: Fiscal consolidation

No.	Measures
1	Progress in terms of fiscal consolidation with a view to reaching a deficit below 3% of GDP for 2012 in ESA terms.
2	In the 2012-2015 update of the Medium Term Fiscal Strategy, provide the financing necessary to gradually reduce the payment delays in the health sector from 210 days to 60 days as required by Article 4 (4) of the EU late payments directive (Directive 2011/7/EU).
3	Further progress with the reduction in government payment arrears both at central government and local government levels, as specified by the quantitative targets of the joint program.
4	Introduction of an enhanced reporting system for the State Owned Enterprises which are part of the ESA definition of the general government. The system should require these companies to report all necessary data for the calculation of the likely impact on the general government deficit. The data should be reported monthly and on a cash basis; and should include, inter alia, a monthly monitoring of arrears, subsidies and transfers, and losses.
5	Prevent the further accumulation of arrears and losses for the companies which have been reclassified by Eurostat into the general government sector.
6	Continued monitoring of the public sector wage bill, and necessary action taken in a timely fashion if the wage bill is projected by the Ministry Of Public Finances (MOPF) or by the Commission staff to exceed the relevant limits set in the Medium-Term Fiscal Strategy. The public sector wage bill should remain sustainable over the 2012-2014 period.
7	Approval of legislation by mid-June 2012 to modify the co-payment system for medical services in cooperation with the World Bank.
8	In case the Nabucco project starts, which would make it necessary to issue a state guarantee on the part of Romania, the ceiling for the state guarantees defined in the Medium-Term Fiscal Strategy will be temporarily adjusted accordingly. In case these or any other guarantees are called, compensatory measures - to the extent the ESA treatment of the called guarantees requires - will be taken to keep the fiscal deficit within the (ESA) targets defined.

B: Fiscal governance and structural fiscal reform

No.	Measures
9	The MOPF should receive the information on hospital budgets at central government level from the Health Ministry in a timely fashion. Once the new Health Law is approved, the MOPF should also receive the information on hospital budgets at local government level from the Health Ministry. The MOPF should check that the aggregate figures for hospital budgets are consistent with the expenditure programmed in the general government budget, and if the need arises take the necessary action in cooperation with the Ministry of Health, in order to avoid a re-accumulation of payment arrears as a result of expenditure commitments based on over-estimated revenue.
10	Improvement in capital investment budgeting by establishing a list of priority investment projects for which financing will be available over the next 3-5 years. The list of priority projects should be based on detailed feasibility studies, and take account of criteria such as cost benefit analysis, estimated share of completion, how well the project implementation has been managed to date by the ministry, their matching to the strategic priorities of the government, as well as on the analysis

No.	Measures
	produced by the capital monitoring unit of the MOPF. Improve the monitoring and evaluation of investment projects at the central government level in particular by improving the database relative to capital investment managed by the MOPF which would also contain information on the status of the projects such as project delays or cost overruns. The development of the database should follow the same timeline as the IMF assisted IT project of integrating the accounting reporting system with the Treasury payment system of the MOPF. Continue to improve the expertise in the public investment monitoring unit in the MOPF. Going forward, the public investment monitoring unit of the MOPF will produce quarterly reports to the government on the status of ongoing and planned investment projects. The government will discuss this report and, if necessary, take timely action to eliminate potential fiscal slippages or any other problems related to budget execution.
11	Reorient public capital spending so as to obtain a gradual shift from entirely domestically financed investment to EU co-financed investment; ensure that the share (% of GDP) of capital spending on EU co-financed investment including from external loans in 2012 will be around 4.0% of GDP and remains thereafter higher than the share of non-co-financed investment in line with the medium-term fiscal strategy; and ensure congruence with EU priorities.
12	Reinforcement of the statistical capacities and expertise at the Romanian National Statistical Institute (INSSE) in the field of Government Finance Statistics (GFS). INSSE will submit semi-annual reports on progress made.
13	Delivery to the Commission Services of the second report on the implementation of conventional measures to tackle VAT fraud by June 2012 and the third report by December 2012.
	<u>Debt management</u>
14	Review (and in this context discuss it with Commission staff), update and publish the debt management strategy on an annual basis, i.e. under this programme by the second quarter of 2012 and by end-December 2012.

C: Financial sector regulation and supervision

No.	Measures
15	Based on the Memorandum of Understanding between the NBR and the Deposit Guarantee Fund (DGF), the two institutions will agree by end-May 2012 the set of relevant financial information as well as the necessary internal arrangements to provide this information to the DGF.
16	To foster the development of the market for impaired assets and mitigate the risks associated with the still on-going deterioration in asset quality, authorities will ensure by end-June 2012 that the tax treatment of bank receivables sold by banks to asset recovery companies incorporated in Romania is neutral.
17	Make the necessary legislative amendments to Law 503/2004 on the bankruptcy of insurance undertakings to ensure, inter alia: *i)* the correlation with the Law 32/2000 on the insurance business and insurance supervision with subsequent amendments and with the general law on insolvency; *ii)* the expansion of the scope of application of this law to re-insurance companies; *iii)* the introduction of provisions on voluntary dissolution and liquidation. The authorities will ensure that the law amending the Law 503/2004 will be enacted by end-October 2012.
18	To continue preserving financial stability, the NBR will ensure that any future consolidation process in the banking sector will lead to the emergence of well-capitalized credit institutions backed by a strong private shareholder base.
19	Based on available data, the NBR will prepare an assessment of the experience with the application of the prudential filters on loan-loss provisions, solvency and reserves as well as proposals for the permanent arrangements (including possible adjustments) that will apply in 2013. These will be shared with the EC and IMF staff and subsequently released for consultation with the banking

No.	Measures
	community no later than end-July 2012.To strengthen its capacity to effectively supervise the banking sector, the NBR will continue to upgrade its expertise in IFRS, including *via* consultation with international experts.
20	To avoid the ever-greening of loan portfolios while allowing banks some flexibility in loan restructurings, the NBR will continue to closely oversee bank practices to ensure that loan-loss provisioning and the assessment of credit risk of restructured loans continue to remain prudent and in line with good international practices.
21	Authorities will amend, by end-October 2012, Government Ordinance 10/2004 on the winding up of credit institutions to ensure that the treatment of subordinated debt in the table of creditors is determined by contractual terms and not by thresholds related to the participation to the capital of credit institutions.
22	Once sufficient data becomes available, the NBR will assess, by end-October 2012 at the latest, the impact of the recently introduced measures on foreign-exchange lending to households, and share its observations with the EC and IMF staff.
23	As preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability, we will continue refraining from adopting legislative initiatives (for instance the personal insolvency law, proposals for the debt collecting law), which would undermine credit discipline.

D: Structural reforms

No.	Measures
24	Implementation of the Action Plans adopted in response to the findings of the functional reviews. Report on progress on a quarterly basis.
25	Modernise and streamline the relations between different levels of government and between the government and citizens and businesses by greater reliance on electronic data exchange and online interfaces.
	Product markets
26	Notification of the laws relevant for the transposition of EU Directives 2009/72/EC and 2009/73/EC (part of the 3rd Energy Package) on electricity and gas markets as soon as possible. The laws should ensure a full and correct transposition of Directive 2009/72/EC and 2009/73/EC and should reflect, among other things, the commitments of Romania under the MoU. The laws should include the final timeline of price deregulation in electricity and gas, which should be achieved as soon as possible, but for electricity not later than by end-2013 (non-domestic consumers) and end-2017 (domestic consumers), and for gas as soon as the price for domestically produced gas converges with the average European market price for gas, but not later than by 2014, unless a large gap remains between the average European price and the import price (which could endanger market stability), in which case adjustment would continue until end-2015 (non-domestic consumers). For households, regulated gas prices will be increased starting in July 2013 and converge to international gas prices no later than December 2018.
27	Phase out regulated prices in electricity: According to the electricity road map, adopted in March 2012 by government memorandum, implement the actions by the agreed deadlines and provide quarterly progress reports starting from 1 October 2012. Publish the adopted electricity roadmap before 30 June 2012. Phase out regulated prices in gas: Adopt a detailed roadmap for phasing out regulated prices in

No.	Measures
	gas for non-domestic and domestic customers through a government memorandum by mid-June 2012. The draft roadmap will be agreed between ANRE, the Romanian government, the European Commission and the IMF, before its adoption by the Romanian government. The roadmap will specify: *i)* the final timeline of deregulation which should start on 1 December 2012 for non-domestic consumers and on 1 July 2013 for domestic consumers and which should be achieved by the deadlines referrred to in paragraph 26; *ii)* the main intermediary steps of deregulation, which should be based on a clear and transparent method for gradually increasing the tariffs, in a broadly linear fashion in order to ensure that during the phasing-out period market prices and regulated tariffs will not diverge significantly, the methods to avoid cross-subsidisation between consumer segments, as well as clear and transparent criteria for the customers to be gradually phased-out; and *iii)* an appropriate regulatory framework that contains mechanisms to ensure competition in the gas market, by involving the Competition Council and ensuring the development of a trade exchange platform, in particular for gas contracts which currently does not exist. Publish the adopted gas road map by 30 June 2012.
28	Explicitly define the vulnerable consumers in the electricity and gas laws, and develop mechanisms to protect them in conjunction with the MOPF and the Ministry of Labour.
29	Eliminate legal, regulatory and physical barriers to cross-border trade of electricity and gas: *i)* removal of legal and regulatory barriers to the export of gas as soon as possible; *ii)* presentation of a roadmap towards bi-directional flows of gas at the border with Hungary by end-June 2012; *iii)* improving coordinated auctions at the borders with Hungary and Bulgaria and establishing an intraday market in electricity by end-August 2012; and *iv)* take all the necessary actions on the part of the government to ensure that a bi-directional flow of gas at the border with Hungary is established before the end of 2012.
30	Ensure an effective unbundling of electricity and gas transmission networks and their operation in a transparent and non-discriminatory manner; *i)* finalise negotiations with the Russian Federation to review historical Intergovernmental agreements concerning the "gas transit" pipelines through Romania as soon as possible; and *ii)* ensure fully certified unbundling of transmission networks in electricity and gas as soon as possible, but no later than end-2012.
31	Put in place the legal framework through the correct transposition of EU Directives 2009/72/EC and 2009/73/EC with a view to ensuring that the energy regulator operates independently and efficiently and is equipped with adequate means to fulfil its tasks and responsibilities as defined in the third energy package.
32	Railway reform - Infrastructure: *i)* identify and close or lease lowest cost recovery segments of the railway lines; *ii)* Ensure that the law, in particular the Government Decision on the multi-annual contract: *(a)* leaves it to the infrastructure manager to determine or approve infrastructure charges and that the regulator has the necessary powers to request data and to take independent decisions on infrastructure charges; *(b)* sets out the sources of finance on an annual basis for the entire duration of the contract and is consistent with CFR's business plan; and *(c)* ensure that the contract provides sufficient incentives to the infrastructure manager to reduce unit costs and charges. If necessary, amend the Decision to this effect. *iii)* CFR Infrastructura to complete the present business plan with marketing oriented information (including market segments and charging policies) and ensure the consistency of the funding sources between the business plan and the multiannual contract.
33	Railway reform – Passenger traffic: *i)* submit by December 2012 a government commissioned study on the promotion of competitive tendering of public service obligation contracts; and *ii)* encourage CFR Calatori to implement performance schemes in cooperation with CFR Infrastructura in accordance with EU legislation, i.e. modify charging schemes according to responsibility for disrupting services.
34	Railway reform – Freight traffic: encourage CFR Marfa (the cargo rail company) to implement performance schemes in accordance with EU legislation.

No.	Measures
35	Public Private Partnerships: The authorities involved in overseeing PPPs (ANRMAP and UCPPP) commit to jointly report by December 2012 on the functioning of the arrangements (including on the information flow and acces to relevant documents by both authorities).
36	Establish an operational Point of Single Contact (PSC), provided for in the Services Directive, to help businesses with all administrative procedures involved for the establishment in Romania or for the cross-border service provision. The PSC should provide all information about the conditions and requirements applicable in all services sectors covered by the Services directive, both for establishment and for temporary cross-border service provision as well as the online completion of any relevant administrative procedures (for example obtaining authorisations, making declarations, etc.). By end-June 2012, the following actions should be taken: *i)* appoint an authority in charge of coordinating the setting up of the PSC, monitoring of the functioning of the PSC and reporting the progress made to the Commission; *ii)* grant to this authority the necessary powers, competences and resources and set complementary obligations on all the competent authorities in order to ensure their cooperation in the completion of this project. By end-August 2012, the appointed authority should: *i)* provide the European Commission with a working plan and calendar for the implementation of the PSC; and *ii)* provide a list of priority sectors and horizontal procedures to be covered at the first stage by the procedures under the PSC. By end-October 2012, the PSC should: *i)* make information available online in respect of administrative procedures covered by the Services Directive; and *ii)* make online completion of relevant procedures available for the priority sectors and horizontal issues identified previously. By end-December 2012, the PSC should be fully operational and the electronic completion of procedures should be possible in all the services sectors covered by the Services Directive.
	<u>Labour markets</u>
37	Implement reforms to the wage setting system allowing wages to better reflect productivity developments in the medium term, while respecting the autonomy of social partners, national traditions and practices.
38	Widen the set of cases for use of fixed-term labour contracts (by end-October 2012), while ensuring that this does not increase labour market segmentation. In parallel, improve the adequacy of the employment protection legislation and adapt to the flexicurity principles.
39	Extend the period over which overtime can be compensated with paid hours off to 3 months (by end-October 2012).
	<u>Pensions</u>
40	Safeguard the long-term sustainability of the pension system.
	<u>Absorption of EU Funds</u>
41	The EU funds contribution to the total eligible expenditure that is certified to the Commission by the indicated dates is at least equal to 8000 million euro at 31 December 2012. The advance payments are not considered part of the certified expenditure. The targeted amounts are based on a cumulative basis starting from 2007.

Throughout the implementation of the financial assistance programme, performance in the following area will be monitored:

<u>Price stability and reserve management</u>

No.	Measures
42	Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation targets (3.0% ± 1 percentage point end-2012).
43	Commission staff will be promptly informed if reserve losses exceed EUR 2 billion in any 30-day period during the program period.

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