July 2013
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Romania: Seventh and Eighth Reviews Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Romania.

In the context of the Seventh and Eighth Reviews Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criteria, the following documents have been released and are included in this package:

- The staff report for the Seventh and Eighth Reviews Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on January 29, 2013, with the officials of Romania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 13, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Staff Supplement dated June 24, 2013.

- A Press Release summarizing the views of the Executive Board as expressed during its June 26, 2013 discussion of the staff report that completed the request and/or review.

- A Statement by the Executive Director and Senior Advisor for Romania.

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

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

*Also included in Staff Report

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

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ROMANIA

ROMANIA–SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA

June 11, 2013

KEY ISSUES

Stand-By Arrangement: A 24-month Stand-By Arrangement (SBA) equivalent to SDR 3,090.6 million (€3.4 billion, US$5.0 billion, 300 percent of quota) was approved by the Executive Board on March 25, 2011 (Country Report No. 11/80) and became effective March 31, 2011. The eighth and ninth tranches equivalent to SDR 430 million (€496 million) and SDR 20.6 million (€23.7 million), respectively, will be made available upon completion of the seventh and eighth reviews. The authorities are treating the arrangement as precautionary. Additional funds for the Fund-supported program were provided by the European Union (€1.4 billion) and the World Bank (€1.0 billion), also on a precautionary basis.

Program status: Aside from the generally sound fiscal and monetary policy stance, program implementation of structural reforms slipped in advance of parliamentary elections on December 9, 2012. Three of the five quantitative performance criteria and three of the five indicative targets for end-December 2012 were missed. On March 15, 2013, the Executive Board approved the authorities request for an extension of the arrangement for three months to end-June 2013 to allow time to implement corrective actions, including five prior actions focused on arrears reduction and privatization of state-owned enterprises (EBS/13/19).

Political developments: The ruling coalition secured a solid majority of the votes in December's parliamentary elections. Both the Prime Minister and the President have underlined their commitment to the program and have requested a follow-up arrangement to help anchor economic policies and reforms, while providing a buffer against financial and external risks.

Staff views: Staff recommends completion of the seventh and eighth reviews and supports the authorities' request for waivers of the missed performance criteria on net foreign assets of the National Bank of Romania, the general government balance, and central government arrears based on corrective actions taken by the authorities. Discussions on a possible new Fund-supported program could commence after completion of the reviews.

Approved By
Poul M. Thomsen and Vivek Arora

Discussions were held in Bucharest during January 15-29, 2013. The mission met with Prime Minister Ponta, Deputy Prime Minister and Minister of Public Finance Chitoiu, other members of the government, National Bank of Romania Governor Isarescu and his staff, other senior officials, and representatives of political parties, labor and business organizations, and financial institutions. The staff team comprised J.E. de Vrijer (head), J. Ralyea, A. Tuladhar, C. Saborowski, J. McCoy (research assistant; all EUR); J. Bersch (SPR); F. Eich (FAD); and H. Hesse (MCM). T. Lybek and G. Babici (Resident Representative office) assisted the mission. Discussions were held jointly with staff from the European Commission. S. Matei (Senior Advisor to the Executive Director) and World Bank staff attended some of the meetings; European Central Bank staff participated as an observer. The mission also participated in a labor market roundtable organized by the unions.

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INTRODUCTION

1. **Romania has made significant progress in restoring macroeconomic stability under the current SBA, but growth remains weak** (Text Figure 1). Continued strong fiscal consolidation would enable Romania to exit the EU Excessive Deficit Procedure by mid-2013, prudent monetary policy kept core inflation low, and close supervision buttressed banking sector stability. Fiscal and international reserves buffers and a well-capitalized banking sector provide a cushion against shocks. Market sentiment toward Romania improved as political uncertainty subsided in the aftermath of the December 2012 parliamentary elections, which the ruling coalition won. Structural reforms, however, advanced slowly and the recovery has lagged behind that in most other European emerging economies.

2. **Program performance was mixed over the review period**. Importantly, the authorities reduced the fiscal deficit (ESA terms) to below 3 percent of GDP in 2012, in line with EU commitments, and began deregulating energy prices. However, a number of program targets and benchmarks were missed or are expected to be implemented with delays:

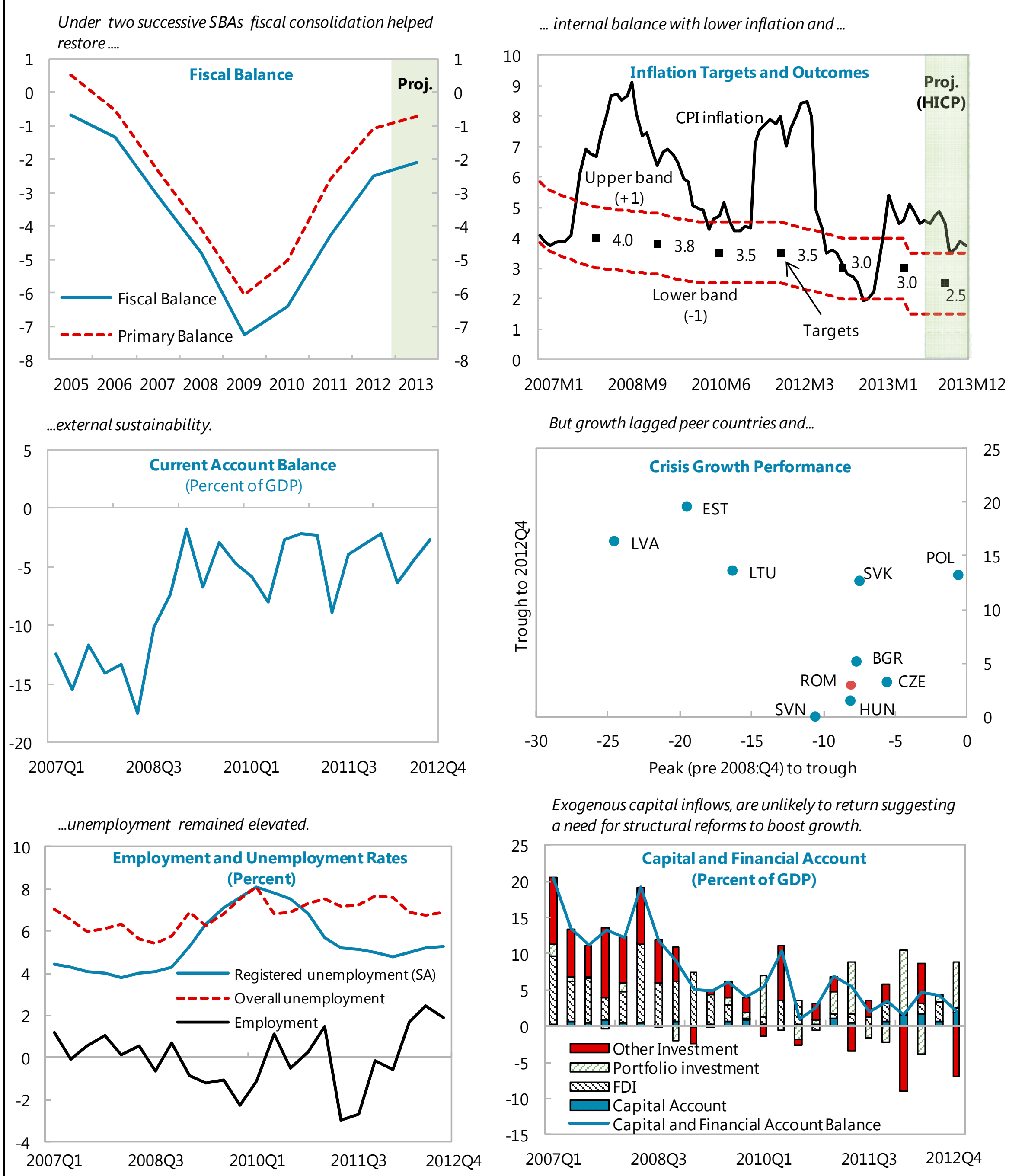
- The December 2012 performance criteria on net foreign assets (NFA) of the National Bank of Romania (NBR), the general government balance (cash basis), and central government arrears were missed, albeit the latter by a very small margin. The indicative targets on general government primary spending, local government arrears, and state-owned enterprise (SOE) arrears were also missed.

- The structural benchmark on publishing financial statements of public hospitals was met, while the benchmarks on updating and streamlining the local government investment database and on defining the structural architecture of the new accounting and treasury reporting system were not met but are expected to be implemented with delays. The structural benchmarks related to SOEs – signing of the contract with a transaction advisor for the majority privatization of the thermo-electricity generator (Oltenia) and holding initial public offerings (IPOs) of government shares in the hydroelectric producer (Hidroelectrica) and the gas producer (Romgaz) – were not met.

3. **At the request of the authorities the SBA-supported program was extended by three months to allow time to implement corrective actions**. As prior actions for completing the seventh and eighth reviews, the government committed to sell a majority stake in the state-owned railway freight company (CFR Marfa), hold a secondary public offering (SPO) of shares in the gas transmission operator (Transgaz), retain a transaction advisor for an IPO of Oltenia, and reduce central- and local-government arrears to the end-December 2012 target levels.[1] The SPO of

[1] The IPO of Oltenia is instead of a majority privatization per the missed structural benchmark. The launching of the tender for the SPO of Transgaz was a prior action for completing the sixth review.

Text Figure 1. Romania: Overview, 2007–13



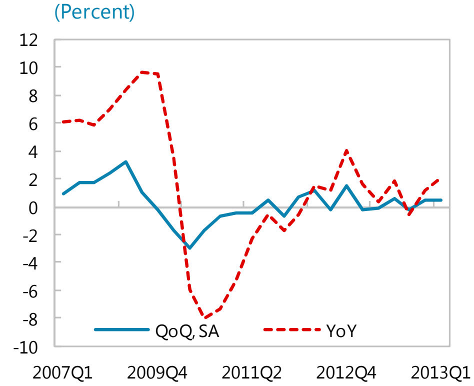
Sources: Haver; Romanian authorities; WEO; and IMF staff estimates.

15 percent of Transgaz shares was completed in April and a contract with a transaction advisor for Oltenia's IPO was signed in May. The majority sale of CFR Marfa is on track to be finalized/initialed before the Board meeting. Central- and local-government arrears are expected to be reduced as targeted. In addition, SOE arrears were reduced with the liquidation of two public enterprises in May, and the authorities remain committed to holding IPOs for Hidroelectrica and Romgaz.

4. **Over the course of two-year arrangement, the program was successful in resolving macroeconomic stability although the structural reform agenda remains unfinished.** The Fund-supported program was designed to provide precautionary support against possible future economic shocks, while assisting Romania in continuing its adjustment. Key objectives were to: (i) continue the fiscal adjustment process while addressing problems of revenue and expenditure efficiency, and arrears; (ii) boost growth potential through structural reforms and improved flexibility of the economy; and (iii) continue fostering confidence and facilitate private capital flows, by improving policy stability and the business climate. The objective of continuing the fiscal consolidation was achieved, setting the stage for Romania to exit the EU Excessive Deficit Procedure, but arrears reduction remained a challenge. Macroeconomic stability and policy credibility ensured a successful ratings upgrade and continued market access. Labor market reforms to increase flexibility were implemented. Progress was made in SOE monitoring and energy price liberalization was initiated but the SOE reform agenda remains incomplete, and the reform process has not yet borne fruit through higher investment and growth (Box 1).

RECENT DEVELOPMENTS

Real GDP growth
(Percent)



Source: Haver.

5. **The recovery slowed in 2012. Real GDP is estimated to have increased by 0.7 percent in 2012, down from 2.2 percent in 2011**. Domestic demand waned as confidence diminished due to internal political strife and exports were hampered by the euro area recession. A drought-induced contraction in agriculture also depressed output. As a result, unemployment remained elevated.

6. **Inflation spiked following supply shocks and administrative price increases**. After reaching a low of 2 percent in mid-2012, annual inflation jumped outside the central bank's target band for 2012 of 3±1 percent.2 Headline inflation reached 6 percent in January 2013, pulled by increases in food prices and administered price hikes, particularly for

[2] The central bank (NBR) held discussions with IMF staff in accordance with the Technical Memorandum of Understanding (TMU) because the observed year-on-year rate of CPI inflation fell outside the inner bands specified in the TMU for the end of the third and fourth quarters of 2012.

Box 1. Major Measures Under the SBA, 2011–13

During the program period, the structural deficit (ESA terms) was reduced by 4½ percent of GDP.

On the *expenditure side*, measures included:

- Continued streamlining of public employment allowing restoration of the 2010 public wage cut within a sustainable wage bill.
- Improved targeting of subsidies and social assistance.
- Enhanced prioritization of capital investment projects towards EU-funded projects.
- Elimination of arrears of the health insurance fund, reduction and improved control of central and local government arrears, and shortening of payments period.
- Progress was made in modernizing the accounting and treasury reporting systems, including commitment controls.

On the *revenue side*, measures included:

- Base-broadening of taxation for agriculture and small enterprises.
- Integration of tax and social contributions collection.
- Increase of excises and introduction of a windfall energy levy.
- Progress was made in restructuring and modernization of tax administration, including streamlining of registered small VAT payers.

***Structural reforms* included:**

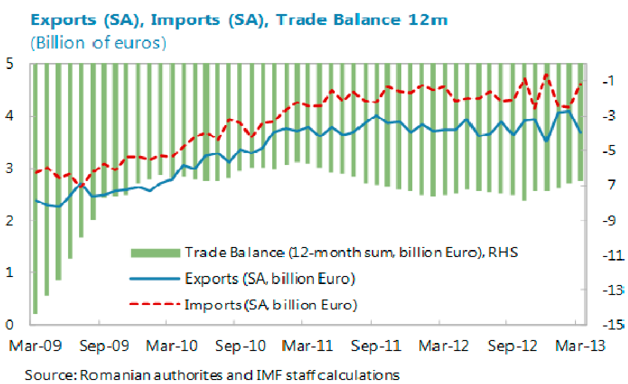
- Transposition into national law of the EU Third Energy Directive.
- Increased gas and electricity prices and started implementation of the price liberalization roadmaps.
- Adoption of an Emergency Ordinance on SOE corporate governance, which embodies good international practices.
- Creation of a quarterly financial reporting and monitoring system of SOE activity.
- Sizable reduction of central-government SOE arrears.
- Liquidation of two large SOEs and placement of a two SOEs into insolvency.
- Majority sale of the state-owned rail freight company to a strategic investor and secondary public offerings of shares in the electricity and gas transmission system operators.
- Cancellation of below-market bilateral contracts by the state-owned hydroelectric company.
- Introduction of efficiency-enhancing measures in healthcare, including copayments on hospital services, a claw-back tax on pharmaceuticals, and increased transparency of hospital budgets.
- Passage of a New Labor Code and Social Dialogue Law that enhance labor market efficiency.
- Passage of a Social Assistance Law that provides for streamlining and better targeting of social benefits.

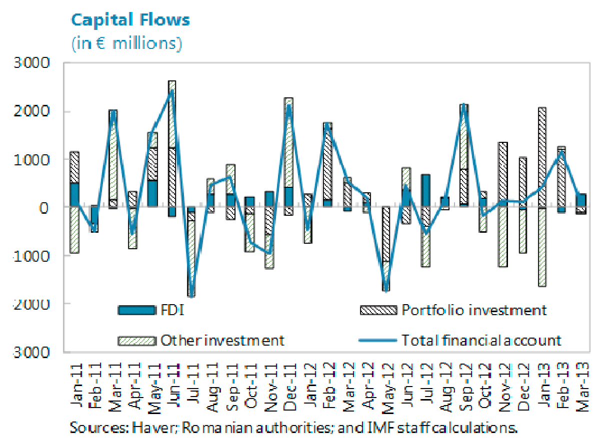
In the *financial sector*, measures included:

- Strengthening of the bank resolution framework and contingency planning, including bridge bank and purchase & assumption powers.
- Improved coordination between the central bank and the Deposit Guarantee Fund.
- Introduction of IFRS in January 2012 with permanent prudential filter from 2013.
- Restriction of foreign currency lending to un-hedged households and businesses.
- Fiscal Code amendment to facilitate sale of distressed bank loans.

electricity and tobacco products, and reversing base effects. Since then, inflation has come down to 5.3 percent in April as the effects of the shocks dissipated. Annual core inflation (HICP basis) also increased somewhat from a low of 2.1 percent early last year to 3 percent by end-2012, but subsequently fell to 2.4 percent by end-March 2013.[3]

7. **The current account deficit has narrowed, while reliance on portfolio financing has increased.** Slowing external and internal demand left the trade balance (in euro terms) little changed in 2012, but a surplus in the services balance and strong remittances contained the current account deficit to below 4 percent of GDP in 2012 from 4.5 percent in 2011. The deficit was financed mainly through government bond placements, inflows from international financial institutions, and to a lesser extent foreign direct investments. Romania sold $2.25 billion in U.S. dollar denominated bonds and €2.25 billion in Eurobonds in 2012. In addition, domestic issuance of euro-denominated instruments totaled €763 million in 2012. The authorities continued to tap international markets in 2013, selling $1.5 billion in 10-year U.S. dollar-denominated bonds at a yield of 4.5 percent in February, and slightly more than €1 billion in three-year euro-denominated bonds with an average yield of 3 percent thus far on the local market.



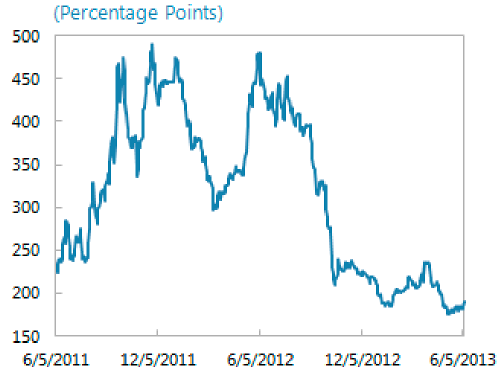


8. **Monetary policy continued to focus on containing inflation expectations.** In response to depreciation pressures and the inflation uptick, the NBR tightened monetary conditions in the latter part of 2012 by capping repos, driving up interbank rates and treasury yields. It also intervened in the foreign exchange market to support the leu, which contributed to missing the NFA performance criterion for end-December (actual €19.3 billion versus programmed €20.2 billion). Positive market sentiment following the December elections and inclusion of Romania in emerging market bond indices boosted the exchange rate, limiting the depreciation against the euro to about

[3] Food items comprise over 40 percent of the core index.

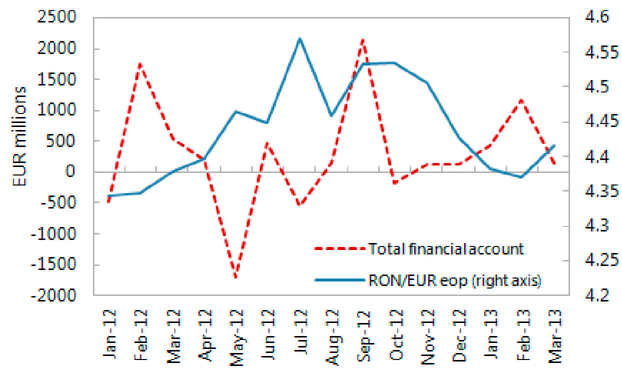
2½ percent in 2012, and supporting an appreciation of 2½ percent in the first four months of 2013. The CDS and EMBIG spreads for sovereign debt have narrowed by more than 250 points since end-June 2012, in part, attributable to a general narrowing of European sovereign spreads following the ECB's OMT announcement. The NBR took advantage of the favorable conditions to sustain international reserves at €35.7 billion by mid-May, while making substantial repayments to the Fund. It also lifted the cap on repurchasing operations in March as headline inflation came down somewhat from recent highs and exchange rate pressures subsided.

Romania CDS spreads
(Percentage Points)



Source: Bloomberg.

Exchange Rates Dynamics



Sources: Haver; Romanian authorities; and IMF staff calculations.

9. The banking sector remains well capitalized but foreign bank deleveraging has continued and asset quality further deteriorated, while banks remain vulnerable to adverse developments in the euro area. Credit to the economy has been broadly flat since early 2012, reflecting both tepid demand in light of the sluggish economy and high household debt, and tightened lending standards. The banking system is 80 percent foreign owned (Austrian banks dominate with 38 percent of system assets and subsidiaries of Greek banks hold 14 percent of system assets). Foreign bank deleveraging, moderate by regional standards, is proceeding in an orderly manner with parent funding so far down by some 20½ percent between end-2011 and April 2013. In the wake of the restructuring of the Cypriot banking system, the Romanian and Cypriot authorities agreed to fold the deposits and some assets of the small Bank of Cyprus branch into the Marfin subsidiary (assets of these two banks amount to less than 1½ percent of total system assets), and efforts are underway to sell the latter.[4] Nonperforming loans (NPLs) rose significantly in 2012, driven mainly by the difficult economic environment and deteriorating quality of loans to SOEs, and reached 19.1 percent of the total loan portfolio at end-March 2013 from 14.3 percent at end-2011. The NBR-mandated collateral audit, performed in the second half of 2012, revealed a provisioning gap of about €600 million (about 1 percent of the total loan portfolio), which has been fully closed. At end-March 2013, prudential provisions, including the prudential filter, were sufficient to cover a comfortable 85½ percent of NPLs 90-days past due, while the IFRS coverage ratio stood at

[4] To cover the additional capital needs of the Marfin subsidiary after absorbing the Bank of Cyprus branch, €20 million of Marfin parent funding was converted into equity. In this purchase & assumption-type transaction, a haircut on uninisured depositors of the Bank of Cyprus branch in Romania was avoided.

62 percent.[5] The need to provision for rising NPLs, the weak economy and cost of funding, and the high cost base of some banks led to a banking system loss in 2012. Overall bank capitalization remained strong at 15 percent at end-March, but heterogeneity among banks exists. With system-wide deposit growth of 9 percent since end-2011, funding conditions have improved but still remain uneven for some banks.[6]

OUTLOOK AND RISKS

10. Growth prospects rest on continued implementation of sound fiscal and monetary policies and an acceleration of structural reforms. Romania's close trade and financial linkages with other EU countries provide growth opportunities over the medium term but, in view of the recession in the euro area, dampen current prospects. The large capital inflows prior to the crisis would not appear likely to spontaneously resume anytime soon as a source of growth and the absorption of EU funds, although gradually improving, remains low and cannot be counted on to significantly boost growth. This puts a premium on continuing to implement fiscal and monetary policies that support macroeconomic stability and on intensifying structural reforms to improve the business climate and service delivery in key sectors such as energy and transportation. Making Romania a more attractive place to invest will spur growth, job creation, and convergence with average EU income levels.

11. The baseline scenario is based on current policies and envisages a gradual recovery in 2013 and 2014.

- ***Growth*** is expected to pick up in 2013 to 1.6 percent due to a rebound in domestic demand as political uncertainty has subsided, fiscal policy is tightened less, EU-fund disbursements resume, and agricultural output returns to more normal levels. Net exports' contribution is expected to remain negative, reflecting continued slow growth in export markets. The recovery is expected to continue in 2014, with real GDP growth reaching 2 percent. As employment and investment recover, potential output growth is projected to increase from 1¼ percent in recent years to almost 3 percent by 2018, with the output gap closing over the medium term.

- ***Inflation*** is expected to remain above 4.5 percent throughout most of 2013 as the recent food price shock and administrative price increases take time to dissipate. Annual headline inflation is expected to decline during the second half of 2013 to 3.6 percent by year-end, and to ease further to 3 percent by end-2014. The declining inflation in the second half of 2013 assumes a normal harvest and is supported by reversing base effects.

[5] Including all provisions and not only those for NPL's 90 days past due, the total provisioning ratio was 102.6 percent and the IFRS provisioning ratio stood at 78 percent.

[6] For instance, banks with relatively weaker parent banks continue to pay higher rates for deposits.

Romania: Macroeconomic Outlook

	2010	2011	2012	2013	2014
Real GDP growth	-1.1	2.2	0.7	1.6	2.0
CPI inflation, average	6.1	5.8	3.3	4.5	3.0
CPI inflation, eop	8.0	3.1	5.0	3.6	3.0
Current account balance (% of GDP)	-4.4	-4.5	-3.9	-3.8	-3.8
Gross international reserves (bn euros)	36.0	37.3	35.4	30.9	27.8

Source: Romanian authorities; and IMF staff projections.

- ***External Position***. The current account deficit is projected to remain below 4 percent of GDP in 2013–14. Import growth, stimulated by increased domestic demand, is expected to slightly exceed export growth, which is constrained by weak growth in Romania's main trading partners. Capital inflows are expected to increase, with FDI picking up somewhat in 2014 from recent lows and continued portfolio inflows. With sizable repayments to the Fund, gross international reserves would decline to about €28 billion (5½ months of imports) by end-2014. Under the baseline scenario, no financing gaps are envisaged.

12. Risks to the baseline projections are tilted toward the downside. Renewed political tensions, which peaked with the failed impeachment effort of the president in July 2012, could lead to policy reversals and dampen confidence, reduce capital inflows, increase financing costs, and depreciate the currency. Continued low EU funds absorption would also undermine growth prospects. Moreover, a deeper recession or renewed financial tensions in the euro area would hamper exports and could spark a further retrenchment of foreign investment in Romania and worsen bank deleveraging. This would put pressure on the exchange rate, which would feedback to bank balance sheets, given the large volume of foreign-currency lending.

PROGRAM POLICIES

A. Fiscal Policy: Better Fiscal Institutions and Public Financial Management

13. Romania has continued to make good progress towards achieving fiscal sustainability and is expected to exit the EU Excessive Deficit Procedure by mid-2013. The fiscal deficit (ESA basis) was reduced to 2.9 percent of GDP in 2012 from 5.5 percent in 2011. The end-December cash deficit target under the program was missed, however, mainly due to higher-than-planned EU-cofinancing needs and delays in the reimbursement for blocked EU-funded projects[7]. Tax revenues were somewhat below program, but this was partly offset by one-off mobile license fees and sizeable dividends. Despite continued reduction of public employment, current expenditures exceeded the end-December indicative program target because of increased subsidies, in part to help farmers overcome the effects of the drought, and transfers to reduce health care arrears. Overall spending remained below projections as domestically financed capital outlays were reduced in favor of higher spending on EU-funded projects and transfers for arrears reduction. Consequently, the arrears for the central and local governments were brought down but nevertheless missed the end-2012 program targets. In 2013:Q1, the cash fiscal deficit was in line with projections as low absorption of EU grants was offset by reduced spending on EU-funded projects. The fiscal buffer covers almost four months of gross financing needs.

Romania: Fiscal Performance, 2012
(in billions of lei)

	Program	Actual	Diff
Total revenue	196.0	191.7	-4.4
Current revenue	183.3	184.0	0.7
Capital revenue	0.9	0.7	-0.3
Grants	11.8	6.9	-4.9
Total expenditure	209.7	207.9	-1.8
Current	187.6	189.3	1.7
Personnel	41.0	40.8	-0.2
Goods and services	32.6	34.4	1.8
Interest	11.3	10.7	-0.5
Subsidies	5.4	6.1	0.7
Transfers	95.3	95.6	0.3
EU Funds, post-accession	10.9	13.2	2.3
Projects financed from external credits	2.0	1.6	-0.4
Capital (domestially financed)	21.1	19.3	-1.8
Reserve fund	0.9	0.0	-0.9
Net lending	0.0	-0.7	-0.7
Deficit/Surplus (authorities' definition)	-13.7	-14.8	-1.1
Deficit/Surplus including PNDI and EU receivables	-14.7	-17.5	-2.8
Memorandum:			
Nominal GDP, in billions	608	585	
Total capital spending	39.1	37.8	-1.3

Source: Romanian authorities; and IMF staff estimates.

14. Fiscal policy appropriately aims to reduce the structural deficit in ESA terms by 0.5 and 0.4 percent of GDP in 2013 and 2014, respectively. In line with the commitments under the Stability and Growth Pact (SGP), Romania seeks to achieve its Medium-Term Objective of a structural deficit of 1 percent of GDP in 2014. For 2013, this

Romania: Fiscal Targets Agreed in the Budget
(in percent of GDP)

	2011	2012	2013	2014
ESA				
Headline Balance	-5.5	-2.9	-2.4	-2.0
Structural Balance	-3.9	-1.9	-1.4	-1.0
Cyclically Adjusted Balance	-5.0	-1.9	-1.4	-1.0
Cash				
Headline Balance (Auth. Definition)	-4.3	-2.5	-2.1	-1.7
Headline Balance including PNDI and EU receivables	-4.3	-3.0	-2.3	-1.7
Cyclically Adjusted Balance	-3.3	-1.5	-1.2	-0.9
Output Gap	-2.5	-2.9	-2.6	-2.3

Source: Romanian authorities; European Commission; and staff estimates.

[7] Including extra-budgetary spending on PNDI and the cash-accrual gap of EU fund project spending, the cash deficit reached 3 percent of GDP.

stance is consistent with a headline deficit target of 2.4 percent of GDP in ESA terms and 2.1 percent of GDP in cash terms.[8] For 2014, renewed economic growth, together with continued prudent expenditure policies, would bring the cash deficit to around 1¾ percent of GDP. Under the baseline consolidation path, public debt is expected to decline gradually to 34 percent of GDP over the medium term.

15. The 2013 budget includes both tax and spending measures, in line with program objectives, to achieve the cash deficit target. Previous legislation is set to increase the deficit by 0.8 percent of GDP this year. This includes the restoration of public sector wages to pre-crisis levels (undertaken in two stages in July 2012 and January 2013), the full-year effect of health care contribution exemptions to low-income pensioners, financial corrections and higher cofinancing on EU-funded projects and one-off effects of the implementation of the EU Payments Directive in the healthcare sector (which are partly funded from one-off mobile license fees).[9] The Pension Law also comes into effect after two years of a nominal freeze, increasing pension indexation by 4 percent. Thus, to achieve the target deficit, additional measures of 1.3 percent of GDP will be taken (See Memorandum of Economic and Financial Policies (MEFP) ¶5).

- On the *spending side*, domestically financed capital spending is being streamlined through improved prioritization and further reorientation towards EU-funded projects. Spending on non-eligible outlays under EU-funded projects is being limited. Reductions in public employment will continue, albeit more flexibly across line ministries.

- *Revenue measures* seek to improve efficiency by enlarging the tax base in agriculture, limiting tax deductibility, and raising excise and property tax rates with the goal of maintaining their real value. A mandatory simplified turnover tax on small enterprises of 3 percent has been put in place. The windfall levy related to the gas price liberalization and a two-step increase in the minimum wage from RON 700 to 800 per month are also expected to increase revenue.

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[8] The cash and accrual based deficit have traditionally differed by ½ percent of GDP mainly due to differences in coverage and arrears. Additional factors in 2013 include several one-off transactions such as implementation of the EU Payments Directive which reduces the payments deadline to 60 days, receipt of mobile license fees, and restitution of health care contributions to low-income pensioners.

[9] In view of the problems with the implementation of EU-funded projects, due to which reimbursements for these projects were stopped in the second half of 2012 because of the national audit authority's non-assurance that the public procurement system worked correctly, the European Commission is currently discussing ex ante financial buffers of up to 25 percent for future projects. Additional corrections for past projects will also be required.

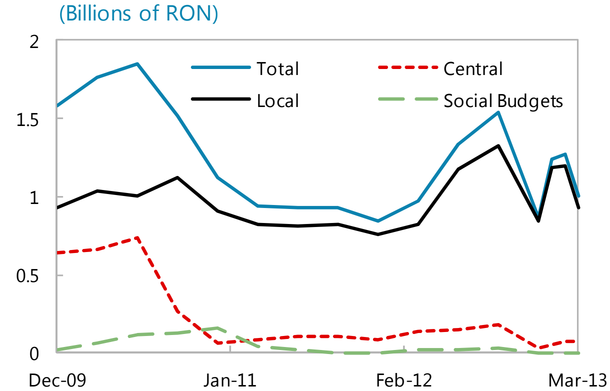
Romania: 2013 Budget Measures
(Relative to unchanged policy scenario; in percent of 2013 GDP)

	2013 Baseline	Additional program measures	
			Measures include:
Increase in revenues	0.3	0.7	Limits on income tax deductions; mandatory turnover tax on small enterprises;
of which:			property tax rate hikes every three years; increased taxation of agriculture;
Current revenue	-0.2	0.5	SOE swaps for tax arrears; energy price deregulation;
Tax revenue	0.1	0.4	excise rate hikes for cigarettes and diesel; one-off mobile license fees;
Social security contributions	-0.2	0.1	and a windfall levy on gas price deregulation.
Nontax revenue	…	0.05	
Increase in expenditures	1.1	-0.6	Wage increase and court decisions; EU Payments Directive;
of which:			corrections and cofinancing of EU post-accession projects;
Current	1.2	-0.2	termination of pre-accession programs; and cuts in domestic capital
Capital	-0.1	-0.4	outlays to partly offset increased spending on EU-funded projects.
Impact on the fiscal balance	-0.8	1.3	

Source: Romanian authorities and IMF staff.

16. The government is undertaking measures towards eliminating central and local government arrears as a prior action. Arrears at the central and local government levels declined from RON 1.5 billion at end-September to RON 868 million at end-December 2012. Nevertheless, the end-December performance criterion for the central government (RON 20 million) was narrowly missed by RON 7 million (mostly of hospitals) and the indicative target for the local government was missed by RON 540 million (target: RON 300 million). Conversely, arrears at the Health Insurance Fund were eliminated. The government is taking several measures, consistent with Fund advice, to reduce the stock of arrears to meet the initial program targets and prevent accumulation of new arrears (Box 2 and MEFP ¶6). At the same time, there was a sizable increase in previously unregistered invoices since end-2012, bringing the stock of arrears to RON 380 million at end-April. The prospect of being paid in the near term following the introduction of the arrears clearance schemes and the government's decision to allow VAT to be paid upon payment rather than at the time of invoicing have incentivized suppliers to come forward with these heretofore unregistered invoices. The authorities have undertaken an initial verification of these claims, which has identified disputed invoices (RON 360 million) owing to failure to comply with relevant laws and regulations, missing or invalid contracts, or incomplete works. An audit by the Court of Accounts of the disputed invoices is planned.

Arrears (>90 days)
(Billions of RON)



Source: Romanian National Authorities and IMF staff estimates.
Note: Figures include disputed claims.

Box 2. Measures to Reduce Arrears

Local government arrears:

- A treasury loan (RON 680 million) was provided to local governments to reduce the stock of arrears.
- Local governments with arrears were required to raise property taxes in line with accumulated inflation over the past three years.
- Shared taxes will be used for clearing arrears rather than initiating new investment projects.
- Local government investment projects that are cofinanced by the central government are being prioritized to ensure they are fully funded and no new projects will be initiated until existing arrears are cleared.
- Emergency Ordinance on local government insolvency was approved.

Health sector arrears:

- The claw-back tax yielded RON 1.8 billion in 2012, which was fully used to pay outstanding pharmaceutical bills and ensure no new arrears on pharmaceuticals.
- The 2013 budget allocates RON 3.5 billion to implement the EU Payments Directive, which became effective end-March 2013.
- An additional budget allocation was made to clear hospital arrears.
- Hospital copayments were introduced, based on a modest fixed amount depending on services provided, excluding emergency services.
- A monthly financial reporting tool was established to avoid accumulation of new arrears.
- The contracts of hospital managers will be amended so that they can be replaced if the hospital has run arrears for three consecutive months.

17. The authorities are also undertaking fiscal reforms with the aim of strengthening fiscal institutions. Key areas of reform include:

- ***Fiscal Compact***: The Fiscal Responsibility Law is being amended to integrate structural fiscal targets and corrective actions, and strengthen the Fiscal Council in compliance with the requirements of the Fiscal Compact.
- ***Public Financial Management***: With Fund technical assistance, the treasury accounting and reporting system is being modernized, including introducing a commitment control system, which would help prevent future arrears.
- ***Public investment planning and EU funds absorption:*** Difficulties in implementing EU funded projects have led to low absorption and increasing fiscal pressures. In view of significant de-commitment risks, the authorities are seeking to ramp up spending. With the support of the

World Bank, measures are being taken to improve capital budgeting and project implementation, including at local governments (MEFP ¶11-12).

- ***Functional Reviews:*** The authorities are committed to developing a more flexible staffing plan across ministries—compared to the current rigid system of replacing 1 staff for every 7 vacancies—in line with the functional reviews undertaken with the World Bank.

- ***Revenue administration:*** Since January, individual taxpayers can submit a single declaration for income tax and social contributions, taking advantage of the integration of tax and social contributions collections. The authorities moved VAT collection onto a cash accounting basis for businesses with an annual turnover below €500,000 in January, and a significant number of small VAT payers has been deregistered through administrative measures. Efforts are underway, with Fund technical assistance, to strengthen the tax compliance unit for high net-wealth individuals.

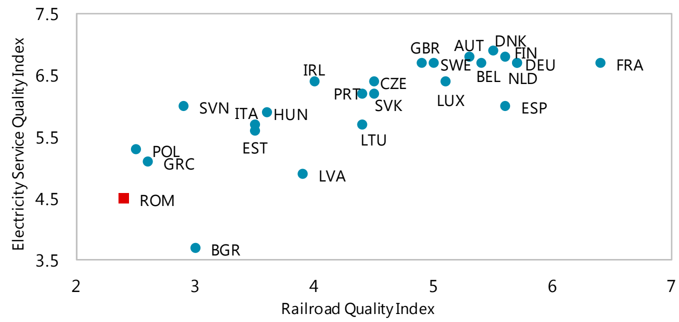
- ***Tax Policy:*** The government recently introduced a temporary windfall levy in the context of the gas price deregulation to bridge the period until a new energy tax and royalty system is put in place by end-2014. With Fund technical assistance, the authorities will seek to develop a long-term strategy on natural resource taxation. Despite the high tax wedge and VAT rates, collections are relatively low due to widespread exemptions. The government intends to analyze base broadening measures. Steps to improve property taxation are also being explored.

18. The government is preparing a comprehensive reform of the healthcare system (MEFP ¶7)**.** Rather than adopting a new framework law as considered earlier, the authorities are working on a new strategy, which sets out the main objectives of the reform and deadlines for achieving its different components. The strategy will specify the proposed measures and legislative actions to achieve the objectives. The aim of the reform is to raise the efficiency of healthcare spending, enhance service quality and thereby improve health outcomes, and address the persistent budgetary shortfalls. To this end, the government will define a basic package to be financed publicly within the limitations of available funding; shift the delivery of health services away from hospitals to ambulatory and primary health care providers where possible; reevaluate the hospital financing system; centralize hospital procurement; revise the national health programs; improve the regulatory framework for provision and monitoring of healthcare services; and establish the framework for a private supplementary insurance market. On the revenue side, the government has started in January to broaden the contribution base of the social health insurance scheme.

B. Structural Reforms: Enhancing growth prospects

19. Reform of the energy and transportation sectors and restructuring of SOEs are cornerstones of the Fund-supported program. Abundant supplies of energy in the form of natural gas and hydroelectric power, a favorable location between central Europe and the Black Sea, and a disciplined and reasonably educated workforce suggest growth could and should be higher. However, the poor quality of Romania's energy and transportation infrastructure – sectors dominated by large and inefficient SOEs – remains a major obstacle to improving competitiveness and growth. SOEs in these sectors tend to face multiple objectives, are overstaffed, and many have arrears. These factors undermine service quality and limit resources available for investment. In addition, a large labor tax wedge and skills mismatches hamper job creation, more generally.

Quality of Rail and Electricity Service, EU-27



Source: World Competitiveness Report.

Energy and transportation sectors

20. Energy sector reforms continue but it is important to avoid back-tracking on reform commitments. The authorities have revamped the regulatory framework in the energy sector to bring it broadly in line with the EU Energy Directives and have begun liberalizing gas and electricity prices in accordance with the published roadmaps. Important benefits of price liberalization include freeing resources for investment, encouraging energy efficiency, and better targeting of subsidies to protect vulnerable consumers. In addition, a law was adopted to re-establish the energy regulator's (ANRE) independence. The judicial administrator for Hidroelectrica, which was placed into insolvency last June, has made notable progress in improving the company's performance. However, the recent Emergency Ordinance mandating the purchase by the electricity transmission operator (Transelectrica) of specified output quantities from two large state-owned coal-powered electricity producers (Oltenia and Hunedoara) is a step in the wrong direction. Moreover, proposals to cross-subsidize these companies by more efficient electricity producers should not be adopted as they run counter to reforms designed to improve the efficiency of SOEs in the energy sector.

21. Key next steps on the energy reform agenda include (MEFP ¶28)**:**

- Implementing the electricity and gas price liberalization roadmaps in accordance with the published timetable. In addition, the pass-through of cost increases to end-users of electricity and gas will need to be applied in line with the regulatory framework.

- Appointing experts to the board of ANRE and developing the framework for the third regulatory period for the gas and electricity sectors, including publication of the new transmission and distribution tariffs.

- Further strengthening OPCOM as an electricity trading platform and establishing a viable gas trading platform.
- Ensuring that all new bilateral contracts of electricity and gas producers are made transparently and non-discriminatorily.
- Enhancing Romania's gas connections with the rest of Europe, including the lifting of existing implicit export restrictions and technical obstacles to enable reverse flows on the gas interconnectors.

Romania: Energy Price Liberalization Roadmaps (abriged)

	Electricity 1/			Gas 2/		
	Non-household (percent sourced from competitive market)	Household	Status	Non-household (estimated percent increase in regulated price)	Household	Status
9/1/2012	15	...	Implemented	...	...	
12/1/2012	...	...		5	...	Implemented 2/1/13
1/1/2013	30	...	Implemented	...	...	
4/1/2013	45	...	Implemented	5	...	Implemented
7/1/2013	65	10		5	8	
9/1/2013	85	...		...	...	
10/1/2013	...	...		3	2	
1/1/2014	100	20		4	2	

Source: Romanian authorities and IMF staff

1/ The electricity roadmap specifies a timeline for electricity suppliers to progressively increase the share of electricity sourced from the competitive market. Non-household electricity is to be fully sourced from the competitive market by January 1, 2014, and household electricity by December 31, 2017.

2/ The gas roadmap contains a calendar of price increases to raise the price of domestically produced gas up to international levels and the corresponding estimated increase in the regulated end-user price. Non-household prices are to be raised to international levels by January 1, 2015, and household prices by October 1, 2018.

22. Measures to improve service delivery and reduce costs in the transportation sector were taken though more needs to be done. The authorities cleared railway arrears to electricity suppliers with assistance from the European Bank for Reconstruction and Development. However, arrears quickly reemerged, reflecting systemic problems in the railway network. To address this problem the authorities have taken several steps in the right direction (MEFP ¶25):

- Professional boards and management were appointed in the railway infrastructure company (CFR Infrastructura) and the passenger rail company (CFR Calatori). The government committed to back the new managers' efforts to enhance revenues and cut costs. However, the board of CFR Infrastructura was dismissed after the line ministry failed to agree on the proposed administration plan. A new board and management have meanwhile been appointed. This episode reflects the difficulties associated with the installation of professional boards and management in SOEs and points to the need for a clear and efficient definition of shareholder and board/management responsibilities and accountability going forward.

- The government is taking the necessary steps for the majority sale of the unprofitable public freight railway company (CFR Marfa) to a strategic investor.

- The subsidy formula for the public service obligation (PSO) of the passenger company was amended, and the international and inter-city trains were removed from the PSO to encourage the company to increase ticket receipts.

State-owned enterprises

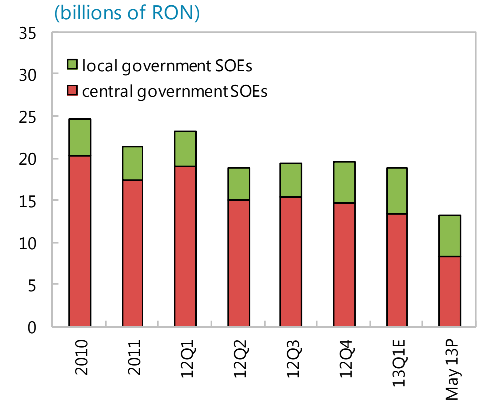
23. **Progress on SOEs reforms remains uneven**. The end-December 2012 target for the operating balance for companies under monitoring was met but the arrears target was missed. Subsequently, the liquidation of two large SOEs and the placement of a loss-making chemical company (Oltchim) into insolvency, after the tender for its privatization had failed, substantially reduced SOE arrears (Box 3). To increase transparency of SOE activities, the Ministry of Public Finance (MOPF) and the relevant line ministries plan to prepare and publish reports on SOEs within their portfolios annually. The MOPF published the first report on 2011 SOE financial performance in late 2012.

Box 3: State-Owned Enterprise Arrears

SOEs play a large role in the Romanian economy. There are about 240 SOEs owned by the central government and close to 700 SOEs owned by local governments. These range in size from the very small to the very large—the post office and the railway infrastructure company each employ around 30,000 people. In aggregate, SOEs employ 10 percent of the employed labor force and account for about 9 percent of annual output. SOEs account for about 96 percent of all public-sector arrears.

The government has employed a number of measures to reduce SOE arrears over the program period. The program had indicative targets on the operating performance and arrears of about 20 monitored SOEs. SOE arrears were reduced from 4.7 percent of GDP in 2010 to a projected 2.2 percent at end-May 2013. Measures to reduce arrears included the cancellation of arrears among SOEs, debt for equity swaps, placement of SOEs into insolvency, and liquidation of SOEs. An improvement in the operating performance of central government SOEs, which was aided by an 11 percent cutback in employees, supported the reduction in arrears.

SOE Arrears
(billions of RON)



Sources: Romanian authorities; and IMF staff estimates.

24. **The authorities remain determined to increase private sector involvement in key SOEs** (MEFP ¶30)**.** To reinvigorate the privatization effort, the government completed a SPO of 15 percent of the shares in Transgaz in April 2013, and signed the contract with the transaction advisor in May

for an IPO of 15 percent of shares in Oltenia, in order to finance new investments in the company. The finalization/initialing of the sale-purchase agreement on the majority sale of CFR Marfa to a strategic investor is anticipated by mid-June. The government will also hold IPOs for Romgaz, once an audit of its reserves is completed as recommended by the transaction advisor, and for Hidroelectrica after it exits insolvency.

25. Professional boards and management have been appointed in a few companies, though the record is mixed. It is important that new boards and management be appointed in accordance with the provision of the SOE corporate governance law while eschewing appointments based on political connections. In addition, for the new boards and management to be effective, the government needs to refrain from interfering in day-to-day operations of the companies. Further privatizations and appointment of professional boards and management in a number of other SOEs are planned over the course of the year (MEFP ¶31–33).

Labor market

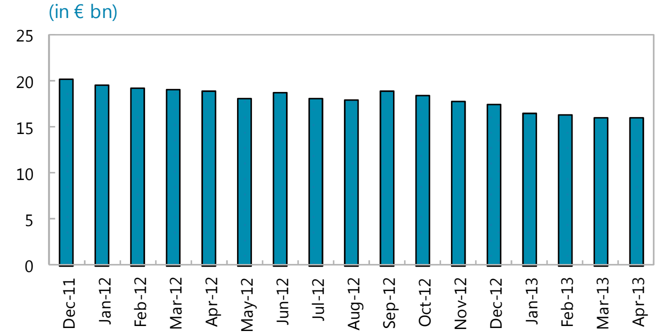
26. The authorities continue to make progress in implementing new labor market legislation. The new Labor Code appears to have improved the functioning of the labor market with increasing numbers of fixed-term contracts boosting employment growth. The government agreed to continue to monitor the implementation of the Social Dialogue Law and ensure that any amendments will only be undertaken in consultation with all stakeholders. It will also continue to cooperate with the International Labor Organization (ILO) to ensure that the new legislation respects core ILO Conventions.

27. In view of the high youth unemployment in Romania, the government will amend current legislation to improve the transition of young Romanians into the labor market. Measures under the National Job Plan focus in particular on strengthening training and facilitating apprenticeships. The authorities are also taking measures to strengthen the national vocational training system that can be supported by EU Structural and Cohesion Funds. They intended to undertake an analysis of measures to lower the high labor tax wedge in a revenue neutral manner.

C. Financial Sector Priorities: Dealing with NPLs and Contingency Planning

28. Continued foreign bank deleveraging and pockets of vulnerable banks pose risks. The deleveraging in part has reflected a change in funding strategy of some parent banks, retrenchment of weak parent banks, and the low demand for credit. In terms of banks' funding strategy, some Romanian subsidiaries have increased their foreign currency funding through foreign-exchange

Romania: Parent Bank Funding
(in € bn)



Sources: National Bank of Romania and staff calculations.

swaps with mainly non-resident banks and parents. However, risks from continuing parent funding retrenchment remain and a sudden acceleration could impede credit growth, once credit demand picks up again. Romania also faces spillover risks from banks with weak parents. The Greek parent banks are expected to be fully recapitalized by mid-2013, which would strengthen the position of the Greek banks operating in Romania.

29. It is important to effectively address the NPL overhang, in order to lift impediments to credit supply. The weak economic recovery and still anemic credit demand would likely result in continuing pressures on asset quality in the near term. Following the unexpected insolvency of Hidroelectrica, banks' appetite for lending to SOEs is limited.[10] To facilitate removal of fully provisioned NPLs from bank balance sheets, the NBR has clarified with the Romanian Banking Association and other stakeholders the accounting rules (within IFRS) applicable to the write-off of impaired loans. The remaining uncertainty surrounding possible discrepancies between the treatment of NPLs sold to domestic debt management companies according to the Fiscal Code and to IFRS accounting rules needs to be resolved. In addition, rigidities in insolvency and foreclosure procedures should be removed, including by swiftly implementing the recommendations of the World Bank Report on Standards and Codes (ROSC) on insolvency and creditor rights. It is important to pass the amended law on insolvency and ensure consistent implementation by the courts. Finally, besides adopting measures in 2011 to restrict foreign-currency lending to un-hedged households, the NBR also implemented similar measures for corporate lending in early 2013, in line with ESRB recommendations. This should contribute to lowering risks related to unhedged foreign currency exposures in the future.

30. The authorities have continued to strengthen their crisis management arrangements and contingency planning (MEFP ¶19 - 20)**.** Following a successful simulation exercise, the NBR is finalizing the regulation to authorize bridge banks and its internal procedures for the recently introduced bank resolution measures. The NBR, Deposit Guarantee Fund (DGF), and MOPF continue to coordinate the implementation of operational preparedness plans. The NBR and DGF have finalized the necessary arrangements to provide the DGF with access to relevant financial and prudential information in January 2013. Furthermore, the DGF is in the process of separating its bank resolution and liquidation functions into two separate departments, each with the appropriate policies and internal procedures. The DGF will also improve its governance structure in line with good international practices to avoid any perceived conflict of interests.

31. In April 2013, Parliament approved the law on the new unified Financial Supervision Authority (FSA) for pensions, insurance, and securities. While staff is overall supportive of this initiative, significant additional efforts are needed to ensure that the FSA follows international best practice. Staff is concerned about some corporate governance weaknesses in the current law, in

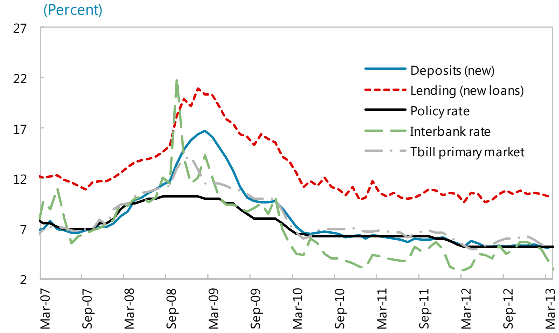
[10] In addition, the insolvency of Oltchim in the beginning of 2013 may cost banks up to €84 million in additional provisions.

particular related to the minimum required professional qualifications and potential conflicts of interest of FSA board members, and the size of the FSA board.

D. Monetary and Exchange Rate Policies: Anchoring Expectations

32. The NBR has kept its policy rate unchanged but loosened monetary conditions as headline inflation declined from recent highs and leu pressures subsided. With headline inflation having declined since January, the NBR has lifted the cap on repos but left the policy rate at 5.25 percent. The authorities also tightened the interest rate corridor around the policy rate by 1 percentage point at both the upper and the lower end to 5.25±3 percent in an effort to improve the transmission mechanism. Taking advantage of favorable market conditions from December, the NBR averted a decline in international reserves, despite large repayments to the Fund.

Interest Rates on RON Instruments
(Percent)



Sources: NBR; and Haver.

33. Temporarily elevated inflation and volatility in international capital flows continue to require a prudent monetary policy stance. The current stance is appropriate in view of the abating inflation and absence of exchange rate pressures, and taking account of the large output gap. The authorities agreed that further easing and a possible lowering of the policy rate is conditional on further progress in reducing annual inflation towards the new target band for 2013 of 2.5±1 percent. Given Romania's history of high inflation, firmly anchoring inflation expectations remains a priority. The authorities indicated that they will maintain existing bank reserve requirements and that open market operations will be undertaken as needed to ensure adequate liquidity conditions in the banking system while limiting deviations of interbank rates from the policy rate. Furthermore, in an effort to enhance the redistribution of liquidity across the banking sector, the authorities will encourage the finalization of the master repurchase agreement and of all procedures needed for banks to be able to engage in collateralized repo interbank lending.

PROGRAM MODALITIES AND OTHER ISSUES

34. The attached Letter of Intent (LOI) and MEFP describe the authorities' progress in implementing their economic program. Five prior actions have been set for the completion of the seventh and eighth reviews (Table 2):

- Reduce central government arrears to RON 0.02 billion by May 31, 2013;[11]

[11] In view of the emergence of previously unregistered invoices by end-2012 and early 2013, the government needed time to verify the validity of the stock of arrears. The original target dates of these two prior actions (March 31, 2013) were modified to May 31, 2013.

- Reduce local government arrears to RON 0.3 billion by May 31, 2013;[11]

- Initial the sales-purchase agreement with the winning strategic investor for the sale of the majority stake in the capital of CFR Marfa;[12]

- Launch the tender for a SPO of 15 percent of the government shares in Transgaz; and

- Sign a contract with a transaction advisor for an IPO of 15 percent of the share capital of Oltenia.

35. Program modalities. Romania is not expected to face actual balance of payments financing needs during the remainder of the arrangement. The authorities have expressed that they will continue treating the Stand-By Arrangement as precautionary.

36. Staff retains the view that the exceptional access criteria continue to be met. Romania does not face actual balance of payments pressures. However, it remains exposed to external shocks, which could give rise to financing needs implying cumulative access above the normal access limits. While the public DSA (Fig. 8) shows debt to rise in response to standard shocks, public debt remains low and current fiscal policies are considered adequate to ensure debt sustainability with a high probability. Romania has maintained access to private capital markets. Adherence to the Fund-supported program has been good overall despite the need for significant fiscal adjustment and difficult structural reforms, lending confidence in the authorities' capacity to continue implementing sound policies.

37. Risks to repayment. Romania's capacity to repay the Fund is expected to remain strong. Fund credit outstanding has begun to decline from 40.7 percent of gross reserves in 2012. Scheduled payments peak in 2013 and 2014 at a manageable 16.3 percent and 15.8 percent of gross reserves, or 9.5 percent and 8.3 percent of exports of goods and services, respectively. While this exposure is large, servicing risks are mitigated by the relatively low level of public debt. Public indebtedness (including guarantees) is expected to remain under 35 percent of GDP, with public external debt peaking at around 24 percent of GDP in 2012. Total external debt was 75.2 percent of GDP in 2012 and is projected to decline over the medium-term. Neither the public nor the external debt sustainability analyses (DSA) raise sustainability concerns over the medium term in the baseline scenario. In addition, an update in 2011 of the 2009 safeguards assessment found a robust safeguards framework at the NBR, while recommending measures to sustain NFA reporting standards and effective audit oversight, and enhance accounting disclosures.

[12] Due to delays in the bidding process, partly outside the government's control, this prior action was modified from signing to initializing a sale-purchase agreement with the winning bidder; this does not represent a material change.

STAFF APPRAISAL

38. Good progress was made in reducing domestic and external macroeconomic imbalances but growth is weak. Although growth is expected to pick up in 2013, the output gap would only gradually close over the medium term. Core inflation has remained low, but still high food prices will keep headline inflation elevated in the first part of the year before it would fall towards the top end of the central bank's target range by year-end. In light of the slow recovery, the modest external current account deficit is projected to remain broadly unchanged in coming years. Risks to the outlook are mostly on the downside. Program slippages in the second half of 2012, notably on the structural front, have cost Romania valuable time in achieving economic convergence with its European partners.

39. The return of political stability provides an opportunity for the authorities to follow through on their commitment to accelerate structural reforms and spur growth. The ruling coalition won a significant majority of the votes in the December 2012 parliamentary elections. With no national elections scheduled in 2013, the authorities should use this window of opportunity to push through difficult structural reforms to improve the efficiency and service quality of the energy, transportation, and health sectors, and restructure inefficient SOEs. Given the unlikely spontaneous return of the large capital inflows that drove growth prior to the crisis, structural reforms are critical to realizing Romania's considerable growth potential and securing long-run employment gains.

40. Continued fiscal discipline is essential to anchor macroeconomic stability. The large fiscal adjustment since 2009 enables Romania to exit the EU Excessive Deficit Procedure as planned and facilitated its return to the international financial markets. The government appropriately aims to reach its medium-term deficit objective by 2014. Despite a significant reduction in central- and local-government arrears, unceasing efforts are needed to fully and permanently eliminate them, including by establishing an effective commitment control system. Strict prioritization of public investment with an emphasis on EU-funded projects will be critical to meeting budget targets, reducing arrears, and supporting economic growth. It is also important that the government adopts and begins implementing its new healthcare reform strategy to raise the efficiency of healthcare spending, enhance service quality, and address persistent budgetary shortfalls.

41. The monetary policy stance is broadly appropriate. The NBR has kept its policy rate unchanged in light of the temporary nature of the higher inflation, the recent appreciation of the exchange rate, and the still large output gap. The central bank should refrain from lowering its policy rate until it has become clear that inflation is on a downward path and inflation expectations remain well anchored. The narrowing of the NBR's interest rate corridor is a positive step to limit deviations of interbank rates from the policy rate and enhance the interest rate transmission mechanism. The authorities' efforts to take advantage of favorable market conditions to bolster international reserves are welcome.

42. **The banking system remains well-capitalized but NPLs, although well-provisioned, are high and the system continues to be vulnerable to outside shocks.** The authorities' active exploration of ways to remove impediments to corporate and household debt restructuring and NPL resolution is welcome with further efforts needed. Foreign bank deleveraging remains orderly so far but bears close monitoring to detect any acceleration in foreign bank withdrawals at an early stage. In addition, the authorities should continue with their efforts to strengthen their crisis management arrangements and contingency planning. While staff are supportive of the establishment of the new unified financial regulator, corporate governance weaknesses should be removed and best international practices adhered to.

43. **Improving the poor quality of Romania's energy and transportation infrastructure remains key to improving competitiveness and long-term growth.** The government has made a good start in implementing the energy price liberalization roadmaps and is taking measures to protect vulnerable consumers. To attract much needed investment in the sector, full implementation of the roadmaps with full pass through of price increases to end-users will be important. Implementation of plans to reinvigorate SOE restructuring is also critical. Expansion of private ownership and appointment of professional boards and management could improve the efficiency of SOEs, attract capital for investment, upgrade infrastructure services, and increase tax and dividend payments to the budget. It is crucial that the authorities select members of boards and management of SOEs solely based on their professional qualifications and that they avoid interfering in SOE's day-to-day operations. Steps to limit competition or cross-subsidize less efficient producers should be avoided.

44. **Measures to address the low employment rate and the high youth unemployment rate are welcome.** The steps to improve vocational training and expand apprenticeships would lessen the skills mismatch. Staff welcomes the intention of the government to explore ways to reduce the high labor tax wedge in a revenue neutral manner. It is important to ensure that the new Labor Code and Social Dialogue Law are consistent with core ILO conventions, while resisting efforts to undo the progress made in labor market legislation.

45. **Steadfast implementation of the authorities' program is important to enhance Romania's resiliency to shocks and boost its growth prospects.** The fiscal and external buffers and the flexible exchange rate provide protection in the event of external shocks. It is crucial that the authorities stay the course and continue implementing the reform agenda to preserve these buffers, and lay the ground for higher medium-term growth. Remaining priorities include continuing SOE reform, sustainably eliminating arrears, better absorbing EU funds, and reducing NPLs. At the request of the authorities, discussions on a new program could begin after completion of the seventh and eighth reviews.

46. **On the basis of Romania's performance under the SBA, including corrective actions taken, staff supports the authorities' request for completing the seventh and eighth reviews.** Staff also supports the approval of waivers for non-observance of the performance criteria on the net foreign assets of the National Bank of Romania, the general government balance, and central government arrears.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012					
	Dec	March	June	Sept	Dec	March	June	Sept	Sept	Dec	Dec
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Prog.	Actual	Prog.	Prelim.
I. Quantitative Performance Criteria											
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	1696	-457	-267	-243	633	-317
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11,260	-13,685	-23,837	-3,421	-7631	-10,470	-8,257	-14,770	-17,430
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.14	0.15	0.04	0.18	0.02	0.027
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	7.0	7.7	14.0	8.3	14.0	9.8
II. Continuous Performance Criterion											
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation											
6. 12-month rate of inflation in consumer prices											
Outer band (upper limit)	...	...	...	...	...	...	...	5.9	...	5.6	...
Inner band (upper limit)	...	...	...	...	...	...	...	4.9	...	4.6	...
Actual/*Center point*	8.0	8.0	7.9	3.5	3.1	2.4	2.0	*3.9*	5.3	3.6	5.0
Inner band (lower limit)	...	...	...	...	...	...	...	2.9	...	2.6	...
Outer band (lower limit)	...	...	...	...	...	...	...	1.9	...	1.6	...
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	30,921	63,968	99,000	96,595	133,700	134,330
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/	-6.8	-0.7	-1.8	-2.4	-2.0	-0.4	1.4	-2.7	-2.3	-3.2	-2.2
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	16.2	12.4	12.4	12.7	8.9	11.5
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.82	1.17	0.75	1.32	0.30	0.84
11. Ceiling on the execution of the PNDI program (mln lei) 4/	...	...	...	...	...	66	67	700	67	1,000	210

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

2/ The September 2012 target is adjusted downward by 67 million Euros to reflect less than projected Eurobond placement of the MoPF, and the target is adjusted upward by 50 million Euros to reflect higher than projected commercial bank reserve requirement held with the NBR. The December 2012 target is adjusted upward by 1,433 million Euros to reflect more than projected Eurobond placement of the MoPF.

3/ Cumulative figure during calendar year (e.g. September 2011 figure is cumulative from January 1, 2011). The September 2012 deficit target is adjusted by RON 770 million to RON 10,470 million for the loan to CFR Infrastructura. Actual data is adjusted for PNDI (67.5 mill. RON), the loan to CFR Infratsructura (770 mill. RON) and the EU cash accrual gap (239 mill. RON) for end-September. For end-December, actual data includes PNDI (210 million RON) and EU cash accrual gap (2447 million RON).

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

Table 2. Romania: Performance for Seventh and Eighth Reviews

Measure	Target Date	Comment
Prior actions		
1. Reduce central government arrears to RON 0.02 billion.		Expected to be met 1/
2. Reduce local government arrears to RON 0.3 billion.		Expected to be met 1/
3. Initial a sale-purchase agreement with the winning strategic investor for the sale of the majority stake in the capital of CFR Marfa.		Underway 1/
4. Launch the tender for a secondary public offering of 15 percent of the government shares in Transgaz.		Met
5. Sign a contract with a transaction advisor for an initial public offering of 15 percent of the share capital of Oltenia.		Met
Quantitative performance criteria		
1. Floor on net foreign assets	December 31, 2012	Not met
2. Floor on general government overall balance	December 31, 2012	Not met
3. Ceiling on central government and social security domestic arrears	December 31, 2012	Not met
4. Ceiling on general government guarantees	December 31, 2012	Met
5. Non-accumulation of external debt arrears	December 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	December 31, 2012	Not met
2. Floor on operating balance of key SOEs	December 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	December 31, 2012	Not met
4. Ceiling on stock of local government arrears	December 31, 2012	Not met
5. Ceiling on the execution of the PNDI program	December 31, 2012	Met
Inflation consultation band		
Inner band	December 31, 2012	Exceeded
Outer band	December 31, 2012	Met
Structural benchmarks		
1. Update the investment database to identify priority local government projects funded through budgetary and EU funds, and publish a list of low priority projects which will be discontinued.	September 30, 2012	Not met
2. Publish up-to-date financial statements of all public hospitals on a webpage of the Ministry of Health.	October 31, 2012	Met
3. Sign a contract with legal and transaction advisor for the majority privatization of Oltenia.	November 30, 2012	Not met
4. Finalize a detailed definition of the structural architecture of the accounting and treasury reporting system.	December 31, 2012	Not met
5. Hold IPOs of government shares in Romgaz and Hidroelectrica.	March 15, 2013	Not met

1/ Staff will report on the status of these prior actions in a supplement before the Board meeting.

Table 3. Romania: Selected Economic and Social Indicators, 2009–14

	2009	2010	2011	2012		2013	2014
			Est.	Prog.	Est.	Proj.	Proj.
Output and prices			(Annual percentage change)				
Real GDP	-6.6	-1.1	2.2	0.9	0.7	1.6	2.0
Contributions to GDP growth							
Domestic demand	-13.5	-1.1	2.6	0.6	1.5	2.2	2.5
Net exports	7.0	0.0	-0.5	0.4	-0.8	-0.6	-0.5
Consumer price index (CPI, average)	5.6	6.1	5.8	3.0	3.3	4.5	3.0
Consumer price index (CPI, end of period)	4.7	8.0	3.1	3.6	5.0	3.6	3.0
CORE 3 price index (CPI, end of period)	2.3	4.2	2.4	2.9	3.0	2.3	2.4
Producer price index (end of period)	2.5	4.4	7.1	...	5.8	...	...
Unemployment rate (average)	6.9	7.3	7.4	7.2	7.0	6.8	6.6
Nominal wages	4.8	3.1	4.9	4.0	5.0	7.0	4.7
Saving and Investment			(In percent of GDP)				
Gross domestic investment	25.4	25.6	26.9	28.9	27.0	27.5	27.6
Gross national savings	21.2	21.2	22.4	25.2	23.1	23.7	23.8
General government finances 1/							
Revenue	31.2	32.2	32.6	32.3	32.9	33.7	34.1
Expenditure	38.5	38.6	36.9	34.5	35.4	35.9	35.9
Fiscal balance	-7.3	-6.4	-4.3	-2.2	-2.5	-2.1	-1.7
External financing	2.6	2.8	2.7	1.9	3.2	0.9	0.7
Domestic financing	4.6	3.6	1.5	0.3	-0.6	1.2	1.0
Privatization proceeds 2/	0.1	0.1	0.0	0.0	0.0	...	...
Fiscal balance (including PNDI)	-7.3	-6.4	-4.3	-2.4	-2.6	-2.3	-1.7
Primary balance	-6.1	-4.8	-2.5	-0.4	-0.8	-0.2	0.1
Structural fiscal balance 3/	-6.8	-5.1	-3.4	-0.9	-1.5	-1.2	-0.9
Gross public debt (direct debt only)	21.7	28.1	31.4	32.0	34.4	34.4	34.3
Gross public debt (including guarantees)	23.8	31.1	34.2	34.6	37.0	36.9	36.6
Money and credit			(Annual percentage change)				
Broad money (M3)	9.0	6.9	6.6	2.7	2.7	6.0	5.7
Credit to private sector	0.9	4.7	6.6	2.2	1.3	1.0	3.0
Interest rates, eop 4/			(In percent)				
Euribor, six-months	4.5	1.2	1.6	...	0.3	0.3	...
NBR policy rate	8.0	6.25	6.0	...	5.25	5.25	...
NBR lending rate (Lombard)	12.0	10.25	10.0	...	9.25	8.25	...
Interbank offer rate (1 week)	10.7	3.6	6.0	...	5.8	4.4	...
Balance of payments			(In percent of GDP)				
Current account balance	-4.2	-4.4	-4.5	-3.7	-3.9	-3.8	-3.8
Merchandise trade balance	-5.8	-6.1	-5.6	-5.2	-5.6	-5.5	-5.7
Capital and financial account balance	-2.5	1.0	1.6	2.7	2.5	4.2	4.7
Foreign direct investment balance	3.0	1.8	1.4	0.9	1.3	1.2	1.5
International investment position	-62.3	-62.6	-63.7	-63.2	-64.1	-66.2	-70.3
Gross official reserves	26.1	28.9	28.4	26.9	26.9	21.8	19.0
Gross external debt	68.6	74.3	75.2	71.1	75.2	71.2	70.9
Exchange rates 4/							
Lei per euro (end of period)	4.2	4.3	4.3	...	4.4	4.4	...
Lei per euro (average)	4.2	4.2	4.2	...	4.5	4.4	...
Real effective exchange rate							
CPI based (percentage change)	-7.5	1.9	2.8	...	-2.7	6.2	...
GDP deflator based (percentage change)	-8.7	1.9	2.6	...	-4.1	...	...
Memorandum Items:							
Nominal GDP (in bn RON)	501.1	523.7	556.7	607.3	587.5	625.6	661.1
Potential output growth	1.3	1.2	2.0	1.7	1.1	1.3	1.6
Potential output gap	-1.2	-2.5	-1.9	-4.0	-2.9	-2.6	-2.3

Social and Other Indicators

GDP per capita (current US$, 2011): $8405; **GDP per capita, PPP** (current international $, 2011): $15,163

People at risk of poverty or social exclusion: 40.3% (2011)

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

1/ General government finances refer to cash data.

2/ Excludes receipts from planned privatizations under the program.

3/ Fiscal balance (cash basis) adjusted for the automatic effects of the business cycle.

4/ For 2013: Latest available data

Table 4. Romania Macroeconomic Framework, Current Policies, 2009–18

	2009	2010	2011	2012		2013	2014	2015	2016	2017	2018
			Est.	Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)											
Real GDP	-6.6	-1.1	2.2	0.9	0.7	1.6	2.0	2.5	2.9	3.4	3.5
Real domestic demand	-12.0	-1.1	2.5	0.6	1.4	2.1	2.3	2.8	3.1	3.6	3.8
Consumption	-7.4	-1.3	0.9	0.8	1.2	1.6	2.1	2.7	3.0	3.5	3.5
Investment	-28.1	-1.8	7.3	5.4	4.9	3.3	3.3	3.5	3.3	4.0	4.9
Exports	-6.4	13.2	10.3	4.7	-3.0	-0.2	3.2	5.7	7.9	8.3	8.4
Imports	-20.5	11.1	10.0	3.3	-0.9	1.2	3.9	6.3	7.7	8.3	8.7
Consumer price index (CPI, average) 2/	5.6	6.1	5.8	3.0	3.3	4.5	3.0	2.9	2.7	2.6	2.5
Consumer price index (CPI, end of period) 2/	4.7	8.0	3.1	3.6	5.0	3.6	3.0	2.9	2.7	2.6	2.5
Saving and investment (in percent of GDP)											
Gross national saving	21.2	21.2	22.4	25.2	23.1	23.7	23.8	23.8	23.7	23.7	24.0
Government	-2.0	0.8	3.4	4.2	3.9	4.1	5.2	5.6	5.8	5.5	5.5
Private	23.2	20.3	19.0	21.0	19.2	19.5	18.5	18.2	17.8	18.2	18.5
Gross domestic investment	25.4	25.6	26.9	28.9	27.0	27.5	27.6	27.8	27.9	28.1	28.5
Government	5.2	7.2	7.7	6.4	6.5	6.3	7.0	7.3	7.6	7.4	7.4
Private	20.1	18.3	19.2	22.5	20.6	21.2	20.6	20.6	20.2	20.7	21.2
General government (in percent of GDP)											
Revenue	31.2	32.2	32.6	32.3	32.9	33.7	34.1	34.0	33.7	33.5	33.3
Tax revenue	27.2	26.5	28.0	27.3	28.2	28.6	28.6	28.2	28.0	27.9	27.8
Non-Tax revenue	2.9	3.8	3.3	2.9	3.1	3.1	3.2	3.2	3.2	3.2	3.2
Grants	1.0	1.8	1.2	1.9	1.4	1.9	2.2	2.4	2.5	2.4	2.2
Expenditure	38.5	38.6	36.9	34.5	35.4	35.9	35.9	35.7	35.5	35.3	35.1
Fiscal balance	-7.3	-6.4	-4.3	-2.2	-2.5	-2.1	-1.7	-1.7	-1.8	-1.8	-1.9
Fiscal balance (including PNDI)	-7.3	-6.4	-4.3	-2.4	-2.6	-2.3	-1.7	-1.7	-1.8	-1.8	-1.9
Structural fiscal balance 1/	-6.8	-5.1	-3.4	-0.9	-1.5	-1.2	-0.9	-1.0	-1.3	-1.6	-1.8
Gross public debt (direct debt only)	21.7	28.1	31.4	32.0	34.4	34.4	34.3	33.6	33.2	32.7	32.3
Gross public debt (including guarantees)	23.8	31.1	34.2	34.6	37.0	36.9	36.6	35.9	35.3	34.7	34.2
Monetary aggregates (annual percent change)											
Broad money (M3)	9.0	6.9	6.6	2.7	2.7	6.0	5.7	5.7	5.8	6.0	6.1
Credit to private sector	0.9	4.7	6.6	2.2	1.3	1.0	3.0	4.7	6.0	6.4	6.4
Balance of payments (in percent of GDP)											
Current account	-4.2	-4.4	-4.5	-3.7	-3.9	-3.8	-3.8	-4.0	-4.2	-4.3	-4.5
Trade balance	-5.8	-6.1	-5.6	-5.2	-5.6	-5.5	-5.7	-5.8	-5.9	-6.0	-6.2
Services balance	-0.2	0.3	0.3	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Income balance	-1.6	-1.5	-1.7	-1.0	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4	-1.3
Transfers balance	3.5	2.9	2.5	2.5	2.5	2.7	2.9	2.8	2.8	2.8	2.8
Capital and financial account balance	-2.5	1.0	1.6	2.7	2.5	4.2	4.7	4.6	4.7	5.5	5.4
Foreign direct investment, balance	3.0	1.8	1.4	0.9	1.3	1.2	1.5	1.6	1.6	1.7	1.8
Memorandum items:											
Gross international reserves (in billions of euros)	30.9	36.0	37.3	36.5	35.4	30.9	27.8	27.2	27.5	29.6	31.3
Gross international reserves (in months of next year's imports)	7.2	7.2	7.5	6.9	7.3	6.1	5.1	4.6	4.3	4.3	4.3
International investment position (in percent of GDP)	-62.3	-62.6	-63.7	-63.2	-64.1	-66.2	-70.3	-70.9	-70.8	-70.0	-69.3
Real effective exchange rate (annual average), percent change	-7.5	1.9	2.8	-6.4	-6.1	4.8	-3.5	0.8	1.2	2.0	3.0
External debt (in percent of GDP)	68.6	74.3	75.2	71.1	75.2	71.2	70.9	69.7	67.9	66.3	64.9
Short-term external debt (in percent of GDP)	13.0	15.7	17.4	15.2	15.5	14.0	13.6	13.3	13.0	12.8	12.5
Terms of trade (merchandise, percent change)	1.1	1.0	2.7	-0.1	3.2	0.2	0.2	0.4	-0.1	-0.1	0.1
Nominal GDP (in millions of lei)	501,139	523,693	556,708	607,300	587,499	625,593	661,143	700,331	741,496	788,223	838,578
Nominal GDP (in millions of Euros)	118,269	124,399	131,364	135,585	131,845	141,873	146,480	154,588	163,964	175,321	187,843
Output Gap	-1.2	-3.5	-2.5	-4.0	-2.9	-2.6	-2.3	-1.9	-1.4	-0.7	-0.1
Potential Output (percent change)	1.3	1.2	1.2	1.7	1.1	1.3	1.6	2.0	2.4	2.6	2.9

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

1/ Actual fiscal balance adjusted for the automatic effects of the business cycle.
2/ Projections are based on HICP weights.

Table 5. Romania: Balance of Payments, 2009–18

(In billions of euros, unless otherwise indicated)

	2009	2010	2011	2012		2013	2014	2015	2016	2017	2018
	Act	Act	Act	Prog.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.9	-5.5	-5.9	-5.0	-5.2	-5.4	-5.6	-6.2	-6.9	-7.6	-8.4
Merchandise trade balance	-6.9	-7.6	-7.4	-7.1	-7.4	-7.8	-8.3	-9.0	-9.7	-10.6	-11.7
Exports (f.o.b.)	29.1	37.4	45.3	46.3	45.1	43.8	45.4	48.3	52.5	57.4	62.9
Imports (f.o.b.)	36.0	44.9	52.7	53.4	52.4	51.6	53.7	57.2	62.1	68.0	74.6
Services balance	-0.3	0.4	0.3	0.1	0.5	0.4	0.4	0.4	0.5	0.5	0.6
Exports of non-factor services	7.1	6.6	7.3	7.6	7.6	7.4	7.7	8.2	8.9	9.7	10.7
Imports of non-factor services	7.4	6.2	6.9	7.5	7.1	7.0	7.3	7.7	8.4	9.2	10.1
Income balance	-1.9	-1.9	-2.2	-1.4	-1.7	-1.9	-1.9	-2.1	-2.2	-2.4	-2.5
Receipts	1.2	0.9	1.3	1.0	1.4	1.4	1.4	1.5	1.5	1.6	1.8
Payments	3.1	2.8	3.5	2.4	3.0	3.3	3.4	3.5	3.8	4.0	4.3
Current transfer balance	4.1	3.6	3.3	3.3	3.4	3.8	4.3	4.4	4.5	4.9	5.2
Capital and financial account balance	-2.9	1.2	2.0	3.7	3.3	5.9	6.9	7.1	7.7	9.7	10.1
Capital account balance	0.6	0.2	0.7	1.4	1.9	1.1	1.0	1.0	1.0	1.0	1.0
Foreign direct investment balance	3.6	2.2	1.8	1.2	1.7	1.8	2.2	2.5	2.7	3.0	3.4
Portfolio investment balance	0.5	0.9	1.6	1.9	3.6	2.6	2.4	2.1	1.4	2.5	2.5
Other investment balance	-7.6	-2.1	-2.1	-0.8	-3.9	0.4	1.4	1.5	2.7	3.2	3.2
General government	-2.0	0.1	-0.4	0.4	-0.5	0.4	0.2	-0.8	-0.6	-0.9	-1.1
Domestic banks	-4.5	1.0	-0.2	-1.0	-2.4	-0.9	-0.3	0.4	1.0	1.4	1.5
Other private sector	-1.0	-3.2	-1.5	-0.1	-1.0	0.9	1.4	1.9	2.3	2.6	2.8
Errors and omissions	-1.0	-0.2	0.4	0.8	1.0	-0.4	0.0	0.0	0.0	0.0	0.0
Multilateral financing	2.1	3.7	3.5	1.4	1.0	...	...	...	...	...	...
European Commission	1.5	2.2	1.4	0.0	0.0	...	...	...	...	...	...
World Bank	0.3	0.0	0.7	0.0	0.0	...	...	...	...	...	...
EIB/EBRD/IFC	0.3	1.5	1.4	1.4	1.0	...	...	...	...	...	...
Overall balance	-6.7	-0.8	0.0	0.8	0.1	0.1	1.4	0.9	0.9	2.1	1.7
Financing	6.7	0.8	0.0	-0.8	-0.1	-0.1	-1.4	-0.9	-0.9	-2.1	-1.7
Gross international reserves (increase: -)	-1.1	-3.5	-0.9	0.8	1.5	4.5	3.1	0.6	-0.7	-2.1	-1.7
Use of Fund credit, net	6.8	4.3	0.9	-1.6	-1.6	-4.6	-4.5	-1.4	-0.1	0.0	0.0
Purchases 1/	6.8	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	-1.6	-1.6	-4.6	-4.5	-1.4	-0.1	0.0	0.0
Other liabilities, net	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:				(In percent of GDP)							
Current account balance	-4.2	-4.4	-4.5	-3.7	-3.9	-3.8	-3.8	-4.0	-4.2	-4.3	-4.5
Foreign direct investment balance	3.0	1.8	1.4	0.9	1.3	1.2	1.5	1.6	1.6	1.7	1.8
Merchandise trade balance	-5.8	-6.1	-5.6	-5.2	-5.6	-5.5	-5.7	-5.8	-5.9	-6.0	-6.2
Exports	24.6	30.0	34.5	34.2	34.2	30.9	31.0	31.2	32.0	32.7	33.5
Imports	30.4	36.1	40.1	39.4	39.8	36.4	36.7	37.0	37.9	38.8	39.7
Gross external financing requirement	29.5	25.9	29.1	30.3	32.6	29.0	26.6	25.2	23.2	22.6	23.4
				(Annual percentage change)							
Terms of trade (merchandise)	1.1	1.0	2.7	-0.1	3.2	0.2	0.2	0.4	-0.1	-0.1	0.1
Export volume	-6.4	13.2	10.3	4.7	-3.0	-0.2	3.2	5.7	7.9	8.3	8.4
Import volume	-20.5	11.1	10.0	3.3	-0.9	1.2	3.9	6.3	7.7	8.3	8.7
Export prices	4.7	6.8	8.9	-1.9	2.6	-2.5	0.4	0.7	0.9	1.0	1.1
Import prices	3.3	5.7	6.5	-1.8	0.4	-2.7	0.1	0.3	1.0	1.1	1.0
				(In billions of euros)							
Gross international reserves 2/	30.9	36.0	37.3	36.5	35.4	30.9	27.8	27.2	28.0	30.0	31.7
Excluding Fund credit	24.1	24.7	25.3	25.3	24.5	24.9	26.2	27.1	28.0	30.0	31.7
GDP	118.3	124.4	131.4	135.6	131.8	141.9	146.5	154.6	164.0	175.3	187.8

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

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

2/ Operational definition. Reflects the allocation of SDR 908.8 million that was made avaialable in two tranches in August and September 2009.

Table 6. Romania: Gross Financing Requirements, 2010–14

(In billions of euros, unless otherwise indicated)

	2010	2011	2012					2013					2014
			Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	
	Act	Act	Act	Act	Act	Act	Prel.	Act	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**38.2**	**38.5**	**10.8**	**12.1**	**9.8**	**10.8**	**43.4**	**8.0**	**8.2**	**7.6**	**9.5**	**33.3**	**31.1**
I.A. Current account deficit	5.5	5.9	0.5	2.0	1.6	1.0	5.2	-0.1	1.8	1.8	1.8	5.4	5.6
I.B. Short-term debt	21.0	21.8	7.9	6.5	5.7	5.6	25.8	5.3	3.8	4.0	4.6	17.8	16.7
Public sector	4.6	5.9	3.1	1.7	1.5	1.2	7.5	2.0	1.0	0.8	1.5	5.3	5.2
Banks	11.2	11.9	3.9	4.0	3.2	3.1	14.2	2.5	1.8	1.8	1.8	7.9	6.6
Corporates	5.2	4.0	1.0	0.8	1.0	1.4	4.2	0.9	1.0	1.3	1.3	4.6	4.9
I.C. Maturing medium- and long-term debt	11.3	11.4	2.5	3.3	2.6	3.6	12.0	2.8	2.7	2.0	3.3	10.7	9.6
Public sector	1.7	1.8	0.4	1.1	0.4	0.8	2.8	0.4	0.3	0.6	0.9	2.2	1.8
Banks	3.2	3.7	1.3	1.0	1.2	1.5	4.9	1.6	1.3	0.7	0.5	4.0	4.0
Corporates	6.4	5.9	0.9	1.2	1.0	1.3	4.3	0.8	1.2	0.7	1.8	4.5	3.8
I.D. Other net capital outflows 1/	0.4	-0.5	-0.2	0.3	-0.2	0.5	0.5	0.0	-0.2	-0.2	-0.2	-0.6	-0.8
II. Total financing sources	**33.9**	**34.6**	**12.4**	**9.3**	**10.0**	**10.0**	**41.6**	**10.3**	**7.1**	**7.5**	**8.8**	**33.7**	**31.5**
II.A. Foreign direct investment, net	2.2	1.8	0.1	0.4	0.9	0.3	1.7	0.1	0.5	0.5	0.5	1.8	2.2
II.B. Capital account inflows	0.2	0.7	0.4	0.5	0.3	0.7	1.9	0.3	0.3	0.3	0.3	1.1	1.0
II.C. Short-term debt	23.2	23.8	8.5	5.0	5.5	4.3	23.3	4.9	3.9	4.0	4.4	17.2	16.8
Public sector	5.4	6.3	3.3	1.2	1.0	1.2	6.7	1.9	1.0	0.8	1.5	5.2	5.2
Banks	12.5	12.3	4.2	2.7	3.2	1.8	11.9	1.8	1.8	1.7	1.6	7.0	6.4
Corporates	5.3	5.1	1.0	1.0	1.3	1.3	4.6	1.1	1.1	1.4	1.3	4.9	5.2
II.D. Medium- and long-term debt	8.2	8.3	3.4	3.3	3.3	4.7	14.7	5.0	2.4	2.7	3.6	13.7	11.5
Public sector	2.3	2.7	2.2	0.6	1.1	2.7	6.6	3.7	0.2	1.4	1.3	6.5	3.2
Banks	2.3	3.0	0.8	1.8	1.2	1.3	5.1	0.9	1.2	0.7	0.5	3.3	4.2
Corporates	3.7	2.6	0.5	0.9	0.9	0.7	3.0	0.4	1.0	0.7	1.8	3.9	4.2
Errors and Omissions	-0.2	0.4	0.1	0.5	0.1	0.3	1.0	-0.4	0.0	0.0	0.0	-0.4	0.0
III. Increase in gross reserves	3.5	0.9	1.8	-2.1	-0.3	-0.9	-1.5	1.0	-2.3	-1.2	-2.0	-4.5	-3.1
IV. Financing Gap	**8.0**	**4.4**	**0.1**	**0.3**	**-0.5**	**-0.4**	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-1.4**	**-4.6**	**-3.5**
V. Program financing	**8.0**	**4.4**	**0.1**	**0.3**	**-0.5**	**-0.4**	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-1.4**	**-4.6**	**-3.5**
IMF 2/	4.3	0.9	0.0	0.0	-0.7	-0.9	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-3.5
Purchases	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	-0.7	-0.9	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-3.5
Others	3.7	3.5	0.1	0.3	0.1	0.5	1.0	...	...	...	...	...	...
European Commission	2.2	1.4	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
World Bank	0.0	0.7	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
EIB/EBRD/IFC	1.5	1.4	0.1	0.3	0.1	0.5	1.0	...	...	...	...	...	...
Memorandum items:													
Rollover rates for amortizing debt ST (in percent)													
Public sector	118	108	107	71	64	104	90	97	100	100	100	99	100
Banks	112	104	109	67	100	59	84	75	100	95	90	89	97
Corporates	101	128	98	134	129	94	111	127	105	105	100	108	105
Rollover rates for amortizing debt MLT (in percent)													
Public sector	135	149	557	53	249	343	238	960	67	241	135	299	179
Banks	71	82	63	188	104	86	104	59	95	100	100	82	103
Corporates	58	43	53	79	95	52	69	45	90	95	100	87	109
Rollover rates for total amortizing debt (in percent)													
Public sector	122	117	158	63	106	200	130	236	93	158	113	157	120
Banks	102	99	97	90	101	68	89	69	98	96	92	87	100
Corporates	77	78	77	101	113	74	90	88	97	101	100	97	107
Gross international reserves 3/	36.0	37.3	38.8	37.1	37.0	35.4	35.4	...	...	...	...	30.9	27.8
Coverage of gross international reserves													
- Months of imports of GFNS (next year)	7.2	7.5	7.9	7.6	7.6	7.3	7.3	...	...	...	...	6.1	5.7
- Short-term external debt (in percent)	118.6	98.4	103.2	97.2	96.1	99.1	99.1	...	...	...	...	92.5	84.9

Source: Romanian authorities and IMF staff estimates.

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

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

3/ Operational Definition.

Table 7. Romania: General Government Operations, 2009–14
(In percent of GDP)

	2009	2010	2011 Act.	2012 Prog	2012 Act.	2013 Prog	2013 Proj	2014 Proj
Revenue	31.2	32.2	32.6	32.3	32.9	33.9	33.7	34.1
Taxes	27.2	26.5	28.0	27.3	28.2	28.7	28.6	28.6
Corporate income tax	2.7	2.1	2.0	2.0	2.0	2.1	2.1	2.1
Personal income tax	3.7	3.4	3.5	3.6	3.6	3.7	3.7	3.7
VAT	6.8	7.5	8.6	8.6	8.6	8.3	8.3	8.5
Excises	3.1	3.3	3.4	3.4	3.4	3.6	3.6	3.6
Customs duties	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	9.5	8.7	9.1	8.4	8.8	8.7	8.7	8.8
Other taxes	1.2	1.3	1.2	1.3	1.7	2.1	2.1	1.8
Nontax revenue	2.9	3.8	3.3	2.9	3.1	3.1	3.1	3.2
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants, including EU disbursements	1.0	1.8	1.2	1.9	1.4	1.9	1.9	2.2
Expenditure	38.5	38.6	36.9	34.5	35.4	36.0	35.9	35.9
Current expenditure	34.6	35.0	32.8	30.9	32.2	33.2	33.0	33.2
Compensation of employees	9.3	8.2	6.9	6.7	6.9	7.4	7.4	7.3
Goods and services	5.6	5.6	5.7	5.4	5.9	6.3	6.2	5.8
Interest	1.2	1.4	1.6	1.9	1.8	1.8	1.8	1.8
Subsidies	1.4	1.3	1.2	0.9	1.0	0.8	0.8	0.9
Transfers	16.6	18.2	17.1	15.7	16.3	16.7	16.6	17.1
Pensions	8.0	8.0	8.5	7.9	8.2	8.1	8.0	8.1
Other social transfers	4.8	5.1	3.7	3.2	3.2	3.2	3.2	3.1
Other transfers 1/	3.4	4.5	4.3	4.1	4.4	5.0	5.0	5.5
Other spending	0.5	0.6	0.6	0.4	0.5	0.4	0.4	0.4
Proj. with ext. credits	0.4	0.3	0.4	0.3	0.3	0.2	0.2	0.2
Capital expenditure 2/	4.4	3.7	4.1	3.5	3.3	2.8	2.8	2.6
Reserve fund	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Net lending and expense refunds	-0.5	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
Fiscal balance	-7.3	-6.4	-4.3	-2.2	-2.5	-2.1	-2.1	-1.7
Primary balance	-6.1	-5.0	-2.7	-0.4	-0.7	-0.3	-0.3	0.1
Fiscal balance including PNDI	-7.3	-6.4	-4.3	-2.4	-2.6	-2.3	-2.3	-1.7
Idem including EU receivables	…	…	…	-2.4	-3.0	…	…	…
Financing	7.3	6.4	4.3	2.2	2.5	2.1	2.1	1.7
External borrowing (net)	2.6	2.8	2.7	1.9	3.2	1.0	0.9	0.7
Domestic borrowing (net)	5.8	4.0	2.2	1.3	1.4	1.2	1.2	1.0
Use of deposits	-1.2	-0.4	-0.7	-1.0	-2.1	0.0	0.0	0.0
Privatization proceeds	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities								
Gross public debt 3/	23.8	31.1	34.2	34.6	37.0	37.0	36.9	36.6
Gross public debt excl. guarantees	21.7	28.1	31.4	32.0	34.4	34.5	34.4	34.3
External	10.0	12.9	14.9	15.6	17.3	17.2	17.2	17.0
Domestic	11.7	15.2	16.5	16.4	17.1	17.3	17.2	17.3
Memorandum items:								
Total capital spending (excluding PNDI)	5.2	7.2	7.7	6.4	6.5	6.3	6.3	7.0
Fiscal balance (ESA95 basis)	-9.0	-6.8	-5.5	-2.9	-2.9	-2.4	-2.4	-2.0
Structural balance (ESA95 basis)	-9.7	-6.1	-3.9	-1.9	-1.9	-1.4	-1.4	-1.0
Gross public debt (ESA95 basis)	23.6	30.5	33.4	…	34.6	34.8	34.8	34.8
Output gap 4/	-1.2	-3.5	-2.5	-4.0	-2.9	-3.1	-2.6	-2.3
Conventional structural fiscal balance	-6.8	-5.1	-3.3	-0.9	-1.5	-1.0	-1.2	-0.9
Gross public debt (authorities definition) 5/	29.4	37.1	40.1	…	41.0	40.1	…	…
Nominal GDP (in billions of RON)	501.1	523.7	556.7	607.3	587.5	623.3	625.6	661.1

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

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

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

4/ Percentage deviation of actual from potential GDP.

5/ Includes guarantees and intra-governmental debt.

Table 7. Romania: General Government Operations, 2009–14 (concluded)

(In millions of RON)

	2009	2010	2011 Act	2012 Prog	2012 Actual	2013 Program	2013 Proj	2014 Proj
Revenue	156,373	168,635	181,567	195,970	193,105	211,084	211,102	225,693
Taxes	136,350	138,667	155,710	165,690	165,702	179,091	179,108	189,033
Corporate income tax	13,466	10,969	11,030	11,876	11,826	13,200	13,197	13,957
Personal income tax	18,551	17,957	19,461	21,645	20,956	23,158	23,179	24,562
VAT	34,322	39,246	47,917	52,020	50,516	51,949	51,949	55,991
Excises	15,646	17,312	19,105	20,382	20,260	22,363	22,363	23,682
Customs duties	656	574	674	750	707	742	689	735
Social security contributions	47,829	45,704	50,637	51,116	51,658	54,356	54,408	58,296
Other taxes	5,879	6,905	6,885	7,900	9,778	13,322	13,323	11,810
Nontax revenue	14,487	19,796	18,217	17,634	18,328	19,456	19,458	21,194
Interest Revenue	864	595	718	279	279	182	182	314
Capital revenue	546	685	766	907	653	687	687	728
Grants	5,057	9,494	6,874	11,740	8,422	11,850	11,850	14,739
o/w EU pre-accession funds	2,959	4,054	765	1,066	443	632	632	338
Financial operations and other	-67	-6	0	0	0	0	0	0
Expenditure	192,782	202,256	205,277	209,629	207,921	224,478	224,312	237,233
Current expenditure	173,445	183,243	182,709	187,593	189,274	206,905	206,740	219,816
Compensation of employees	46,676	42,839	38,496	40,958	40,799	46,154	46,154	48,521
Goods and services	28,028	29,541	31,643	32,633	34,444	39,044	39,046	38,374
Interest	6,063	7,275	8,883	11,257	10,710	11,383	11,383	12,218
Subsidies	7,215	6,735	6,407	5,448	6,122	5,230	5,229	5,786
Transfers	83,407	95,060	95,172	95,270	95,585	104,011	103,845	113,383
Pensions	39,851	42,107	47,469	48,079	48,051	50,187	50,020	53,805
Other social transfers	24,101	26,505	20,539	19,708	18,997	19,793	19,793	20,390
Other transfers 1/	16,931	23,514	24,049	24,885	25,569	31,236	31,236	36,428
Other spending	2,523	2,933	3,115	2,599	2,968	2,796	2,796	2,761
Proj. with ext. credits	2,056	1,794	2,108	2,027	1,614	1,083	1,083	1,534
Capital expenditure 2/	21,828	19,441	23,056	21,092	19,305	17,366	17,366	17,310
Reserve fund	0	0	0	944	0	207	207	107
Net lending and expense refunds	-2,490	-428	-488	0	-657	0	0	0
Fiscal balance	-36,409	-33,621	-23,710	-13,660	-14,817	-13,393	-13,210	-11,540
Primary balance	-30,346	-26,346	-14,827	-2,402	-4,107	-2,011	-1,827	678
Fiscal balance including PNDI	-36,409	-33,621	-23,837	-14,660	-14,984	-14,593	-14,410	-11,540
Idem including EU receivables		…	…	-14,660	-17,431	…	…	…
Financing	36,409	33,621	23,710	13,659	14,817	13,393	13,210	11,540
External borrowing (net)	13,144	14,807	15,250	11,789	18,537	5,941	5,941	4,882
Domestic borrowing (net)	29,129	20,841	12,377	7,875	8,398	7,403	7,219	6,608
Use of deposits	-6,129	-2,161	-3,827	-6,010	-12,123	0	0	0
Privatization proceeds	291	289	0	5	5	50	50	50
Financial liabilities								
Gross public debt 3/	119,195	163,023	190,650	210,314	217,585	230,928	230,745	242,235
Gross public debt excl. guarantees	108,528	147,262	174,889	194,553	201,824	215,167	214,984	226,474
External	49,993	67,717	82,967	94,756	101,504	107,445	107,445	112,327
Domestic	58,535	79,545	91,922	99,797	100,319	107,722	107,539	114,147
Memorandum item:								
Gross public debt (authorities definition) 4	147,329	194,459	223,255	…	241,071	249,736	…	…

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

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

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

4/ Includes guarantees and intra-governmental debt.

Table 8. Romania: Monetary Survey, 2009–14

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

	Dec-09	Dec-10	Dec-11	Dec-12	2013				Dec-14
					Q1	Q2 Proj.	Q3 Proj.	Q4 Proj.	Proj.
				I. Banking System					
Net foreign assets	**17,684**	**19,086**	**15,740**	**30,083**	**43,271**	**32,548**	**33,780**	**35,013**	**42,555**
In million euros	4,182	4,454	3,644	6,793	9,800	8,940	9,130	7,781	9,404
o/w commercial banks	-19,708	-21,086	-21,846	-18,621	-16,961	-16,736	-16,512	-17,723	-17,456
Net domestic assets	**171,946**	**183,687**	**200,468**	**191,934**	**182,047**	**196,130**	**198,228**	**200,326**	**206,197**
Public sector credit (Net)	26,748	43,140	52,596	49,610	41,131	53,220	55,025	56,830	63,438
Private sector credit	199,887	209,294	223,037	225,874	223,883	225,271	226,659	228,047	234,810
Other	-54,688	-68,747	-75,165	-83,551	-82,967	-82,361	-83,456	-84,551	-92,051
Broad Money (M3)	**189,630**	**202,773**	**216,208**	**222,017**	**225,318**	**228,678**	**232,008**	**235,338**	**248,752**
Money market instruments	1,617	3,201	4,149	188	206	194	197	199	211
Intermediate money (M2)	188,013	199,572	212,059	221,829	225,112	228,484	231,811	235,139	248,542
Narrow money (M1)	79,361	81,592	85,834	89,020	88,788	91,674	92,247	92,821	98,111
Currency in circulation	23,968	26,794	30,610	31,477	31,693	31,875	32,075	32,274	34,113
Overnight deposits	55,394	54,799	55,224	57,544	57,095	59,799	60,173	60,547	63,998
				II. National Bank of Romania					
Net foreign assets	**101,015**	**109,433**	**110,106**	**112,552**	**118,161**	**112,132**	**113,673**	**114,765**	**121,544**
In million euros	23,891	25,540	25,489	25,414	26,761	25,676	25,642	25,503	26,860
Net domestic assets	**-49,354**	**-54,330**	**-48,541**	**-55,244**	**-61,906**	**-54,099**	**-55,277**	**-56,006**	**-59,435**
Public sector credit, net	-13,626	-12,795	-13,564	-24,973	-27,886	-30,409	-31,768	-31,925	-32,548
Credit to banks, net	-23,848	-26,148	-19,529	-14,443	-20,493	-15,234	-17,864	-16,274	-16,307
Other	-11,880	-15,387	-15,448	-15,828	-13,527	-8,456	-5,646	-7,806	-10,579
Reserve money	**51,662**	**55,103**	**61,565**	**57,308**	**56,255**	**58,033**	**58,396**	**58,759**	**62,108**
					(Annual percentage change)				
Broad money (M3)	9.0	6.9	6.6	2.7	4.2	5.4	5.0	6.0	5.7
NFA contribution	2.6	0.7	-1.7	6.6	9.2	5.6	2.6	2.2	3.2
NDA contribution	6.4	6.2	8.3	-3.9	-5.0	-0.2	2.4	3.8	2.5
Reserve money	2.4	6.7	11.7	-6.9	5.2	-1.1	-2.7	2.5	5.7
NFA contribution	-18.4	16.3	1.2	4.0	3.3	-0.9	-10.8	3.9	11.5
NDA contribution	20.8	-9.6	10.5	-10.9	1.9	-0.2	8.1	-1.3	-5.8
Domestic credit, real	5.6	3.2	5.9	-4.8	-6.7	-3.9	-3.0	-0.1	1.6
Private sector, real	-3.6	-3.0	3.3	-3.5	-5.2	-5.1	-4.9	-2.5	0.0
Public sector, real	268.9	49.4	18.2	-10.1	-14.2	-1.9	3.9	10.6	8.4
Broad money (M3), in real terms	4.0	-1.0	3.4	-2.2	-1.0	0.8	1.6	2.4	2.6
Private credit, nominal	0.9	4.7	6.6	1.3	-0.2	-0.8	-1.8	1.0	3.0
Memorandum items									
CPI inflation, eop	4.7	8.0	3.1	5.0	5.7	5.3	5.3	3.6	3.0
Inflation target	2.5 - 4.5	2.5 - 4.5	2.0 - 4.0	2.0 - 4.0	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5
Interest rates (percent):									
Policy interest rate	8.00	6.25	6.0	5.25	...	...	...	...	...
Interbank offer rate, 1 week	10.7	3.6	6.0	5.9	...	...	...	...	
Corporate loans 1/	15.4	9.4	9.7	9.8	...	...	...	...	...
Household time deposits 1/	9.9	7.6	6.6	5.6	...	...	...	...	...
Share of foreign currency private deposits	39.3	36.1	33.6	36.7	...	...	...	...	...
Share of foreign currency private loans	60.1	63.0	63.4	62.5	...	...	...	...	...
M2 velocity	2.67	2.62	2.63	2.79	2.86	2.86	3.47	2.66	2.66
Money multiplier (M3/reserve money)	3.67	3.68	3.51	3.87	4.01	3.94	3.97	4.01	4.01

Sources: National Bank of Romania; and Fund staff estimates.

1/ Rates for new local currency denominated transactions.

Table 9. Romania: Financial Soundness Indicators, 2008–13

(In percent)

	2008	2009	2010	2011	2012				2013
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Core indicators									
Capital adequacy									
Capital to risk-weighted assets	13.8	14.7	15.0	14.9	14.6	14.7	14.7	14.6	15.0
Tier 1 capital to risk-weighted assets	11.8	13.4	14.2	13.9	13.8	13.7	13.5	13.5	13.8
Asset quality									
Nonperforming loans (1/) to total gross loans	2.8	7.9	11.9	14.3	15.9	16.8	17.3	18.2	19.1
Earnings and profitability									
Return on assets	1.6	0.2	-0.2	-0.2	0.1	-0.1	-0.04	-0.6	0.6
Return on equity(2/)	17.0	2.9	-1.7	-1.4	1.3	-1.0	-0.3	-5.4	5.4
Net interest income to operating income	44.8	44.1	60.6	61.9	63.0	63.5	61.9	61.9	58.3
Noninterest expense to operating income (cost to income)	55.7	63.9	64.9	68.2	55.8	60.0	57.8	58.1	55.1
Personnel expense to operating income	23.4	20.3	21.0	22.1	25.1	25.8	26.0	25.7	25.8
Liquidity									
Liquid assets (3/)to total assets	47.1	57.4	60.0	58.6	57.4	58.1	57.6	57.6	58.7
Liquid assets (3/) to short-term liabilities (4/)	230.5	132.0	142.2	138.8	152.4	145.3	146.9	147.8	153.4
Liquid assets (3/) to total attracted and borrowed sources	116.2	79.4	80.9	79.7	75.6	79.0	76.8	76.4	78.2
Foreign exchange risk									
Net open position in foreign exchange, in percent of capital	1.6	2.3	-1.4	-4.8	-3.9	-3.4	-3.7	1.3	-0.9
Lending in foreign exchange, in percent of non-gov. credit	57.8	60.1	63.0	63.4	63.7	63.7	63.3	62.5	62.4
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.8	43.5	43.1	44.4	44.7	46.2	46.3	46.9
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	38.8	36.0	33.5	32.9	34.1	35.5	36.4	36.5
Encouraged indicators									
Deposit-taking institutions									
Leverage ratio (5/)	8.1	7.6	8.1	7.9	8.6	8.4	8.3	7.9	8.2
Personnel expenses to noninterest expenses	41.9	31.8	32.3	32.3	45.0	43.0	45.0	44.2	46.8
Customer deposits to total (non-interbank) loans	81.9	88.7	84.8	84.0	84.6	84.1	84.2	87.3	89.7

Source: Romanian National Bank.

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

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

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

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

5/ Tier 1 Capital to average assets.

Table 10. Romania: Schedule of Reviews and Purchases

Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
March 25, 2011	60.0	5.82	Approval of arrangement
June 27, 2011	430.0	41.74	First review and end-March 2011 performance criteria
September 29, 2011	430.0	41.74	Second review and end-June 2011 performance criteria
December 19, 2011	430.0	41.74	Third review and end-September 2011 performance criteria
March 21, 2012	430.0	41.74	Fourth review and end-December 2011 performance criteria
June 22, 2012	430.0	41.74	Fifth review and end-March 2012 performance criteria
September 28, 2012	430.0	41.74	Sixth review and end-June 2012 performance criteria
June 26, 2013	450.6	43.74	Seventh and eighth review and end-December 2012 performance criteria
Total	3,090.6	300	

Source: IMF staff estimates.

Table 11. Romania: Indicators of Fund Credit, 2013–18 1/

(In millions of SDR)

	2013	2014	2015	2016	2017	2018
Existing Fund Credit						
Stock 2/	5,210.0	1,328.9	96.1	0.0	0.0	0.0
Obligations 3/	3,352.7	3,920.9	1,241.3	97.0	0.6	0.6
Repurchase	3,290.8	3,881.1	1,232.8	96.1	0.0	0.0
Charges	62.0	39.7	8.5	0.8	0.6	0.6
Prospective Fund Credit under Stand-By Arrangement						
Disbursement	3,090.6	0.0	0.0	0.0	0.0	0.0
Stock 2/	3,090.6	3,090.6	3,090.6	2,318.0	772.7	0.0
Obligations 3/	27.1	33.1	33.1	805.3	1,566.4	777.6
Repurchase	0.0	0.0	0.0	772.7	1,545.3	772.7
Charges	27.1	33.1	33.1	32.7	21.1	5.0
Stock of existing and prospective Fund credit						
In millions of SDR	8,301	4,419	3,187	2,318	773	0
In percent of quota	806	429	309	225	75	0
In percent of GDP	6.7	3.5	2.4	1.6	1	0
In percent of exports of goods and services	18.5	9.6	6.5	4.4	1	0
In percent of gross reserves	30.7	18.3	13.5	9.6	3	0
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	3,514	4,064	1,297	903	1,567	778
In percent of quota	341.1	394.4	125.9	87.6	152.1	75.5
In percent of GDP	2.8	3.2	1.0	0.6	1.0	0.5
In percent of exports of goods and services	7.8	8.8	2.6	1.7	2.7	1.2
In percent of gross reserves	13.0	16.8	5.5	3.7	6.1	2.9

Source: IMF staff estimates.

1/ Using IMF actual disbursements, SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of Apr 30, 2013.

2/ End of period.

3/ Repayment schedule based on repurchase obligations.

Table 12. Romania: Public Sector Debt Sustainability Framework, 2008-2018

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	13.6	23.8	31.1	34.2	37.0	**36.9**	**36.6**	**35.9**	**35.4**	**34.7**	**34.2**	**-0.3**
o/w foreign-currency denominated	8.6	15.3	20.0	20.7	22.5	20.9	19.9	18.6	17.4	16.3	15.3	
2 Change in public sector debt	0.9	10.1	7.3	3.1	2.8	-0.2	-0.2	-0.7	-0.6	-0.6	-0.5	
3 Identified debt-creating flows (4+7+12)	3.6	8.0	6.8	3.2	0.9	-0.1	-0.2	-0.4	-0.2	-0.3	-0.2	
4 Primary deficit	4.1	6.1	5.0	2.7	0.7	0.3	-0.1	-0.1	0.1	0.0	0.0	
5 Revenue and grants	32.2	31.2	32.2	32.6	32.9	33.7	34.1	34.0	33.7	33.5	33.3	
6 Primary (noninterest) expenditure	36.3	37.3	37.2	35.3	33.6	34.0	34.0	33.9	33.9	33.5	33.3	
7 Automatic debt dynamics 2/	-0.6	1.9	1.7	0.5	0.2	-0.4	-0.1	-0.3	-0.3	-0.2	-0.2	
8 Contribution from interest rate/growth differential 3/	-1.7	1.6	0.4	-0.3	0.0	-0.4	-0.1	-0.3	-0.3	-0.2	-0.2	
9 Of which contribution from real interest rate	-1.0	0.7	0.1	0.4	0.3	0.1	0.6	0.6	0.7	0.9	0.9	
10 Of which contribution from real GDP growth	-0.8	0.9	0.3	-0.6	-0.2	-0.6	-0.7	-0.9	-1.0	-1.1	-1.1	
11 Contribution from exchange rate depreciation 4/	1.2	0.3	1.3	0.8	0.1	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	-2.7	2.1	0.6	-0.1	1.9	0.0	0.0	-0.4	-0.4	-0.3	-0.3	
Public sector debt-to-revenue ratio 1/	42.4	76.2	96.7	105.0	112.7	109.3	107.3	105.7	104.8	103.7	102.8	
Gross financing need 6/	7.2	20.4	18.3	18.9	18.7	19.4	19.1	16.8	15.4	15.1	14.9	
in billions of U.S. dollars	14.6	33.4	30.2	34.5	31.6	36.4	37.2	34.5	33.5	35.2	37.2	
Scenario with key variables at their historical averages 7/						**36.9**	**36.5**	**35.9**	**35.3**	**34.8**	**34.3**	**-2.6**
Scenario with no policy change (constant primary balance) in 2013-2018						**36.9**	**37.0**	**36.6**	**36.3**	**36.0**	**35.8**	**-0.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.3	-6.6	-1.1	2.2	0.7	1.6	2.0	2.5	2.9	3.4	3.5	
Average nominal interest rate on public debt (in percent) 8/	7.1	8.6	6.1	5.4	5.6	5.2	5.3	5.2	5.0	5.6	5.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-8.2	4.4	0.4	1.4	0.9	0.4	1.7	1.8	2.0	2.8	2.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-13.3	-3.5	-8.4	-4.0	-0.5	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	15.3	4.2	5.7	4.1	4.8	4.8	3.6	3.4	2.9	2.8	2.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	12.4	-4.0	-1.2	-3.2	-4.1	3.0	2.0	1.9	2.9	2.2	2.9	
Primary deficit	4.1	6.1	5.0	2.7	0.7	0.3	-0.1	-0.1	0.1	0.0	0.0	

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

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

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

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

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

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

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

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

Table 13. Romania: External Debt Sustainability Framework, 2008-2018

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	51.8	68.6	74.3	75.2	75.2			**71.2**	**70.9**	**69.7**	**67.9**	**66.3**	**64.9**	**-6.3**
2 Change in external debt	4.7	16.9	5.7	0.8	0.1			-4.0	-0.3	-1.2	-1.8	-1.7	-1.3	
3 Identified external debt-creating flows (4+8+9)	0.4	10.2	-1.5	-2.1	-0.4			-0.4	-0.7	-0.6	-0.2	-1.0	-0.8	
4 Current account deficit, excluding interest payments	9.2	1.8	2.0	1.8	2.3			1.9	2.1	2.5	2.7	3.0	3.3	
5 Deficit in balance of goods and services	13.2	6.1	5.8	5.4	5.2			5.2	5.4	5.5	5.6	5.7	5.9	
6 Exports	30.4	30.6	35.4	40.0	40.0			36.1	36.2	36.5	37.4	38.3	39.1	
7 Imports	43.6	36.6	41.1	45.4	45.1			41.3	41.6	42.0	43.0	44.0	45.1	
8 Net non-debt creating capital inflows (negative)	-6.0	-3.4	-2.5	-2.6	-4.0			-3.1	-3.1	-3.0	-2.5	-3.1	-3.1	
9 Automatic debt dynamics 1/	-2.8	11.8	-1.0	-1.2	1.4			0.7	0.3	-0.1	-0.4	-0.8	-0.9	
10 Contribution from nominal interest rate	2.3	2.4	2.4	2.7	1.6			1.9	1.7	1.6	1.5	1.3	1.2	
11 Contribution from real GDP growth	-3.1	4.0	0.7	-1.5	-0.5			-1.1	-1.4	-1.7	-1.9	-2.2	-2.1	
12 Contribution from price and exchange rate changes 2/	-2.0	5.4	-4.1	-2.4	0.3			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	4.3	6.7	7.2	2.9	0.5			-3.6	0.4	-0.6	-1.6	-0.7	-0.5	
External debt-to-exports ratio (in percent)	170.3	224.5	210.2	187.9	188.3			197.2	195.9	191.0	181.5	173.1	165.9	
Gross external financing need (in billions of Euros) 4/	46.2	34.9	32.2	38.2	43.0			41.1	39.0	38.9	38.0	39.5	43.9	
in percent of GDP	33.1	29.5	25.9	29.1	32.6			29.0	26.6	25.2	23.2	22.6	23.4	
Scenario with key variables at their historical averages 5/								**71.2**	**68.5**	**66.1**	**62.8**	**60.7**	**58.7**	**-8.8**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	7.3	-6.6	-1.1	2.2	0.7	3.5	4.7	1.6	2.0	2.5	2.9	3.4	3.5	
GDP deflator in Euros (change in percent)	4.5	-9.4	6.4	3.4	-0.4	7.3	10.1	5.9	1.2	3.0	3.1	3.4	3.5	
Nominal external interest rate (in percent)	5.5	3.9	3.7	3.9	2.2	4.4	1.1	2.7	2.5	2.3	2.2	2.1	2.0	
Growth of exports (Euro terms, in percent)	16.6	-14.9	21.7	19.4	0.3	12.5	11.8	-2.8	3.5	6.4	8.8	9.4	9.5	
Growth of imports (Euro terms, in percent)	13.2	-28.9	18.1	16.5	-0.1	13.0	16.8	-1.6	4.0	6.6	8.6	9.4	9.7	
Current account balance, excluding interest payments	-9.2	-1.8	-2.0	-1.8	-2.3	-5.6	3.6	-1.9	-2.1	-2.5	-2.7	-3.0	-3.3	
Net non-debt creating capital inflows	6.0	3.4	2.5	2.6	4.0	5.3	2.2	3.1	3.1	3.0	2.5	3.1	3.1	

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

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

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

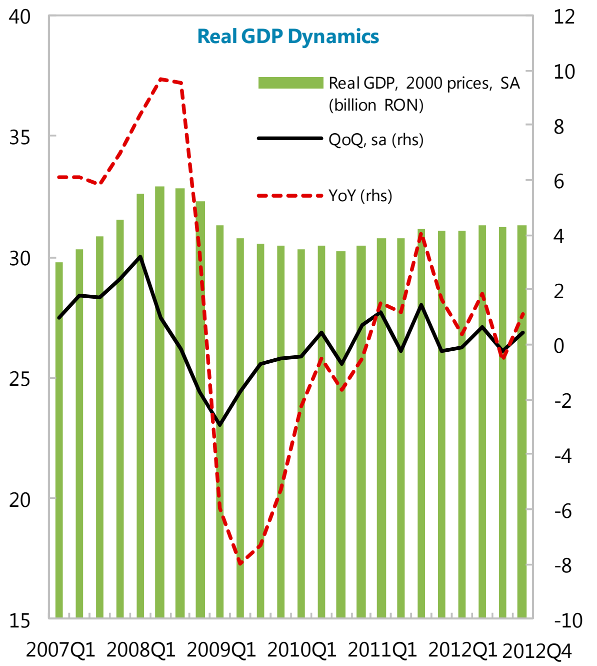
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

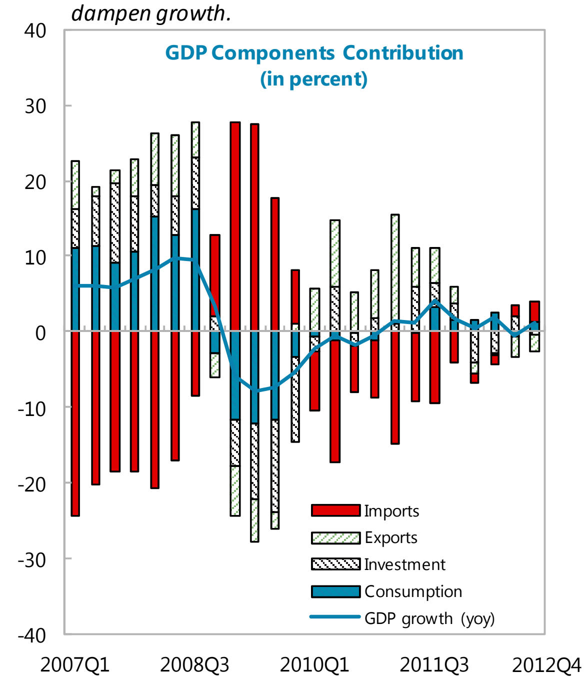
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, Euro deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Romania: Real Sector, 2007–13

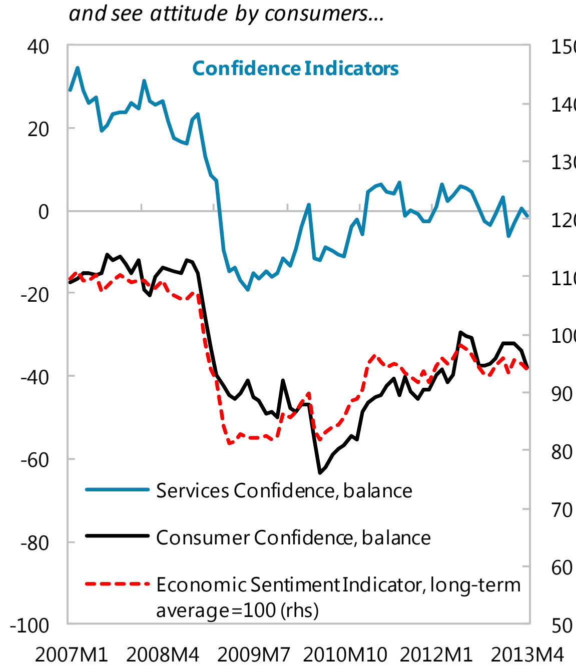
Real GDP has yet to return to pre-crisis levels…



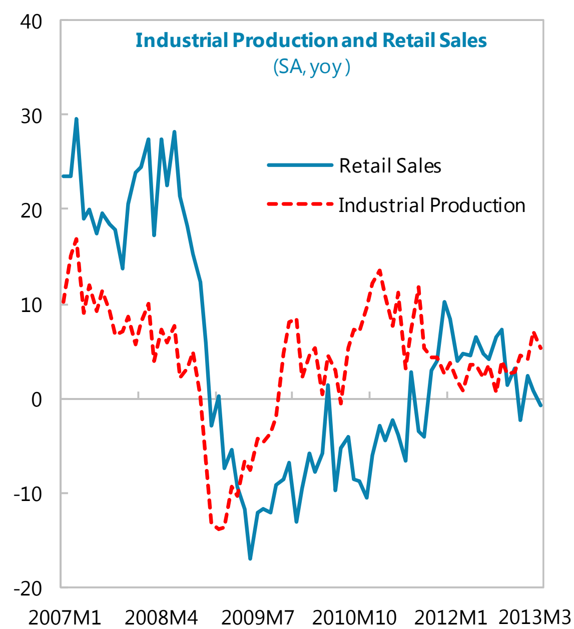
…as weak internal and external demand dampen growth.



Flat confidence indicators suggest a wait and see attitude by consumers…

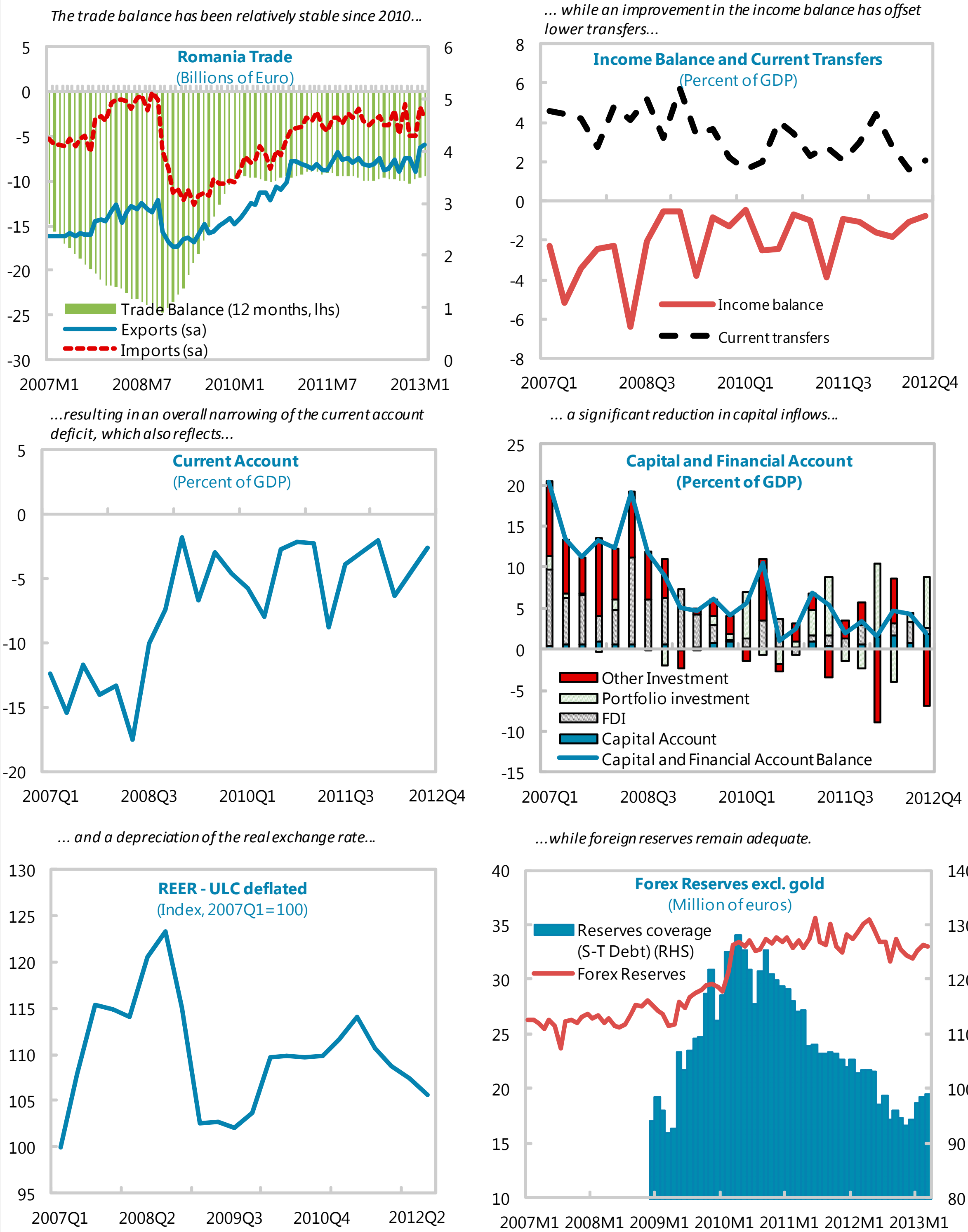


…though the recent pick up in IP suggests the economy may be slowly gaining speed.



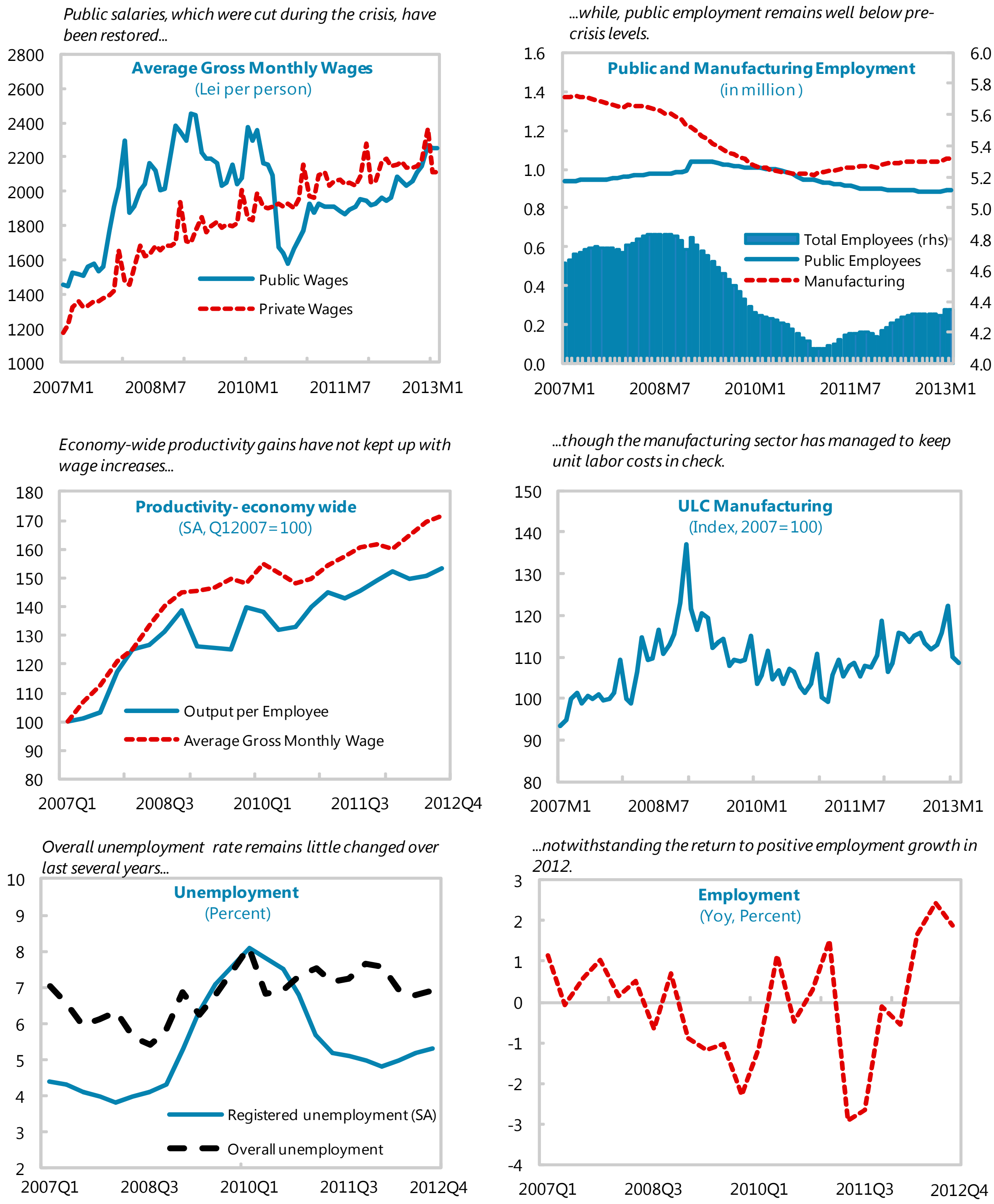
Source: Haver.

Figure 2. Romania: External Sector, 2007–13



Sources: Haver; and National Bank of Romania.

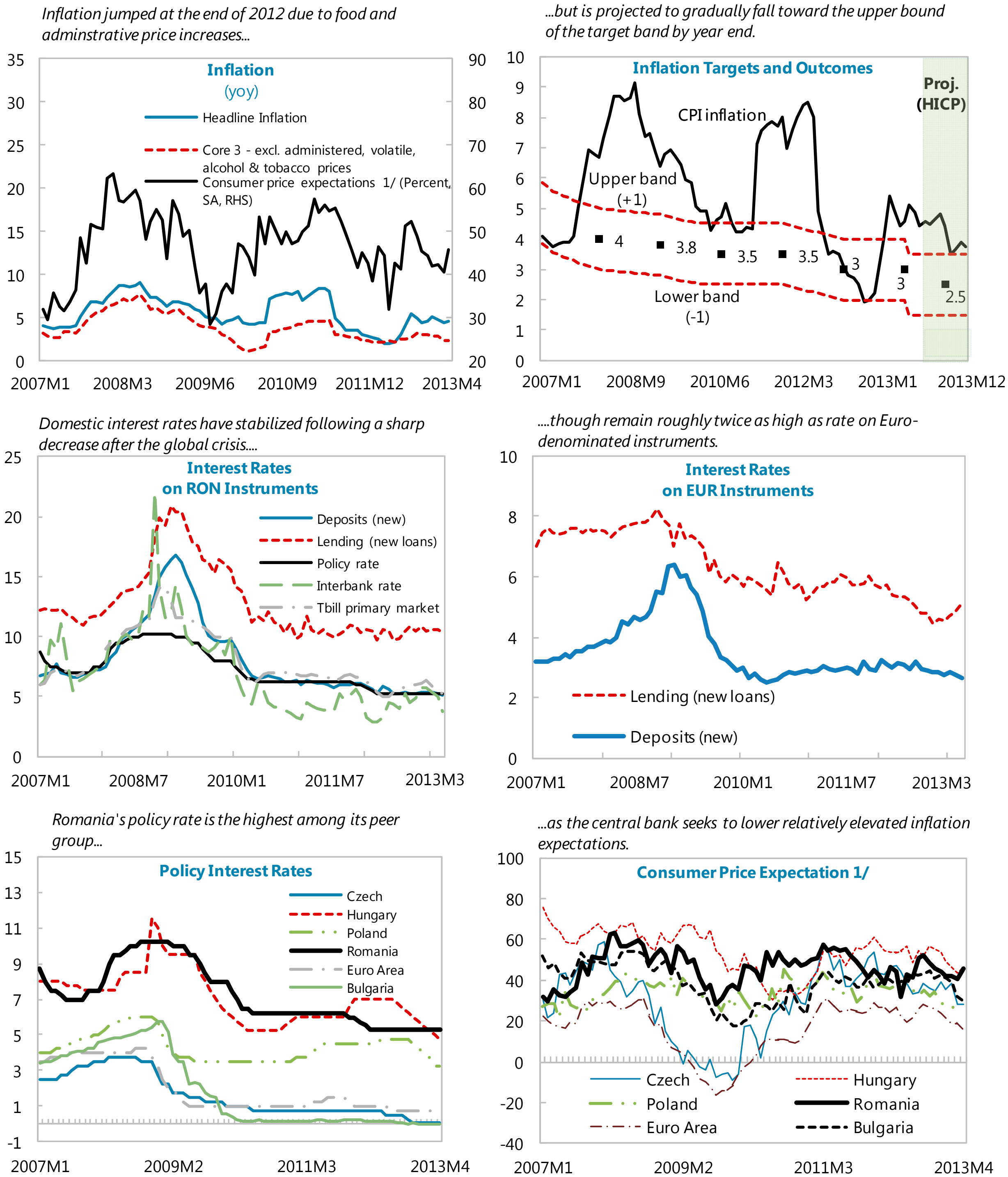
Figure 3. Romania: Labor Sector, 2007–13



Sources: Eurostat; and Haver.

Figure 4. Romania: Monetary Sector, 2007–13

(Percent)

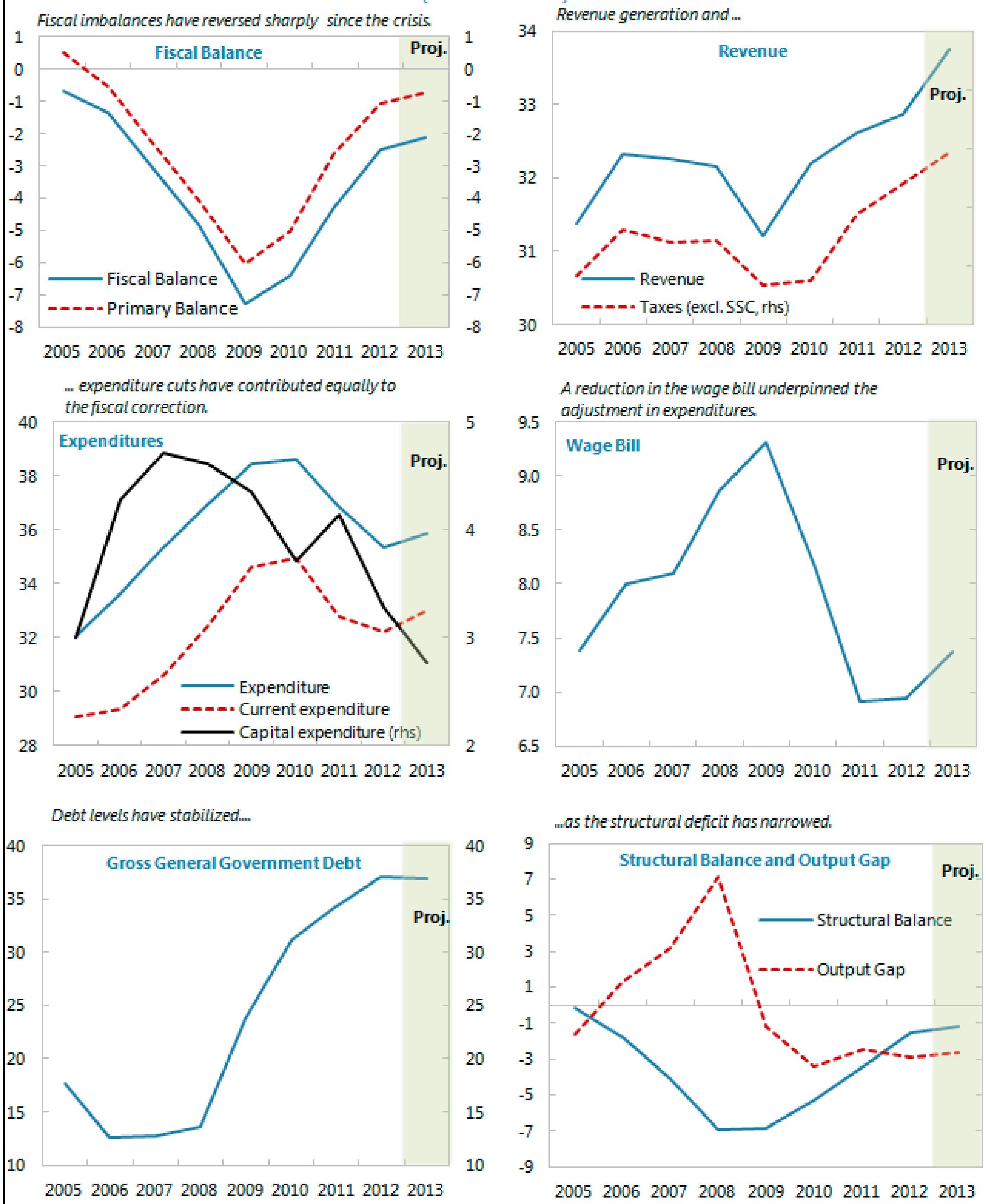


Sources: Haver; National Bank of Romania; Consensus Forecast; and IMF staff estimates.

1/ Value equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease.

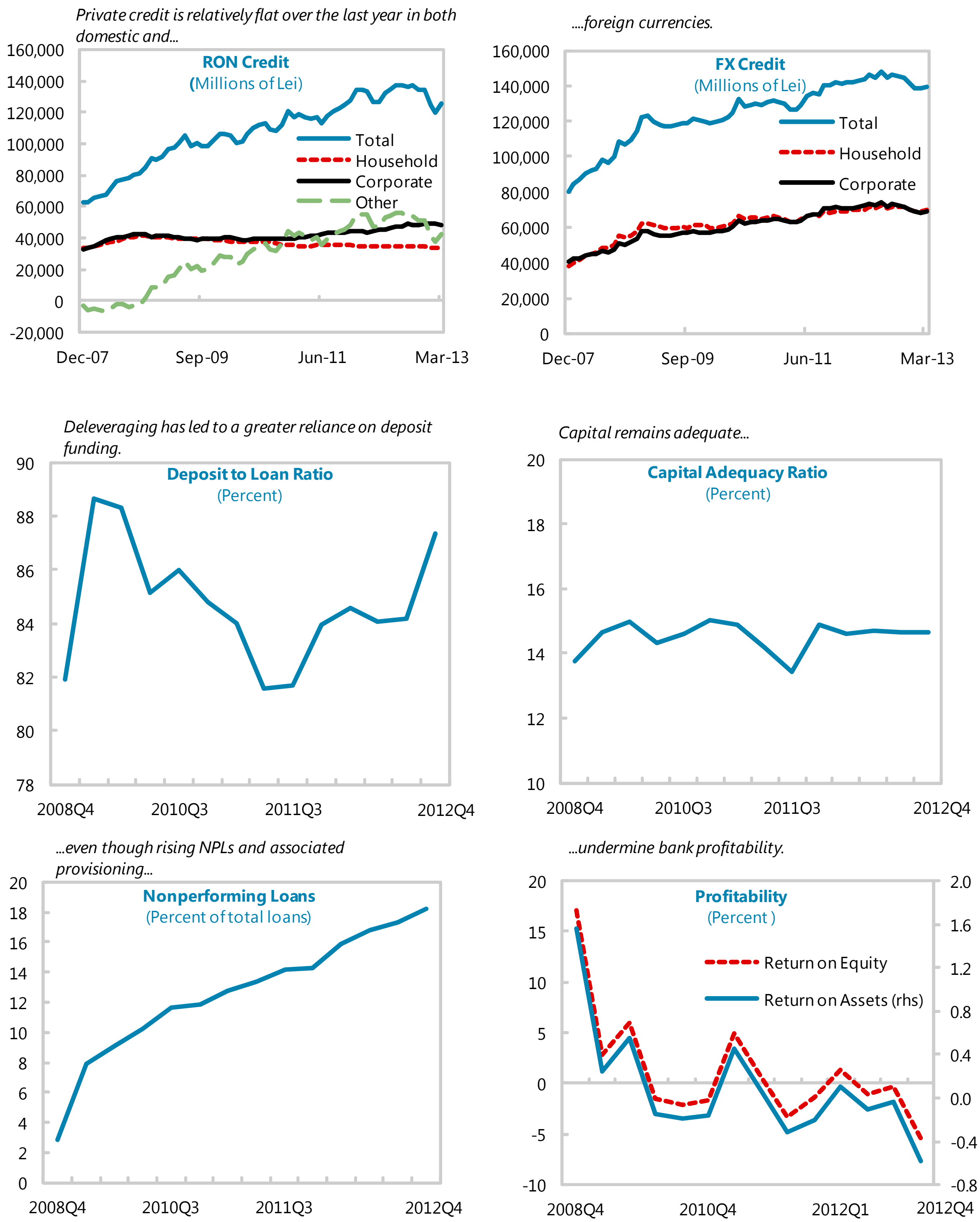
Figure 5. Romania: Fiscal Operations, 2005–13

(Percent of GDP)



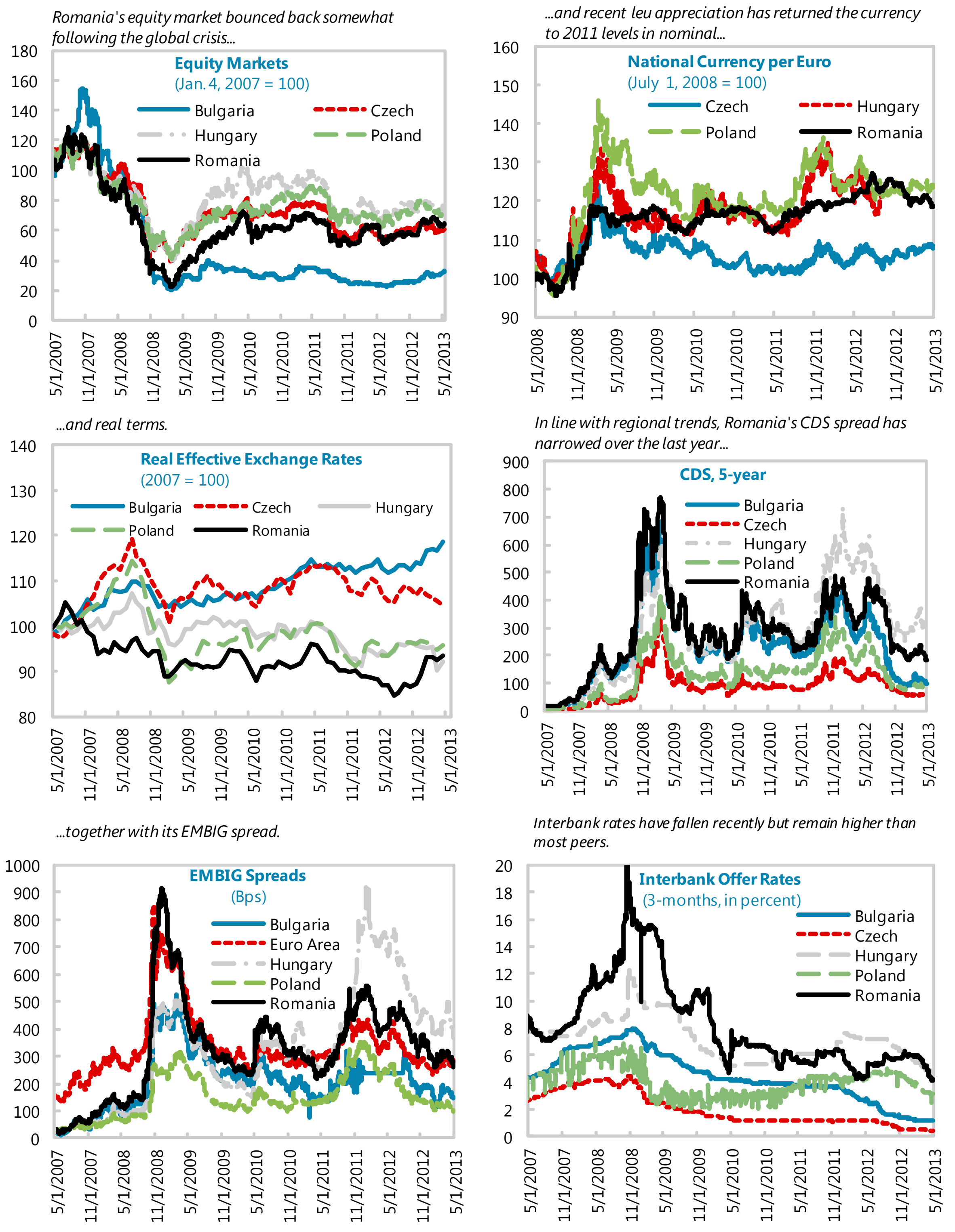
Source: Romania authorities; and IMF staff estimates.

Figure 6. Romania: Financial Sector, 2007–13



Sources: Dxtime; and National Bank of Romania.

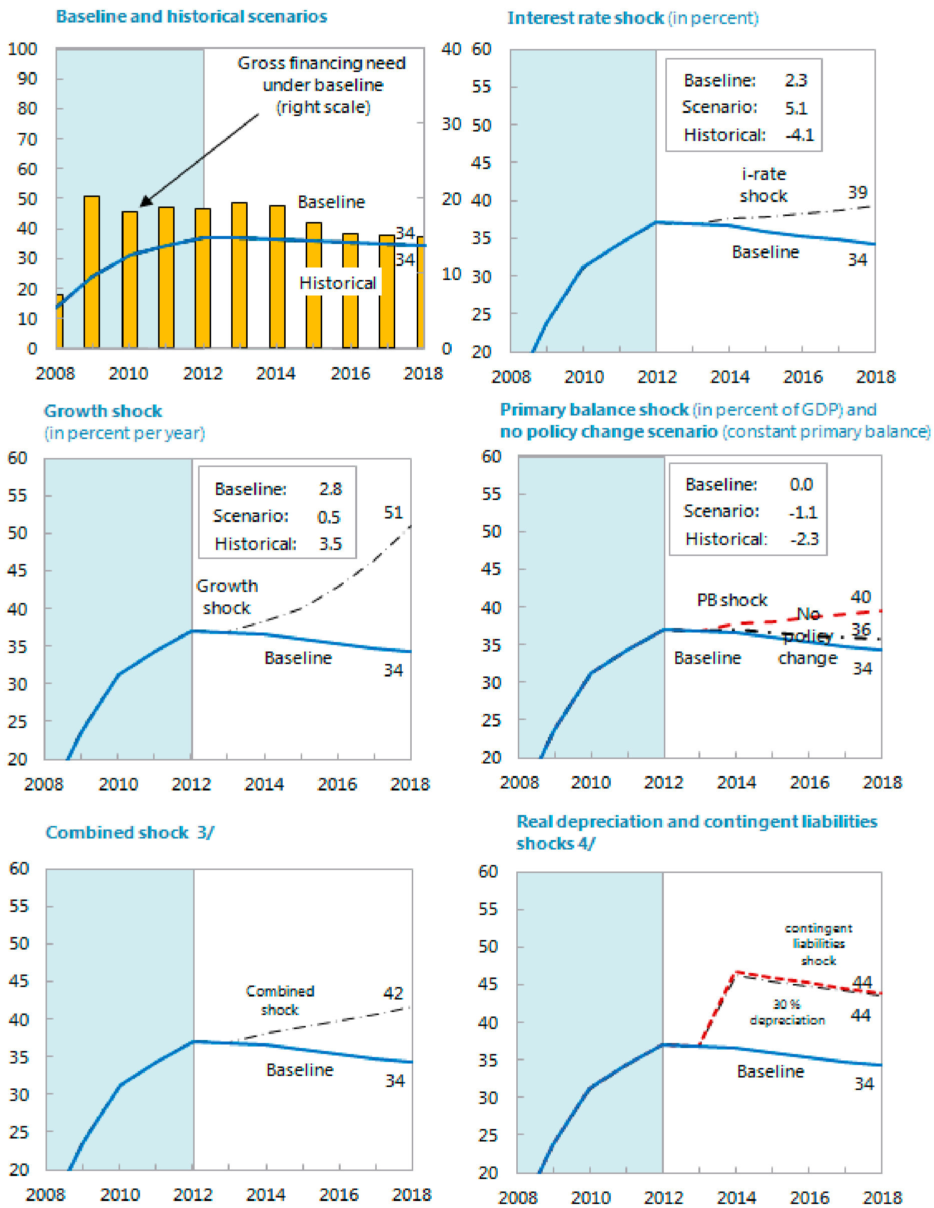
Figure 7. Romania: Financial Developments, 2007-13



Sources: Bloomberg; and Haver.

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

(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

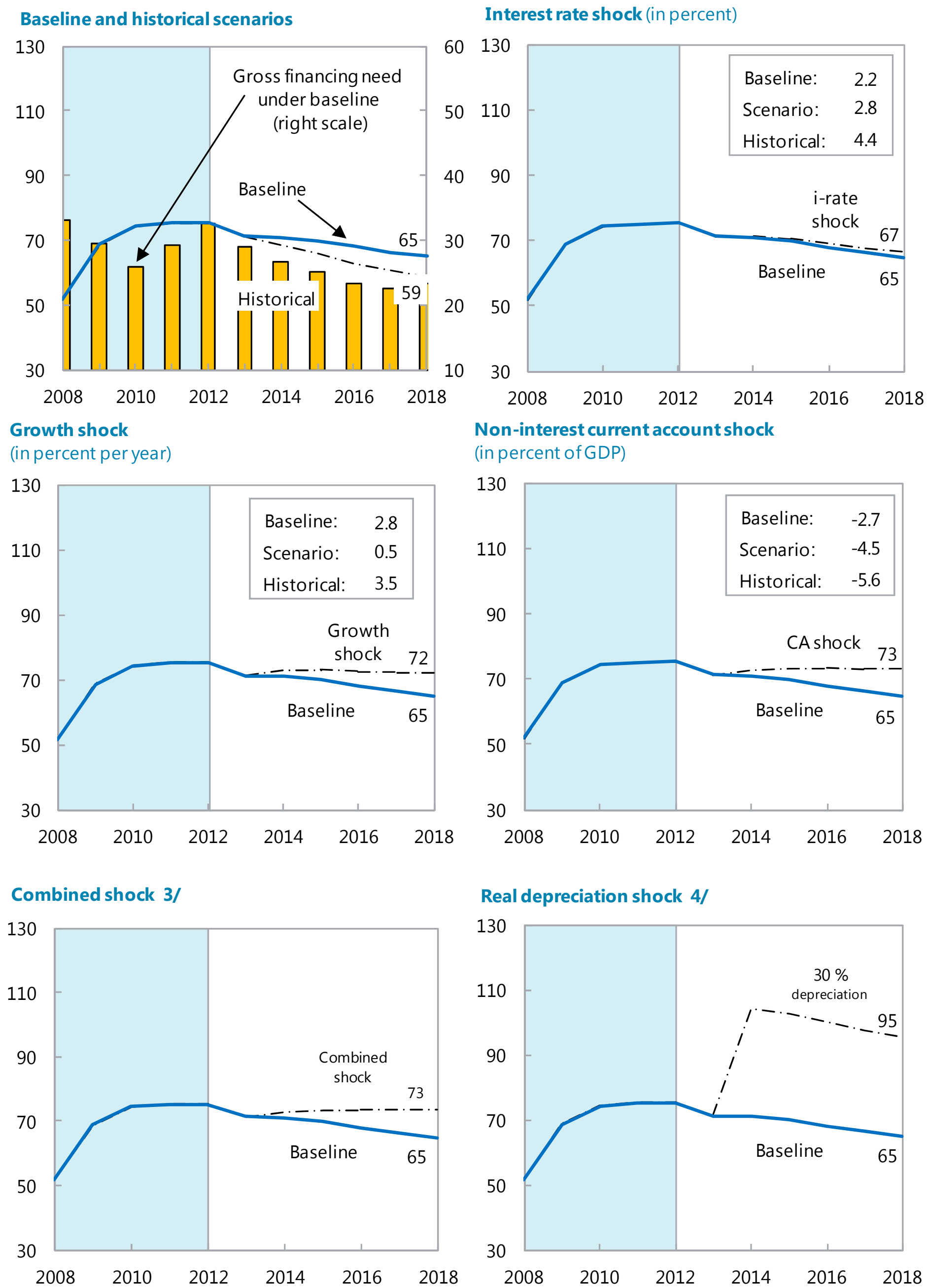
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

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

Appendix I. Letter of Intent

Bucharest, June 10, 2013

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

Dear Mme. Lagarde:

The Romanian authorities reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). Unfortunately, there were slippages in program implementation during the latter part of 2012. Budget consolidation continued, but several performance criteria for the seventh and eighth program reviews were missed and the structural reform agenda was delayed. We are committed to taking the corrective actions described in the attached Memorandum of Economic and Financial Policies (MEFP), notably by pushing ahead with the planned structural reforms. We expect growth to pick up in 2013, after it slowed in 2012. Our economy remains vulnerable to developments abroad, which requires continued firm policy implementation and maintenance of fiscal, external, and financial sector buffers to safeguard against risks.

Our performance on the quantitative targets and structural reform agenda for the seventh and eighth reviews has been mixed (MEFP, Tables 1 and 2).

- *Quantitative performance criteria and indicative targets*. We met two of the five quantitative performance criteria and two of the five indicative targets for end-December 2012. The performance criteria on net foreign assets (NFA) of the National Bank of Romania (NBR), the general government balance, and central government arrears were missed. The indicative targets on general government primary spending, local government arrears, and state-owned enterprise (SOE) arrears were also missed. Corrective actions are being taken to achieve the objectives of the program, as described in the attached MEFP. Inflation exceeded the inner band of the inflation consultation mechanism and discussions were held with IMF staff, as required under the program.

- *Structural benchmarks*. We met the structural benchmark to publish financial statements of public hospitals. The structural benchmark to identify priority local government projects and publish a list of low priority projects to be discontinued is expected to be implemented with a delay in early June 2013, and the structural benchmark to finalize a detailed definition of the structural architecture of the accounting and Treasury reporting system is expected to be implemented with delay in June 2013. We missed the structural benchmark to sign a contract with a transaction advisor for the majority privatization of Oltenia. We subsequently signed a contract with a transaction advisor for the initial public offering of 15 percent of the share capital of Oltenia in May 2013.

In the attached MEFP, we set out our plans to further advance towards meeting the objectives of our macroeconomic program. To allow time to implement the proposed remedial measures, we requested a three-month extension of the program until end-June 2013. In view of our performance under the program supported by the IMF, the EU, and the World Bank and the corrective actions taken, the Government of Romania and the NBR request waivers on the missed performance criteria and completion of the seventh and eighth reviews. We intend to continue to treat the arrangement as precautionary. The Technical Memorandum of Understanding (TMU) explains how program targets are measured.

We believe that the policies set forth in the letters of March 10, 2011, June 9, 2011, September 14, 2011, December 2, 2011, February 28, 2012, June 8, 2012, September 12, 2012, and in this Letter are adequate to achieve the objectives of our economic program. We stand ready to take additional measures as appropriate to ensure achievement of these objectives. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached MEFP or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the EC with the necessary information for program monitoring.
We authorize the IMF and the EC to publish the Letter of Intent and its attachments, and the related staff reports. This letter is being copied to Mr. Olli Rehn, European Commissioner for Economic and Monetary Affairs and the Euro.

Sincerely,

/s/	/s/
Daniel Chitoiu Deputy Prime Minister and Minister of Public Finance	Mugur Isărescu Governor of the National Bank of Romania

Attachment I. Romania: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Real GDP growth slowed to 0.7 percent in 2012, after reaching 2.2 percent in 2011 on a bumper harvest. Domestic demand slowed amid political uncertainty and a recession in the euro area dragged down exports. In addition, severe winter weather depressed activity in the first quarter and a drought led to a sharp contraction in agricultural production in the third quarter. Headline inflation picked up in the second half of the year on account of a supply-driven increase in volatile food prices, the pass-through of the depreciation of the exchange rate during May-September, and an increase in international commodity prices. Annual inflation reached 6 percent in January 2013, but subsequently came down to 5.3 percent in April. Core inflation (HICP basis) also rose from a low near 2 percent earlier in the year to around 3 percent, reflecting the pass through of agri-food commodity prices to processed food prices and some increase in inflation expectations, but has then abated to 2.4 percent in March.

2. For 2013, we expect GDP growth to pick up to 1.6 percent due to a rebound in domestic demand as confidence improved after the elections, EU fund disbursements resume, the budget structure is more supportive, and agricultural output returns to normal levels. Net exports' contribution is expected to remain negative, reflecting both slow growth in export markets and stronger domestic demand. With administered energy price increases in the first part of the year, inflation remained above 5 percent but is expected to fall to the upper end of the central bank's revised target band of 2½ ± 1 percent by year-end. The current account deficit is expected to remain below 4 percent of GDP in 2013. Risks to the outlook continue to be tilted to the downside, particularly from weaker-than-anticipated economic activity in the euro area and lower-than-expected EU funds absorption. Firm implementation of the policy program will thus be crucial to bolstering confidence and securing policy buffers.

Fiscal Policy

3. In 2012, an election year, the fiscal deficit narrowed significantly. Estimates point to a deficit (in ESA terms) below 3 percent of GDP, a first step to exit the EU's Excessive Deficit Procedure. The

cash deficit target under the program was missed, however, mainly due to suspensions in the second half of the year of reimbursements for some EU-funded projects because of past irregularities discovered by the Romanian audit authorities. Tax receipts were broadly as planned, partly reflecting one-off revenues from mobile license fees that offset underperformance in VAT and the personal income tax, while nontax revenues recovered due to sizable dividends. We continued to reduce public employment, but current expenditures slightly exceeded the program ceiling owing to increased subsidies. Overall spending was less than foreseen as we curtailed domestically financed capital outlays in favor of higher spending on EU-funded projects and transfers for arrears reduction. Nevertheless, the arrears target for the central government was narrowly missed. At the local government level, although we took measures and arrears started to decline in the last quarter of 2012, they remained above the program target.

4. The 2013 budget targets a cash deficit of 2.1 percent of GDP. This is consistent with a reduction in the ESA structural deficit by 0.5 percent of GDP, in line with the commitments under the EU's Stability and Growth Pact. The budget includes measures to offset: (i) the second step in restoring public sector wages to pre-crisis levels; (ii) restitute health contributions to pensioners; (iii) higher national co-financing needs and a buffer for potential financial corrections for EU-funded projects; and (iv) implementation of the 2010 pension law, which will result in a 4 percent increase in pensions. The budget also contains a significant allocation to implement the EU Late Payments Directive that shortens the deadline for settling unpaid bills. The minimum wage will be increased from RON 700 to RON 800 per month in two steps: it was increased by RON 50 as of February 1 and will be increased by another RON 50 on July 1. The budget includes measures to improve the quality of domestically financed capital projects through improved prioritization, and to reorient resources towards EU-funded projects while reducing subsidies. We have placed limits on non-eligible spending under EU projects in the budget. A revenue package (of RON 2.9 billion) has been adopted to enhance the tax base through reductions in tax deductibility, improving the taxation of agriculture, and making the turnover tax of 3 percent on small enterprises mandatory. Property tax and excise rates have also been increased in an effort to keep up with inflation. Fiscal performance through the first quarter of 2013 was in line with projections. While grants were lower than planned, we have offset the shortfall by strictly containing spending.

5. We will reduce arrears at the central and local governments to the levels targeted at end-December 2012 as a prior action, before eliminating them over the course of the year. Following the measures undertaken in late 2012, arrears have started to decline in both the central and local governments. However, additional unpaid bills have caused program targets to be missed for local governments. General government arrears decreased by RON 641 million between end-September

2012 and end-December 2012 to 0.14 percent of GDP (almost entirely in local governments). In SOEs monitored under the program, arrears at end-2012 stood at 2 percent of GDP, above the indicative program ceiling of 1.5 percent of GDP.

- Prevention of future arrears cannot be achieved until a commitment control system for all levels of government is operational. We are preparing a detailed definition of the structural architecture of the system that integrates the accounting reporting system with the Treasury payment system, including the commitment control and reporting module for all levels of government. We already signed a contract with a consultant to help design the system and work is currently in progress. We have also approved legislation to ensure better control of budgetary commitments by line ministries.

- Arrears of local governments are a key challenge. We will take stricter measures for monitoring and enforcing the Local Government Public Finance Law (LGPFL). Measures to allow: (i) tax-sharing resources assigned to local governments to be used for paying arrears; and (ii) the central government to directly pay off arrears of local governments from shared taxes, are being strictly implemented. We have settled most of the arrears of the local government through a RON 800 million loan from the central government, which will be recovered from future tax-sharing revenues and other own resources. We performed an investigation of local government arrears, which identified that a significant share of arrears RON 360 million are disputable claims, for one of the following reasons: failure to comply with relevant laws and regulations; improper invoicing or procurement process; or lack of evidence regarding completion of the work invoiced. These disputed claims will not be accounted for in the total amount of outstanding local government arrears. The Court of Accounts will audit the disputed claims and the final decision will be validated by the courts. We also took a series of measures to prevent future arrears, ensuring that: (i) local governments with arrears have raised property tax rates in line with inflation; (ii) commitments on local government investments on projects co-financed by the central government within budgetary allocations are contained; and (iii) the recent Emergency Ordinance 46/2013 on insolvency procedures of local governments will be implemented. The introduction of the copayment law for hospitals will also help reduce spending pressures in local hospitals by encouraging outpatient care.

- In the health sector, the clawback tax yielded RON 1.8 billion in 2012, which was fully used to pay down outstanding pharmaceutical bills. We revised the formula of the clawback tax in consultation with the pharmaceutical industry. All revenues from the clawback tax will be used to reduce payment periods and ensure non-accumulation of arrears on pharmaceutical products. In order to implement the EU Late Payments Directive, which became effective end-March 2013, the budget contains an allocation of RON 3.5 billion to cover the timely payment of unpaid bills. We have made an additional budgetary allocation to clear arrears to hospitals.

- For SOEs, we made progress in reducing arrears in some of the monitored companies through swap operations, payments, and other financial operations. However, we missed the overall indicative arrears target for end-December 2012 because of renewed arrears accumulation notably in the state-owned rail companies. We will continue our efforts to reduce SOE arrears (paragraphs 24, 25, and 29).

6. To address health sector financial imbalances, we are committed to implementing the following key measures:

- In March 2013, we started to introduce copayments, based on a modest fixed amount depending on services provided, in the hospital sector, excluding emergency services.

- To control expenditures and ensure efficiency gains in the short term, we will continue to revise the positive list for reimbursable drugs and, in the framework contracts for the health services providers, we will introduce mechanisms to reduce hospitalization periods and to increase the use of ambulatory services. In 2012 we started to implement the National Hospital Bed Plan and reduced the number of hospital beds that can be contracted. We will not introduce any new drugs or indications in the list of compensated drugs without an interim health technology assessment (HTA) which will become operational in July. For this purpose, we will complete the proposed HTA training. We started to implement the centralized procurement system for pharmaceuticals and medical devices for hospitals, in order to realize cost savings, and we will assess the system at the end of 2013.

- To avoid the future build-up of arrears in the hospital sector, we have shifted some financial resources from hospitals with limited competences to those in the network of regional emergency hospitals. This objective will be achieved through adjustments of the weighted-per-case tariffs, while ensuring that arrears will not accumulate in hospitals with decreased funding. At the same time, we will amend the contracts of hospital managers so that they can be replaced following quarterly appraisals if the hospital has run arrears for three consecutive months.

- We will continue to monitor public hospital budgets to ensure that they are consistent with the expenditure programmed in the general government budget. We started publishing online up-to-date financial statements of all public hospitals in October 2012 (structural benchmark).

Moreover, the Ministry of Health has started to conduct mandatory financial audits of public hospitals and financial audits of the use of public funds.

- We will continue implementation of new components of the healthcare IT system. The auditing of insured patient registries was completed at end-2012 and this activity will continue this year. We started the distribution of patient cards at the end of 2012, albeit with delay, and we will continue this process in 2013. This will help control fraud and abuse in the system while enabling better monitoring of spending commitments. A new electronic prescription module for the National Health Information System became operational in June 2012. This will also help to streamline pharmaceutical prescription and dispensing behavior. Efforts are ongoing under an EU-funded project to build a central data base with electronic health records.

7. We continue our efforts to prepare a comprehensive reform of the healthcare system. Rather than adopting a new framework law, we are preparing a new strategy plan, which sets out the main objectives of the reform and deadlines. The strategy plan also lists the proposed measures to achieve the objectives, and existing legislation will be amended accordingly. We will publish supporting evidence and impact assessments of the reform proposals. The reform will aim to raise the efficiency of healthcare spending in Romania, enhance service quality and thereby improve health outcomes, and address the persistent budgetary shortfalls. To this end, we will define the basic package to be financed publicly within the limitations of available funding; shift the delivery of health services away from hospitals to ambulatory and primary health care providers; reevaluate the hospital financing system; revise the national health programs; improve the regulatory framework for provision and monitoring of healthcare services; and establish the framework for a private supplementary insurance market. On the revenue side we have started to broaden the contribution base to the social health insurance scheme.

8. We continue to improve the efficiency of the tax system. In January 2013, we enacted measures to move VAT collection onto a cash accounting basis for companies with annual turnover below EUR 500,000. We have implemented measures to enlarge the tax base in agriculture through a presumptive tax; limit deductions in the corporate income tax; and increase excises with the goal of maintaining their real value. A mandatory 3 percent turnover tax on small businesses below a turnover threshold of €65,000 has been put in place. We have also introduced a solidarity levy on the windfall gains from the deregulation of gas prices. By July 1, we will: (i) enact measures to simplify the depreciation schedules for fixed assets; (ii) revise the base for property taxes, which will vary depending on use of the property and not the legal status of the property owner; and (iii) start preparing a strategy for a new oil and gas taxation regime for the period 2015-24. We will also seek to ensure that excise rates on alcoholic beverages are better correlated with the alcohol content and

the production process. A comprehensive analysis of the social contribution system with the goal of improving collections, expanding the base, and limiting exemptions in order to provide incentives to work and to reduce the tax wedge will be undertaken before finalizing the draft 2014 budget. We will consult with IMF/EC staff before undertaking any further changes of the tax system.

9. We are making progress on a comprehensive reform of the tax administration (ANAF):

- We applied the deregistering criteria for small VAT payers and reduced the total number of small taxpayers registered for VAT purposes by more than 20 percent between December 2011 and December 2012. At the end of 2012 the number of small taxpayers stood at 154,300, down from 253,800 the year before. We will continue our efforts in 2013 to reduce the number of small VAT taxpayers.

- We have finalized a list of High Net-Wealth Individual (HNWI) taxpayers for the dedicated compliance program and of individuals with risks and have started prior verification procedures. Soft notification letters have been sent out, and audits have begun in the first half of 2013. In order to strengthen capacity, we are undertaking training programs with the assistance of partner-country tax administration specialists and IMF technical assistance.

- As part of ANAF restructuring and modernization, we are consolidating the current 221 tax offices to eight regional directorates (by mid-2013) and 47 local tax offices (by 2015). We agreed with the World Bank on a project to support the modernization of the tax administration.

- ANAF took over the collection of health contributions by self-employed individuals as scheduled in July 2012. In December 2012 we adopted the necessary regulations to complete the integration of social contributions within the tax collection processes of ANAF and to allow individual taxpayers to submit a single declaration for income tax and social contributions as of January 2013. We will set up a central database that will allow us to manage and assess together with local authorities data regarding taxes and contributions owed to the general consolidated budget as well as information on properties.

10. 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 together with the World Bank in 2011. We have signed most of the contracts with the World Bank for implementing a number of key medium- and long-term actions. Moreover, through the General Secretariat and in coordination with the Ministry of Public Finance (MOPF), we are working with the World Bank to develop and implement a monitoring and evaluation system for public policies in

accordance with the Convergence Program and National Reform Program, including for tracking the implementation of the action plans. Based on the functional reviews, we will develop personnel norms for each line ministry and will ensure a more flexible application of the 1-for-7 rule while keeping the wage bill close to 7 percent of GDP. This will be done under the coordination of the Ministry of Regional Development and Public Administration and the MOPF. We will also review the Unified Public Wage Law to identify key bottlenecks and challenges in its implementation.

11. Faster absorption of EU funds is a key priority. Although we have made some progress in absorbing EU funds, further efforts are still required. We will take immediate measures to correct past irregularities in the system that led to the financial corrections last year, particularly as regards the public procurement issues. We will ensure that all systems and processes are in line with the EU requirements and best practices so as to minimize the risk of future derailment. Nevertheless, certain programs remain interrupted. Given risks of de-commitment, we have continued to reallocate budgetary resources towards high-priority EU-funded projects where EC reimbursements were interrupted. To contain risks to the budget, we will closely monitor spending on non-eligible expenditures and ensure that they are within the limits set in the budget. Improved performance in certified EU-funds absorption will be reflected in increased flexibility in EU-projects related budget allocations within the agreed fiscal targets. Moreover, we will step up our efforts to boost absorption and are closely working with the EC to simplify the procedure that will help with faster absorption up to the beneficiaries' level. Furthermore, we will continue to implement fully the April 2011 Priority Action Plan for the absorption of Structural and Cohesion Funds.

12. We continue to improve the investment portfolio of all government projects to ensure proper prioritization and monitoring, such that funding can be fully secured within a medium-term horizon (3–5 years). We will ensure that national programs co-financed with local governments are fully funded and no new projects of this type will be initiated. New investment projects from own resources will be strictly contained and projects that can be completed within a year will be prioritized in 2013. The investment database was initially updated in March and, according to Emergency Ordinance No.28/2013, will be finalized in early June to identify local-government priority projects funded through budgetary and EU funds (structural benchmark). Based on this prioritization exercise, we have discontinued low priority projects. We will work with the World Bank, through a project financed with EU funds, to enhance the capacity of the MOPF to develop the criteria to evaluate and monitor public investment projects.

13. We are committed to strengthening fiscal institutions in line with our commitments under the Fiscal Compact. We are preparing amendments to the Public Finance Law and the Fiscal

Responsibility Law to adopt a structural fiscal rule and corrective actions in line with EU requirements. We will also undertake efforts to strengthen the capacity of the Fiscal Council.

14. Market conditions for public debt financing have improved considerably owing to reduced domestic political uncertainty and better external market conditions. We continued to consolidate the financing buffer and achieved our objective of four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on this buffer represents a necessary cost for insurance against shocks. We are continuing our efforts to widen the investor base and improve outreach efforts. Inclusion of Romania in major emerging market indices will help diversify the investor base and strengthen capital markets. We are undertaking a project, financed with European funds and implemented with support of the World Bank, to strengthen the debt management department. We published the update of the 2013-15 debt management strategy in March 2013.

Monetary Policy

15. Headline inflation increased mainly on the back of higher food prices in the latter part of 2012, following the poor harvest, and exceeded our target band of 3±1 percent in December 2012. Inflation remained above 5 percent during the early months of 2013, due to base effects and increases in administered prices and excise duties, but we expect it to gradually return to the upper end of our new target band of 2.5±1 percent in the second half of the year. Core inflation (HICP basis) came down to 2.4 percent in April, and is expected to remain low throughout the rest of the year, mainly on account of the dissipation of pressures from food prices and the persistent negative output gap.

16. We kept the monetary policy rate at 5.25 percent since May 2012, but interbank rates increased and temporarily exceeded the policy rate towards the end of 2012 after the move to firm liquidity management. Interbank rates came down again from January, as the NBR resumed the adequate management of liquidity in the banking system. As a result of central bank action to counteract excess volatility in the exchange rate market, the exchange rate stabilized in mid-October, before appreciating by some 3 percent since end-November on account of improved investor appetite for Romanian assets, particularly government securities. However, the NBR action to limit exchange rate volatility also resulted in the NFA target being missed at end-December, after taking into account the adjuster on issuance of government securities on external markets. We have since taken advantage of improved market sentiment to ensure an adequate international reserves buffer while making substantial repayments to the IMF. Liquidity conditions have eased since early

2013, owing inter alia to the NBR increasing and subsequently lifting the cap on repurchase operations in March. We have also narrowed the interest rate corridor around the policy rate from ±4 percent to ±3 percent in order to moderate interest rate volatility on the interbank money market and to consolidate the transmission of the policy rate signal.

17. Risks associated with the inflation projections are balanced, with possible deviations on either side of the baseline scenario on account of higher volatility in international capital flows, which continues to require a prudent monetary policy stance supported by the consistent implementation of the macroeconomic policy mix. The current monetary policy stance appears broadly appropriate but will be adjusted as needed to continue anchoring inflation expectations while also ensuring that international reserves are on an appropriate path. We will continue regular repurchase operations as needed to ensure adequate liquidity conditions in the banking system, while underpinning the good functioning of money markets and consolidating the transmission of monetary policy signals. Minimum reserve requirements are expected to remain unchanged. Furthermore, in an effort to enhance the redistribution of liquidity across the banking sector, we continue to encourage the finalization of the master repurchase agreement, of which a draft has been prepared, and of all procedures needed for banks to be able to engage in collateralized repo interbank lending.

Financial Sector

18. The Romanian banking sector maintains reassuring capital buffers and provisions but faces continuing pressures on asset quality, and from deleveraging and spillovers from abroad. The Cyprus crisis so far had a limited impact on the banking system. Annual credit growth to both corporates and households has turned negative. Nonperforming loans (NPLs) rose significantly, driven mainly by the deterioration of the economic environment and tighter supervisory enforcement, and stood at 19.1 percent in March, 2013, compared to 14.3 percent at end-2011. Total prudential provisions at end-March were sufficient to cover 102.6 percent of NPLs while the IFRS provisioning ratio stood at 78 percent. The NBR-mandated collateral audit resulted in a provisioning gap of around €600 million (around 1 percent of the total loan portfolio and partly due to the regular provisioning flow in the examination period), which has been fully closed. Bank profitability remains poor with an overall system loss during 2012, mainly due to higher provisioning, the weak economy, and the high cost base of some banks. But the banking system turned a profit in the first quarter of 2013. The capitalization of the banking sector remained strong at 15 percent at end-March 2013 albeit with some differences between banks. Overall, system household and corporate deposits have increased by around 9 percent since end-2011. While the

liquidity situation has improved for the banking system, funding conditions are still uneven among some banks. Foreign-owned bank deleveraging has been orderly so far with a parent funding decline of 13½ percent during 2012 and 8 percent between January-April, 2013, but risks from continuing parent funding retrenchment remain elevated and could be an impediment to credit growth recovery should credit demand pick up sizably. The system-wide loan-to-deposit ratio stood at around 114 percent at end-March 2013, declining from 117 percent at end-2012.

19. The NBR will continue to intensively supervise the banking system and take any necessary measures to ensure that banks have sufficient capital and liquidity, especially in light of the uncertain economic environment which could pose further profitability and asset quality challenges for some banks. The NBR will continue to regularly conduct top-down and bottom-up solvency and liquidity stress tests of the banking industry. The NBR, Deposit Guarantee Fund (DGF), and the MOPF will continue to coordinate the implementation of operational preparedness plans and the arrangements for the acquired bank resolution powers according to their competencies. Following the successful bridge-bank simulation exercise, the NBR will update the internal procedures for bridge-banks. Based on the finalization of these internal procedures, the details of the updated NBR contingency planning framework will be shared and agreed with the IMF and EC staff. The NBR is preparing detailed contingency plans on an ongoing basis.

20. Based on the Memorandum of Understanding between the NBR and the DGF, the two institutions have finalized the necessary internal arrangements to provide the DGF with access to the agreed set of relevant financial and prudential information. The NBR board has approved the data transfer from the NBR to the DGF in January 2013. The DGF will swiftly build up its expertise in analyzing the financial information provided by the NBR. Furthermore, the DGF has separated its bank resolution and liquidation functions into two separate departments, each with the appropriate policies and internal procedures. The DGF will also improve the governance structure of its senior management in line with good international practices. As part of the prudential arrangements that would continue to apply in 2013, the prudential filter will remain in place in the current form, in line with evolving EU regulatory developments. Besides adopting measures in 2011 to restrict foreign-currency lending to un-hedged households, the NBR also implemented measures with a similar purpose for corporate lending in 2013, in line with ESRB recommendations on foreign-currency lending.

21. The NBR will continue to closely oversee bank practices to avoid evergreening so as to ensure that IFRS loan-loss provisioning and collateral valuations, as well as the assessment of credit risk of restructured loans, remain prudent and in line with good international practices. The NBR will

continue to collect periodic and detailed supervisory data on restructured loans, including to SOEs. Given the sizable NPL overhang, we will remove, where possible, impediments to corporate and household out-of-court debt restructuring and NPL resolution. We will also explore options within the IRFS framework to enable banks to remove fully-provisioned NPLs from their balance sheets at an earlier juncture (consistent with the IAS 39 provisions on the de-recognition of financial assets), inter alia, by clarifying, together with the Romania Banking Association and other relevant stakeholders, the accounting rules applicable to the write-off of loans.

22. We will ensure that the legislation and institutional arrangements for the integrated non-bank financial regulator, the Financial Supervision Authority (FSA), will be amended to adhere to international best practices, notably as regards minimum required professional qualifications of FSA board members and avoidance of conflicts of interest. The law amending the Law 503/2004 on the bankruptcy of insurance undertakings was approved by Law No. 139/2013 in May. Because preserving credit discipline among debtors contributes significantly towards enhancing financial stability, we will take all efforts to avoid the adoption of legislative initiatives (for instance, proposals for the personal insolvency law and for the debt collecting law or amending Ordinance 50/2010), which would undermine credit discipline. In this regard, we have initiated an impact study and public consultation with all relevant stakeholders on the procedural law for the application of the civil code, especially as regards the provisions on abusive clauses in loan contracts, before it will be enacted.

Structural Reforms

A. Regulatory and Strategic Reforms in Transportation and Energy Sectors

23. Comprehensive reform of the energy and transportation sectors is a critical element of our economic program to boost investment and growth. In the transportation sector, we seek to improve the quality of service and the reach of the network to foster investment and leverage our favorable geographic location. Exploitation of our large energy reserves requires greater private-sector participation in the sector, which can bring significantly more investment.

24. In the railway sector, we repaid principal arrears to electricity providers and secured a waiver of associated penalties with a government-guaranteed loan from the European Bank for Reconstruction and Development. A key condition of the loan was the appointment of a professional board and management in the railway infrastructure company (CFR Infrastructura). However, we dismissed the board after several months because we were not satisfied with the administrative plan it had prepared. We will seek to avoid such situations in the future. Arrears

quickly remerged, reflecting systemic problems within the railway sector. In addition to undermining the smooth functioning of the economy, the arrears would present an obstacle for the railway companies to source electricity once the electricity market is deregulated.

25. To halt the accumulation of arrears and prepare for the full deregulation of electricity prices, we are undertaking significant restructuring measures. The majority stake in the state-owned railway freight company (CFR Marfa) is in the process of being sold to a strategic investor. A professional board and management were appointed in the government-owned passenger operator (CFR Calatori). We changed the formula for calculation of the subsidy for the public service obligations (PSO) of the passenger rail company and removed the international and inter-city trains from the PSO, in order to encourage the passenger company to increase ticket receipts and facilitate payments by CFR Calatori to CFR Infrastructura for use of the rail lines. With about 1,000 line-kilometers already leased out, the rail infrastructure company will close the remaining 230 line-kilometers of the lowest cost recovery segments of the railways in order to bring the total railway network under management of CFR Infrastructura to 15,500 line-kilometers. We also closed the most unprofitable routes for passenger traffic. We acknowledge that these measures are just a start. In particular, we will support efforts of the boards and management of the rail infrastructure and passenger companies to reduce costs and increase revenues. Once the accumulation of new arrears has halted, we will consider a new financial operation to eliminate the stock of arrears of these companies.

26. We have made good progress on regulatory reform in the transportation sector. As of February 2013, the revised regulatory framework allows CFR Infrastructure to establish rail access charges independently. The rail regulatory body has become more independent as the representatives of the Ministry of Transport were removed from its supervisory board in late 2012. Also, in line with the requirements of the EU legislation, performance schemes to reduce delays and traffic disruption will be set up between CFR Infrastructura and both CFR Marfa and CFR Calatori by end-2013. Furthermore, incentives to reduce unit costs and charges have been introduced in CFR Infrastructura.

27. For the energy sector, we have begun to implement the regulatory framework that we established to improve the sector's efficiency. The law to ensure the independence of the energy regulator (ANRE) was promulgated in October 2012. We implemented the first three phases of electricity price deregulation in accordance with the agreed roadmap that envisages complete deregulation of electricity prices for non-residential consumers by January 1, 2014, and for households by December 31, 2017. Regulated electricity prices were increased by around five

percent on January 1, 2013. We also raised gas prices by 5 percent for non-residential consumers on February 1, 2013, albeit slightly later than planned. We intend to implement the remainder of the roadmap to deregulate gas prices as planned to achieve the complete price deregulation for non-residential consumers at the latest December 31, 2015, and for households by December 31, 2018. We will provide quarterly progress reports on the implementation of both the gas and electricity roadmaps. We have also approved an Emergency Ordinance increasing the minimum guaranteed income and the family support allowance starting July to better protect the most vulnerable households for electricity and gas price increases.

28. We plan to further improve the pricing and regulatory framework in the energy sector by undertaking the following steps:

- The pass-through mechanism for electricity and gas purchases by the supply companies will continue to be applied in line with the regulatory framework, in order to strengthen investment in this sector. To better align the current regulated end-user prices of gas with the actual cost of supply and distribution, we increased tariff rates for non-residential consumers by 10 percent and for households by five percent in September 2012. In April 2013, we published the new transmission tariff in the gas sector, and in mid-May we published for consultation the framework for the third regulatory period and the new tariffs for distribution of gas. We are reviewing the sustainability of support schemes for renewable energy.

- We are taking steps to strengthen OPCOM as a trading platform. ANRE approved a new electricity trading instrument tailored for the needs of large consumers. To make this trading instrument operational, a set of procedures and pre-qualification criteria for sellers and buyers, including a standardized template for contracts, was introduced. OPCOM also launched a new gas trading platform in December in a testing/participant training mode and will start commercial operation after receiving a license from ANRE.[13] We also plan to establish the rules and procedures for operation of the gas market, including the day ahead and balancing markets by July 2013.

- In line with our obligations as a member of the EU, we are ready to begin negotiations on the Inter-Governmental Agreement with Russia and will also strive to take steps to diversify our gas supply. We are phasing out the existing implicit gas export restrictions in parallel with the

[13] The new regulations for gas licensing and authorization will be approved by ANRE after an extensive public consultation process by the end of May 2013. This regulation will be published only after repeal of Government Decision 784/2000. Only after this event OPCOM and/or other companies have the possibility to ask for commercial license.

implementation of the gas price deregulation road map. We have made progress in the construction of the physical infrastructure on the Romanian-Hungarian border, and will enable reverse flows on the gas interconnectors by the end of 2013. We have started the process of certified unbundling of transmission networks in electricity and gas in agreement with the European legislation. The preliminary process for certification of the transport operators (Transgaz and Transelectrica) was started by issuing the Governmental Emergency Ordinance No.18/2013, published in the Official Gazette on April 1, 2013..

B. State-Owned Enterprises

29. The end-2012 indicative target on the operating balance for monitored companies was met, but their arrears target was missed. Since then, arrears have declined significantly following the placement of Oltchim into insolvency and the liquidation of C.N. Huilei and Termolectrica. SOEs under the purview of the specialized divisions of financial control within the MOPF will submit their 2013 budgets for review in accordance with provisions in the budget law. The budgets will include quantitative targets reflecting medium-term restructuring objectives. We will monitor performance against those targets on a quarterly basis. The MOFP prepared and published a report on 2011 SOE performance. The MOFP and the relevant line ministries prepared and will publish reports on SOEs within their portfolios, including an analysis of ownership, operating, and financial trends, by end-May 2013, in accordance with Article 58 of ordinance 109/2011.

30. We have stepped up our efforts to accelerate SOE reform by concentrating on the sale of shares in Transgaz, Oltchim, Romgaz, Hidroelectrica, and Nuclearelectrica (companies in the Ministry of Economy's portfolio) and CFR Marfa and the state-owned airline Tarom (companies in the Ministry of Transportation's portfolio), and we are determined to avoid any further delays in completing share sales.

- We launched the tender for the privatization of Oltchim in late August 2012 (prior action for the 6th review) but the winning bidder did not have the financial resources to conclude the sale and we placed the company into insolvency procedures in January. This will result in a significant downsizing of the company and we plan to privatize any part of the company that emerges from insolvency. We submitted a report on key steps taken by the judicial administrator to restructure the company.
- In September 2012, we deposited public tender documents with the securities commission (CNVM) for the secondary public offering (SPO) of government shares in Transgaz. After resubmitting the documentation, we held the SPO of Transgaz shares in April (prior action).

- We intend to meet the structural benchmark (mid-March 2013) for the sale of shares in Romgaz and Hidroelectica albeit with a delay.

  - We hired in January a consultant to conduct an audit of Romgaz's natural gas holdings, a step that the transaction advisor recommended be completed before an initial public offering (IPO) is launched. We are firmly committed to launch the IPO of Romgaz before end-October 2013.

  - Considerable progress has been made by the judicial administrator in restructuring Hidroelectrica under insolvency procedures. The judicial administrator has cancelled all contracts at below-market prices with energy traders, renegotiated 400 commercial contracts, stopped funding for investment projects where energy generation is a secondary component, and commenced negotiations with labor unions on revising collective bargaining agreements with the aim to better incentivize worker performance and reduce labor costs. In addition, we will issue a government decision, in accordance with all required procedures, for an IPO of 10 percent of the shares in Hidroelectrica immediately after its juridical situation has been solved.

- The new energy producer Oltenia Energy Complex plays a key role in Romania's energy security. We signed a contract with a transaction advisor in early-May 2013 (prior action) for an IPO of 15 percent of the share capital by end-October 2013. In light of Oltenia's large investment needs, we will re-evaluate future steps concerning an enlargement of the private sector involvement through joint ventures or majority privatization to a strategic investor.

- For CFR Marfa, preparations are advanced for the sale of a majority stake to a strategic investor. We published the privatization announcement in April, will hold a public auction to select the winning investor in June, and intend to initial the share sale-purchase agreement on June 21 (prior action). We intend to close the transaction as soon as possible, once all the conditions in the sale-purchase agreement are satisfied.

- The minority privatization of Tarom (SPO of 20 percent) will take place once the new professional board and management have improved the operating and financial results of the company, in order to make it more attractive to potential investors.

- We have signed a contract with a transaction advisor to sell at least 10 percent of Nuclearelectrica shares through an IPO by end-October 2013.

31. We are also making progress in preparing other SOEs for privatization.

- We approved a government decision in February and will sign a contract with a transaction advisor for the majority sale of Electrica (a state-owned company for electricity distribution, supply, and service) by end-July 2013. We plan to conclude the transaction by end-November 2013.

- The merger of the new energy producer Hunedoara with the four viable mines of C.N. Huilei started after the Decision of the Board regarding the merger plan was published in the Official Gazette on May 24th; therefore it is expected to take place by end-July 2013. In preparation for the majority privatization of the merged company, we approved a government decision in February for the majority sale to a strategic investor of Hunedoara through a capital increase and signed a contract in March with a legal advisor for the privatization. Once the company is merged, we will proceed with the privatization. If there is no investor interest, we intend to put the company into insolvency.

- Despite of all our efforts, no strategic investor has submitted any offer for Posta Romana. Therefore, we will extend the privatization process to the end of 2013.

- We placed C.N. Huilei and Termoelectrica in liquidation after the respective general shareholder meetings' decisions regarding the voluntary dissolution and liquidation were published at the beginning of April 2013..

32. Building on Emergency Ordinance 109/2011, the law on SOE corporate governance with modifications sought by the government is on course to be adopted by parliament. The modifications establish a limited negative list of three companies exempted from the law on defense, public order, and national security grounds. The modifications also require SOEs to implement the provisions to appoint professional boards and general managers and complete this process within a maximum period of nine months. Moreover, the modifications will specify that the appointment of interim boards and general managers will be only for a limited time period and impose penalties for not following the provisions of the law.

33. The corporate governance law requires that professional boards and management be appointed in SOEs that remain under majority government ownership. We will only select professional board members and management from lists of qualified candidates prepared by independent firms hired to assist in the process. We recognize that doing otherwise would undermine the credibility of our reform program for the public and for prospective investors. In addition, we will not interfere in the implementation of the administration plans, the management plans, or the day-to-day operations of SOEs for which professional boards have been appointed. We

have made recent progress in appointing professional boards and managements at monitored SOEs, including the appointment of a professional board and management in Posta Romana. Other measures undertaken include:

- For Hidroelectrica, a professional supervisory board will be appointed, after the insolvency procedures have been closed. We appointed a general manager and we will establish a new supervisory board for Oltenia. To accelerate the process, we have entered into a framework agreement with five consortia that are pre-qualified to bid on packages of companies to draw up candidate lists. Romgaz, Transgaz, and Nuclearelectrica were in the first package of companies and professional boards and management have been appointed for these companies. All appointments were published for full transparency.

- For SOEs under the Ministry of Transportation and Infrastructure, we hired a human resource firm to select qualified candidates for the boards of directors and managements of eleven firms in its portfolio. We have made appointments of professional boards and management at CFR Infrastructura, Tarom, CFR Marfa (on an interim basis) and CFR Calatori. For other firms, we redoubled our efforts and completed the appointment of professional boards and management in accordance with the provisions of the corporate governance law by end-June 2013.

34. Based on law 123/2012, all new bilateral contracts of electricity producers will be made transparently and non-discriminatorily through OPCOM (electricity) and other competitive procedures (gas), and the terms of the contracts will be published. In addition, we put in place regulations requiring that the key terms (counterparties, price, volume, and duration) of contracts on the over-the-counter (OTC) platform entered into by SOEs will be published.

C. Other Structural Reforms

35. We continue to make progress in implementing the new labor market and social assistance legislation. The new Labor Code has significantly improved the functioning of the labor market. Nearly one third of new contracts are fixed term. We will continue to monitor implementation of the Social Dialogue Law, ensure that any amendments will be undertaken in consultation with all stakeholders through the normal legislative process, and continue our cooperation with the International Labor Organization (ILO) to ensure that the new legislation respects core ILO Conventions.

36. In view of the high youth unemployment in Romania, we will amend current legislation to improve the transition of young Romanians into the labor market under the umbrella of the new National Job Plan. These measures focus in particular on strengthening training and facilitating

apprenticeships. We are also taking measures to strengthen the national vocational training system that can be supported by the EU Structural and Cohesion Funds. We will prepare a comprehensive reform package to lower the high labor tax wedge, which will be implemented in a revenue neutral manner.

37. We will coordinate with all relevant stakeholders the speedy implementation of the recommendations from the World Bank Report on Standards and Codes on insolvency and creditor rights, once the report is finalized. Beyond passing the amended insolvency code, an effective implementation of the amendments will be crucial.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012					
	Dec	March	June	Sept	Dec	March	June	Sept	Sept	Dec	Dec
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Prog.	Actual	Prog.	Prelim.
I. Quantitative Performance Criteria											
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	1696	-457	-267	-243	633	-317
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11,260	-13,685	-23,837	-3,421	-7631	-10,470	-8,257	-14,770	-17,430
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.14	0.15	0.04	0.18	0.02	0.027
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	7.0	7.7	14.0	8.3	14.0	9.8
II. Continuous Performance Criterion											
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation											
6. 12-month rate of inflation in consumer prices											
Outer band (upper limit)	...	...	...	...	...	...	...	5.9	...	5.6	...
Inner band (upper limit)	...	...	...	...	...	...	...	4.9	...	4.6	...
Actual/*Center point*	8.0	8.0	7.9	3.5	3.1	2.4	2.0	*3.9*	5.3	3.6	5.0
Inner band (lower limit)	...	...	...	...	...	...	...	2.9	...	2.6	...
Outer band (lower limit)	...	...	...	...	...	...	...	1.9	...	1.6	...
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	30,921	63,968	99,000	96,595	133,700	134,330
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/	-6.8	-0.7	-1.8	-2.4	-2.0	-0.4	1.4	-2.7	-2.3	-3.2	-2.2
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	16.2	12.4	12.4	12.7	8.9	11.5
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.82	1.17	0.75	1.32	0.30	0.84
11. Ceiling on the execution of the PNDI program (mln lei) 4/	...	...	...	...	...	66	67	700	67	1,000	210

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

2/ The September 2012 target is adjusted downward by 67 million Euros to reflect less than projected Eurobond placement of the MoPF, and the target is adjusted upward by 50 million Euros to reflect higher than projected commercial bank reserve requirement held with the NBR. The December 2012 target is adjusted upward by 1,433 million Euros to reflect more than projected Eurobond placement of the MoPF.

3/ Cumulative figure during calendar year (e.g. September 2011 figure is cumulative from January 1, 2011). The September 2012 deficit target is adjusted by RON 770 million to RON 10,470 million for the loan to CFR Infrastructura. Actual data is adjusted for PNDI (67.5 mill. RON), the loan to CFR Infratsructura (770 mill. RON) and the EU cash accrual gap (239 mill. RON) for end-September. For end-December, actual data includes PNDI (210 million RON) and EU cash accrual gap (2447 million RON).

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

Table 2. Romania: Performance for Seventh and Eighth Reviews

Measure	Target Date	Comment
Prior actions		
1. Reduce central government arrears to RON 0.02 billion.		Expected to be met 1/
2. Reduce local government arrears to RON 0.3 billion.		Expected to be met 1/
3. Initial a sale-purchase agreement with the winning strategic investor for the sale of the majority stake in the capital of CFR Marfa.		Underway 1/
4. Launch the tender for a secondary public offering of 15 percent of the government shares in Transgaz.		Met
5. Sign a contract with a transaction advisor for an initial public offering of 15 percent of the share capital of Oltenia.		Met
Quantitative performance criteria		
1. Floor on net foreign assets	December 31, 2012	Not met
2. Floor on general government overall balance	December 31, 2012	Not met
3. Ceiling on central government and social security domestic arrears	December 31, 2012	Not met
4. Ceiling on general government guarantees	December 31, 2012	Met
5. Non-accumulation of external debt arrears	December 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	December 31, 2012	Not met
2. Floor on operating balance of key SOEs	December 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	December 31, 2012	Not met
4. Ceiling on stock of local government arrears	December 31, 2012	Not met
5. Ceiling on the execution of the PNDI program	December 31, 2012	Met
Inflation consultation band		
Inner band	December 31, 2012	Exceeded
Outer band	December 31, 2012	Met
Structural benchmarks		
1. Update the investment database to identify priority local government projects funded through budgetary and EU funds, and publish a list of low priority projects which will be discontinued.	September 30, 2012	Not met
2. Publish up-to-date financial statements of all public hospitals on a webpage of the Ministry of Health.	October 31, 2012	Met
3. Sign a contract with legal and transaction advisor for the majority privatization of Oltenia.	November 30, 2012	Not met
4. Finalize a detailed definition of the structural architecture of the accounting and treasury reporting system.	December 31, 2012	Not met
5. Hold IPOs of government shares in Romgaz and Hidroelectrica.	March 15, 2013	Not met

1/ Staff will report on the status of these prior actions in a supplement before the Board meeting.

Attachment II. Romania: Technical Memorandum of Understanding

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 entities *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), and the road fund company. 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 operation of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform the IMF staff of the creation of any such new funds or programs immediately. As mentioned in ¶12 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat and successful implementation of the monitoring system being undertaken by the Ministry of Public Finance (MOPF).

Quantitative Performance Criteria, Indicative Targets, Inflation Consultation Band, and Continuous Performance Criteria

A. Floor on the Change in Net Foreign Assets

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

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

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

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

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

	2010	2011				2012				
	Dec. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual
Cumulative change in NFA	20,026	119[2]	1,896	293	-457[3]	19,569	1,696[4]	-457[5]	-243[6]	-317[7]
Memorandum Item: Gross Foreign Assets	32,432	996	2,793	1206	464	32,897	1,662	-496	-854	-1,821

[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.
[5] PC met with a downward adjustment by €817 million due to lower than projected Eurobond issue of MoPF and an upward adjustment by €10 million due to higher than projected commercial bank reserve requirements held with the NBR.
[6] PC met with an adjustment of €67 million due to lower than projected Eurobond issues of MoPF and an adjustment of €50 million due to higher than projected commercial bank reserve requirements held with the NBR .
[7] PC missed with an adjustment for higher than projected Eurobond issues of MoPF by €1433 million.

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

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

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

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

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

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

NBR will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the table below.

Inflation Consultation Band

	2010	2011				2012			
	Dec. actual	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Mar. actual	Jun. actual	Sep. actual	Dec. actual
Outer band (upper limit)									
Inner band (upper limit)									
Actual / *Center point*	7.9	8.0	8.0	3.5	3.1	2.4	2.0	5.3	5.0
Inner band (lower limit)									
Outer band (lower limit)									

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.

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, Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui Ploiesti SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, SC Termoelectrica SA, Societatea Nationala Aeroportul International Mihail Kogalniceanu, SC Electrificare SA, CN Administratia Canalelor Navigabile Constanţa SA , SC CN Romarm, Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, 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-September 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 25,150 million, respectively, up to a limit of lei 700 million. The performance criterion for the general government balance for end-June 2012 and end-September (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount of a bridge bank loan for arrears clearance of CFR Infrastructura, up to a limit of lei 900 million.

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

16. The issuance of general government guarantees to the nonfinancial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public

guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.

Ceiling on New General Government Guarantees Issued from end 2008 Until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (actual)	6.5
End-March 2012 (actual)	7.0
End-June 2012 (actual)	7.7
End-September 2012 (actual)	8.3
End-December 2012 (actual)	9.8

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)	0.14
End-June 2012 (actual)	0.15
End-September 2012 (actual)	0.18
End-December 2012 (actual)	0.03

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 (actual)	64,046
End-September 2012 (actual)	96,595
End-December 2012 (actual)	134,300

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 (actual)	66.1
End-June 2012 (actual)	67.45
End-September 2012 (actual)	67
End-December 2012 (actual)	210

[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)	0.82
End-June 2012 (actual)	1.17
End-September 2012 (actual)	1.32
End-December 2012 (actual)	0.84

J. Absorption of EU Funds

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

K. Monitoring of Public Enterprises

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

24. A quarterly indicative target for 2011 was set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A., C.N. de Autostrãzi si Drumuri Nationale din România S.A., C.N. a Huilei S.A., C.N. Poşta Românã S.A., S.C. Complexul Energetic Turceni S.A., S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A., S.C. Metrorex S.A., S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A., S.N. Transport Feroviar de Călători "CFR Călători" S.A., C.N. Tarom S.A., S.C.

Electrocentrale Bucuresti S.A., S.C. Electrica Furnizare Transilvania Nord S.A., S.C. Oltchim S.A., S.C. Termoelectrica S.A., SNa Lignitului Oltenia S.A., S.C. Electrificare CFR S.A., S. C. Interventii Feroviare S.A., S. C. Telecomunicatii C.F.R. S.A. The data shall be reported with operating results by firm. Actual performance was as follows:

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

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

25. A quarterly indicative target for 2012 is set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. de Autostrãzi si Drumuri Nationale din România S.A., S.C. Metrorex S.A., C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), S.C. Electrificare CFR S.A., S. C. Telecomunicatii C.F.R. S.A., S.N. Transport Feroviar de Călători "CFR Călători" S.A., S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A.,C.N. Tarom S.A., S.C. Oltchim S.A., C.N. a Huilei S.A., S.C. Termoelectrica S.A., S.C. Electrocentrale Deva S.A., S.C. Electrocentrale Paroseni S.A., S.C. Electrocentrale Galati S.A., S.C. Electrocentrale Bucuresti S.A., S.C. Complexul Energetic Oltenia 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 (actual)	-0.4
End-June 2012 (actual)	-1.4
End-September 2012 (actual)	-1.9
End-December 2012 (preliminary)	-2.1

[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 ¶24. 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 (actual)	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 ¶25. 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 (actual)	16.0
End-June 2012 (actual)	12.4
End-September 2012 (actual)	12.7
End-December 2012 (preliminary)	11.5

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 ¶32 and ¶33, 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) S.C. Complexul Energetic Oltenia S.A., iv) S.C. Electrica S.A., v) S.C. Hidroelectrica, (vi) S.N. Romgaz, (vii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., and (viii) S.N. Transgaz.

31. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) C.N. Autostrazi si Drumui Nationale din Romania S.A. ii) C.N. Telecomunicatii CFR S.A., (iii) S.C. Electrificare CFR S.A. (iv) C.N. Tarom S.A. (v) S.C. Transport cu Metroul Bucuresti S.A. "Metrorex" and (vi) S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A..

Reporting Requirements

A. Reporting Requirements for the Prior Actions

32. For the prior action related to Transgaz, the launching of the tender will involve the listing of the secondary public offering of 15 percent of the shares on the Bucharest stock exchange. The prior action related to CFR Marfa requires the initialing of a sale-purchase agreement with the winning strategic investor for a majority stake in the share capital of CFR Marfa. The prior action related to Oltenia requires the signing of a contract with a transaction advisor for an IPO of 15 percent of the share capital of Oltenia.

B. Reporting Requirements

33. 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 ¶24-25	Quarterly, within 30 days
Final data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶24-25	Quarterly, end May for the previous year and end-August for first half of the current year
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
The balance of the TSA in RON	Monthly, within two weeks of the end of each month
The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period)	Monthly, within two weeks of the end of each month
The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows.	Monthly, within two weeks of the end of each month
Reporting of progress in the implementation of the Romanian public administration's functional review	Quarterly, to be sent two weeks before each mission for each of the 12 ministries
To be provided by the National Bank of Romania	
NFA data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data
Monetary survey data in the format agreed with IMF and EC staff	Monthly, within 30 days of the end of the month

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

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

Annex

Measures to Improve Performance of SOEs under Monitoring

Ministry of Transportation and Infrastructure

- Appoint professional board members and management for CFR Marfă (interim basis) and CFR Călători by end February 2013;

- Appoint professional board members and management for CFR Telecomunicatii, CFR Electrificare, and Metrorex by end-March 2013; and

- Ensure that all appointments will be made from short lists of qualified candidates selected by an independent human resource firm in accordance with the provisions of the SOE corporate governance law (109/2011).

C.N. Căi Ferate CFR S.A. "CFR Infrastructura" (including subsidiaries)

- Lease out the remaining 230 line-kilometer of the lowest cost recovery segments of the railways to bring the total railway network under management of CFR Infrastructura to 15,500 line-kilometers by mid-March 2013;

- Sign a contract with evaluators to undertake and complete an inventory and valuation of private assets by end-March 2013, with a view to completing the valuation by end-June 2013;

- Establish a business plan by end-March 2013; and

- Conduct a study of the economic rationale for the existence of CFR Electrificare and CFR Telecommunicatii and begin process of merging them with CFR Infrastructura, privatizing, or liquidating the companies based on the study by mid-April 2013.

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

- Approve a privatization strategy to sell a majority of the company to a strategic investor by early-February 2013;

- Publish privatization announcement by mid-March 2013; and

- Hold a public auction to select a winning bidder and finalize/initial a sale-purchase agreement with the winning bidder by June 20, 2013.

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

- Reduce the train volumes under the personal service contract by 10 percent by mid-May 2013.

Ministry of Communication

C.N. Poşta Românã S.A.

- Seek European Commission (EC) approval for majority privatization to a strategic investor through a capital increase;

- Publish privatization announcement by end-February 2013, subject to EC approval noted above;

- Establish a list of eligible investors by early April by applying the pre-eligibility criteria to interested investors;

- Select investor based on final submission of offers by mid-May 2013; and

- Sign a privatization contract by mid-June 2013.

Ministry of Economy, Trade, and Business Environment

S.N. Transgaz

- Deposit public tender documents with the securities commission (CNVM) for the secondary public offering (SPO) of 15 percent of government shares in Transgaz by mid-March 2013;

- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by mid-April 2013; and

- Launch the tender for a secondary public offering of 15 percent of government shares by mid-April 2013.

S.C. Oltchim S.A.

- Put into insolvency procedures by end-January 2013;

- Submit a report on key steps taken by judicial administrator to restructure the company by mid-April 2013; and

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

S.N. Romgaz

- Sign contract with consultant to value natural gas reserves holdings by end-January 2013;

- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by mid-April 2013;

- Complete valuation of natural gas holdings by end-June 2013; and

- Launch an initial public offering (IPO) of 15 percent of government shares in Romgaz before end-October 2013.

S.C. Hidroelectrica S.A.

- Sell all electricity that is not committed to the remaining bilateral contracts or the regulated market on OPCOM;

- Appoint professional board members from short list of qualified candidates selected by an independent human resource firm by end-March 2013;

- Issue a government decision, in accordance with all required procedures, for an IPO of 10 percent of government shares in Hidroelectrica by mid-March 2013; and

- Launch the IPO promptly after Hidroelectrica exits from the insolvency procedures.

S.C. Complexul Energetic Oltenia S.A.

- Issue a government decision by end-February 2013 for an IPO of 15 percent of capital;

- Appoint professional supervisory board members from short lists of qualified candidates selected by an independent human resource firm by mid-April 2013;

- Sign a contract with a transaction advisor for the IPO by mid-April 2013; and

- Launch the IPO by end-October 2013.

S.N. Nuclearelectrica

- Sign a contract with a transaction advisor by mid-February 2013 for an IPO of at least 10 percent of government shares;

- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by mid-April 2013; and

- Publish the prospectus for the IPO by mid-October 2013, with a view to conclude the IPO by end-October 2013.

S.C. Electrica S.A.

- Issue a government decision by end-February 2013 for a sale of the majority of government shares in Electrica;

- Sign a contract with a transaction advisor for the majority sale by end-April 2013;

- Appoint professional board members and management from short lists of qualified candidates selected by an independent human resource firm by end-April 2013; and

- Launch the majority sale with a view to conclude privatization by end-November 2013.

S.C. Hunedoara S.A.

- Obtain a government decision by end-February 2013 for the sale of a majority of government shares in Hunedoara through a capital increase to a strategic investor;

- Sign contract with legal advisor for the majority sale by end-March 2013;

- Merge the company created through the merger of the viable mines of C.N. a Huilei S.A into Hunedoara by end-May 2013; and

- Proceed with a majority sale of shares once the merger is completed. If there is no investor interest, place the company into insolvency procedures.

C.N. a Huilei S.A

- File for liquidation by end-January 2013.

S.C. Termoelectrica S.A.

- File for liquidation by end-January 2013.

S.C. Electrocentrale Bucuresti S.A.

- Engage a consultant to evaluate whether a joint concession of the assets of Radet Bucuresti and El Cen will yield better operating performance and investment; and

- Agree with the municipality of Bucharest on a strategy for settling Radet Bucaresti arrears to El Cen.

INTERNATIONAL MONETARY FUND

ROMANIA

SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA–SUPPLEMENTARY INFORMATION

June 24, 2013

Approved By
Poul M. Thomsen and Mark Flanagan

Prepared By
The European Department

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on June 12, 2013**. The additional information does not change the thrust of the staff appraisal.

2. **Recent indicators suggest continued positive growth.** Preliminary estimates for 2013:Q1 show a 0.7 percent real GDP increase (2.2 percent y-o-y), slightly better than expected. The expansion was driven by a rebound in exports, while domestic demand remained sluggish. High-frequency indicators for April also suggest that industrial production and retail trade continue to record solid growth.

3. **Annual inflation remained flat at 5.3 percent in May**. This rate was slightly higher than expected, reflecting the impact of renewed volatile food and fuel price increases. At the same time, core inflation fell to 1.9 percent.[1]

4. **In line with regional trends, Romanian asset prices have pulled back somewhat over the last several weeks due in large part to global market pressures.** Romania's EMBIG and CDS spreads have widened by 60 and 41 basis points, respectively, since the U.S. Federal Reserve Chairman suggested on May 22 that the U.S. Federal Reserve could soon start to scale back its asset purchases. The leu has also depreciated against the euro by 3.5 percent since then and by 1.6 percent this year.

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[1] Measured using weights in accordance with the Harmonized Index of Consumer Prices.

5. The government has completed the outstanding prior actions. Central government arrears were reduced to RON 0.019 billion and local government arrears were reduced to RON 0.151 billion as of May 31. On June 20, the government selected the winning strategic investor for the sale of the majority stake in the capital of the state-owned freight railway company (CFR Marfa) and the sale-purchase agreement was initialed on June 21, 2013.

6. Progress continues to be made on the fiscal structural benchmarks that were not met. The authorities have completed a draft specification on the structural architecture of the accounting and treasury reporting system. Progress was also made towards meeting the structural benchmark on identifying priority local government projects cofinanced by the central government. While the lists of the priority projects that are funded in 2013-14 and that would be funded in the future were published, a list of low-priority projects to be discontinued has not yet been published. For increased transparency, and consistent with the structural benchmark, the low-priority projects that will no longer be financed through the central government should also be published and further effort is also needed to identify projects that will be funded through EU sources.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012					
	Dec	March	June	Sept	Dec	March	June	Sept	Sept	Dec	Dec
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Prog.	Actual	Prog.	Actual
I. Quantitative Performance Criteria											
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	1696	-457	-267	-243	633	-317
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11,260	-13,685	-23,837	-3,421	-7631	-10,470	-8,257	-14,770	-17,430
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.14	0.15	0.04	0.18	0.02	0.027
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	7.0	7.7	14.0	8.3	14.0	9.8
II. Continuous Performance Criterion											
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation											
6. 12-month rate of inflation in consumer prices											
Outer band (upper limit)	...	...	...	...	...	...	...	5.9	...	5.6	...
Inner band (upper limit)	...	...	...	...	...	...	...	4.9	...	4.6	...
Actual/*Center point*	8.0	8.0	7.9	3.5	3.1	2.4	2.0	*3.9*	5.3	3.6	5.0
Inner band (lower limit)	...	...	...	...	...	...	...	2.9	...	2.6	...
Outer band (lower limit)	...	...	...	...	...	...	...	1.9	...	1.6	...
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	30,921	63,968	99,000	96,595	133,700	134,330
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs (as defined in TMU (bn. lei)) 4/	-6.8	-0.7	-1.8	-2.4	-2.0	-0.4	1.4	-2.7	-2.3	-3.2	-2.2
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	16.2	12.4	12.4	12.7	8.9	11.5
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.82	1.17	0.75	1.32	0.30	0.84
11. Ceiling on the execution of the PNDI program (mln lei) 4/	...	...	...	...	...	66	67	700	67	1,000	210

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

2/ The September 2012 target is adjusted downward by 67 million Euros to reflect less than projected Eurobond placement of the MoPF, and the target is adjusted upward by 50 million Euros to reflect higher than projected commercial bank reserve requirement held with the NBR. The December 2012 target is adjusted upward by 1,433 million Euros to reflect more than projected Eurobond placement of the MoPF.

3/ Cumulative figure during calendar year (e.g. September 2011 figure is cumulative from January 1, 2011). The September 2012 deficit target is adjusted by RON 770 million to RON 10,470 million for the loan to CFR Infrastructura. Actual data is adjusted for PNDI (67.5 mill. RON), the loan to CFR Infratsructura (770 mill. RON) and the EU cash accrual gap (239 mill. RON) for end-September. For end-December, actual data includes PNDI (210 million RON) and EU cash accrual gap (2447 million RON).

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

Table 2. Romania: Performance for Seventh and Eighth Reviews

Measure	Target Date	Comment
Prior actions		
1. Reduce central government arrears to RON 0.02 billion.		Met
2. Reduce local government arrears to RON 0.3 billion.		Met
3. Initial a sale-purchase agreement with the winning strategic investor for the sale of the majority stake in the capital of CFR Marfa.		Met
4. Launch the tender for a secondary public offering of 15 percent of the government shares in Transgaz.		Met
5. Sign a contract with a transaction advisor for an initial public offering of 15 percent of the share capital of Oltenia.		Met
Quantitative performance criteria		
1. Floor on net foreign assets	December 31, 2012	Not met
2. Floor on general government overall balance	December 31, 2012	Not met
3. Ceiling on central government and social security domestic arrears	December 31, 2012	Not met
4. Ceiling on general government guarantees	December 31, 2012	Met
5. Non-accumulation of external debt arrears	December 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	December 31, 2012	Not met
2. Floor on operating balance of key SOEs	December 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	December 31, 2012	Not met
4. Ceiling on stock of local government arrears	December 31, 2012	Not met
5. Ceiling on the execution of the PNDI program	December 31, 2012	Met
Inflation consultation band		
Inner band	December 31, 2012	Exceeded
Outer band	December 31, 2012	Met
Structural benchmarks		
1. Update the investment database to identify priority local government projects funded through budgetary and EU funds, and publish a list of low priority projects which will be discontinued.	September 30, 2012	Not met
2. Publish up-to-date financial statements of all public hospitals on a webpage of the Ministry of Health.	October 31, 2012	Met
3. Sign a contract with legal and transaction advisor for the majority privatization of Oltenia.	November 30, 2012	Not met
4. Finalize a detailed definition of the structural architecture of the accounting and treasury reporting system.	December 31, 2012	Not met
5. Hold IPOs of government shares in Romgaz and Hidroelectrica.	March 15, 2013	Not met

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/234
FOR IMMEDIATE RELEASE
June 26, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Seventh and Eight Reviews Under Stand-By Arrangement for Romania

The Executive Board of the International Monetary Fund (IMF) completed today the seventh and eighth reviews of Romania's performance under its economic program supported by a 24-month Stand-By Arrangement (SBA). Completion of the reviews makes an additional amount equivalent to SDR 450.6 million (about €520.74 million), available for disbursement, bringing the total resources currently available to Romania under the SBA to an amount equivalent to SDR 3,090.6 million (about €3,571.68 million, 300 percent of quota). The SBA was approved on March 25, 2011 (see Press Release No. 11/101) and became effective on March 31, 2011. The authorities are treating the arrangement as precautionary and do not intend to draw under it.

In completing the reviews, the Executive Board approved three waivers for the nonobservance of the performance criteria on net foreign assets of the National Bank of Romania, the general government balance, and the central government arrears, based on corrective actions taken by the authorities.

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

"Romania has successfully concluded the second of two Stand-by Arrangements with the Fund. The economy has stabilized. Core inflation remains low, and the fiscal and current account balances are sustainable. However, growth is weak and downside risks exist. Structural reforms are critical to realizing Romania's growth potential and creating jobs, while continued fiscal discipline is essential to anchor macroeconomic stability.

"Significant fiscal adjustment since 2009 has enabled Romania to exit the EU Excessive Deficit Procedure in June. The government's intention to further reduce the structural deficit at a moderate pace to reach its medium-term deficit objective is appropriate. The budgetary framework will also benefit from the establishment of an effective commitment control system and strict prioritization of public investment which would help to avoid recurrence of arrears. Tax administration and healthcare reform along with tax base broadening measures are also needed.

"Reform of the energy and transport sectors and of state-owned enterprises remains incomplete. The authorities have begun to gradually raise gas and electricity prices and establish a more competitive energy market while taking steps to protect vulnerable consumers. These measures are welcome, but more must be done to reform inefficient state-owned enterprises, including through greater private-sector involvement.

"The monetary policy stance is broadly appropriate. Romania's banking system is well capitalized, but vulnerable to external shocks. Accordingly, the authorities should continue to improve their crisis management arrangements and contingency planning. In particular, further efforts to remove obstacles to the resolution of non-performing loans are needed and corporate governance weaknesses at the new unified financial supervisor should be addressed," Ms. Shafik stated.

Statement by Mr. Menno Snel, Executive Director for Romania and Mr. Serban Matei, Senior Advisor to the Executive Director June 26, 2013

The economic program, supported by the Fund, the European Commission, and the World Bank, played an important role in stabilizing the Romanian economy, generating concrete results in maintaining growth and maintaining fiscal and financial stability. Romania's performance under the current program continues to be strong. Extending the program by three months allowed the authorities to continue their efforts to reach the goals of a broad structural agenda, with a focus on structural reforms in the energy, transport and healthcare sectors and state-owned enterprises. Therefore, as of today all prior actions were met. Moreover, in line with their EU commitments, the authorities have reduced the fiscal deficit (in ESA terms) to below 3 percent of GDP in 2012, which allowed Romania to exit the EU Excessive Deficit Procedure.

Recent economic developments

Despite a slowdown in the second part of 2012, Romania's economic recovery continues. Real GDP grew by 0.7 percent in 2012. Domestic demand slowed amid political uncertainty and the recession in the euro area dragged down exports. In addition, severe winter weather depressed activity in the first quarter and a drought led to a sharp contraction in agricultural production in the third quarter of 2012. Economic growth was less robust than foreseen, reflecting mainly the deteriorating external environment in the euro area and spillover effects from financial markets turbulence. However, a 2.2 percent annual growth during the first quarter of 2013 exceeded expectations.

The inflation rate picked up in the second half of the year on account of a supply-driven increase in volatile food prices, the pass-through of the depreciation of the exchange rate during May-September, and an increase in international commodity prices. Annual inflation came down to 5.3 percent in April. Taking into account the upside risks for the inflation outlook, the NBR has maintained the policy rate at 5.25 percent, while pro-actively adjusting liquidity conditions.

The external position has been consolidated. The current account deficit remained below 4 percent of GDP in 2012 and is expected to stabilize at this level in 2013 -2014. The deficit was financed mainly through issuance of sovereign Eurobonds, inflows from international financial institutions, and to a lesser extent foreign direct investments. Romania sold $2.25 billion in U.S. dollar denominated bonds and €2.25 billion in Eurobonds in 2012. The authorities continued to tap international markets in 2013, selling $1.5 billion in 10-year U.S. dollar-denominated bonds at a yield of 4.5 percent in February.

Despite the progress achieved, the recovery remains vulnerable to adverse developments in international markets, weaker-than-expected growth in Europe, and possibly more rapid and less orderly bank deleveraging. Spillovers from the turbulence in the euro area could dampen exports and affect capital flows to Romania. The authorities will remain vigilant, act proactively, and take the necessary steps to contain these risks. Therefore, continued firm policy implementation and maintenance of fiscal, external, and financial sector buffers to safeguard against risks are essential for the Romanian authorities.

Fiscal policy

Since the start of the first program, Romania significantly improved its fiscal position and the authorities remain committed to continue this process. In 2012, the fiscal deficit narrowed significantly, and estimates point to a deficit (in ESA terms) below 3 percent of GDP, allowing Romania to exit the EU's Excessive Deficit Procedure.

Under the new fiscal strategy, implementing further structural adjustments, the 2013 budget targets a cash deficit of 2.1 percent of GDP. This is consistent with a reduction in the ESA structural deficit by 0.5 percent of GDP, in line with the commitments under the EU's Stability and Growth Pact. Moreover, to achieve this goal, the authorities are committed to continue restraining expenditures and prioritizing investment projects with a focus on EU-funded initiatives. They will also improve tax collection by implementing measures to simplify the tax code and strengthen the tax audit and enforcement efforts, based on the technical assistance recommendations from the Fund and the World Bank. In addition, the World Bank has just approved a loan in April 2013 supporting the modernization of the tax administration and the strengthening of the revenue collection capacity. Fiscal performance through the first quarter of 2013 was in line with projections.

The government is undertaking measures towards eliminating central and local government arrears. Arrears at the central and local government levels declined from RON 1.5 billion at end-September to RON 868 million at end-December 2012 and arrears at the Health Insurance Fund were eliminated. The government took several measures, consistent with Fund advice, to reduce the stock of arrears to meet the initial program targets and prevent accumulation of new arrears. Although the end-December performance criterion for the central government was narrowly missed (mostly of hospitals) and the indicative target for the local government was missed, corrective action has been taken by the authorities. At end-May 2013 both central and local government arrears targets were met. The arrears of the SOEs monitored under the program at end-2012 stood at 2 percent of GDP, above the indicative program ceiling of 1.5 percent of GDP and the authorities anticipate that they will be further reduced in 2013.

Monetary policy

The monetary authorities responded appropriately to economic developments, and the central bank decided to keep the interest rate at 5.25 percent. Interbank rates increased and temporarily exceeded the policy rate towards the end of 2012 after the move to firm liquidity management. Interbank rates came down again from January, as the NBR resumed the adequate management of liquidity in the banking system. As a result of central bank action to counteract excess volatility in the exchange rate market, the exchange rate stabilized in mid-October, before appreciating by some 3 percent since end-November on account of improved investor appetite for Romanian assets, particularly government securities, following the inclusion of Romanian government bonds in the international global indices (JP Morgan and Barclay's).

Sizeable capital movements and the continuation of the deleveraging process required NBR action to reduce exchange rate volatility. This process also resulted in the NFA target being missed at end-December, after taking into account the adjuster on issuance of government securities on external markets. The authorities took advantage of improved market sentiment to ensure an adequate international reserves buffer while making substantial repayments to the IMF. Liquidity conditions have eased since early 2013, owing inter alia to the NBR increasing and subsequently lifting the cap on repurchase operations in March. The interest rate corridor has been narrowed around the policy rate from ±4 percent to ±3 percent in order to moderate interest rate volatility on the interbank money market and to consolidate the transmission of the policy rate signal.

Headline inflation increased mainly on the back of higher food prices end 2012, following the poor harvest, and exceeded the NBR target band of 3±1 percent in December 2012. Inflation remained above 5 percent during the early months of 2013, due to base effects and increases in administered prices and excise duties, but is expected to gradually return to the upper end of the new target band of 2.5±1 percent in the second half of the year. Core inflation (HICP basis) dropped to 2.66 percent in May, and is expected to remain low throughout the rest of the year, mainly on account of the dissipation of pressures from food prices and the persistent negative output gap.

Risks associated with the inflation projections are balanced, with possible deviations on either side of the baseline scenario on account of higher volatility in international capital flows. This continues to warrant a prudent monetary policy stance supported by consistent implementation of the macroeconomic policy mix. The current monetary policy stance appears broadly appropriate but will be adjusted as needed to continue anchoring inflation expectations while also ensuring that international reserves are on an appropriate path.

Financial sector

The Romanian financial sector maintains reassuring capital buffers and provisions but faces continuing pressures on asset quality from deleveraging and spillovers from abroad. So far the Cyprus crisis had only a very limited impact on the banking system. Annual credit growth to both corporate and households has turned negative. Nonperforming loans (NPLs) rose to 19.1 percent in March 2013, driven mainly by the deterioration of the economic environment and tighter supervisory enforcement, compared to 14.3 percent at end-2011.

Total prudential provisions at end-March were sufficient to cover 102.6 percent of NPLs while the IFRS provisioning ratio stood at 78 percent. The NBR-mandated collateral audit resulted in a provisioning gap of around €600 million (around 1 percent of the total loan portfolio and partly due to the regular provisioning flow in the examination period), which has been fully closed. The capitalization of the banking sector remained strong at 15 percent at end-March 2013. Bank profitability remains poor with an overall system loss during 2012. The banking system turned a profit in the first quarter of 2013.

Structural reforms

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

In the **transport sector,** the authorities continue with the implementation of the general transport master plan, seeking to improve the quality of service and the reach of the network to foster investment and leverage Romania's favorable geographic location. The aim is to balance increasing demand and available fiscal means, ensure complementarities between different transport modes and define priorities for medium and long-term investment.

The majority stake in the state-owned railway freight company (CFR Marfa) has been sold to a strategic investor. A professional board and management were appointed in the government-owned passenger operator (CFR Calatori). Significant measures have been taken to improve the profitability of the railway system, including the closure of the most unprofitable passenger routes. Authorities acknowledge that these measures are just a start and will support efforts of the boards and management of the rail infrastructure and passenger companies to reduce costs and increase revenues.

In the **energy sector,** the authorities have taken a number of actions to establish a framework to improve the sector's efficiency. Electricity and gas legislation, in line with EU energy directives, was adopted. The law on the energy regulator (ANRE) has been adopted in October 2012. Authorities have implemented the first three phases of electricity price deregulation in accordance with the agreed roadmap that envisages complete deregulation of electricity prices for non-residential consumers by January 1, 2014, and for households by December 31, 2017. Regulated electricity prices were increased by around five percent on January 1, 2013 and gas prices were increased by 5 percent for non-residential consumers on February 1, 2013.

Authorities plan to further improve the pricing and regulatory framework in the energy sector. Tariff rates for non-residential consumers were increased by 10 percent and for households by five percent in September 2012. The new transmission tariff for the gas sector was recently published and soon will be also published for consultation of the framework for the third regulatory period and the new tariffs for distribution of gas. Options about support schemes for renewable energy are under review. Steps have been taken to strengthen OPCOM as a trading platform. In line with Romania's obligations as a member of the EU, the authorities are ready to begin negotiations on the Inter-Governmental Agreement with Russia and will also take steps to diversify gas supply. Moreover, the process of certified unbundling of transmission networks in electricity and gas in agreement with the European legislation has started.

The authorities will continue the privatization agenda and accelerate the implementation of the **State Owned Enterprises** (SOE) Corporate Governance Law. The Romanian government remains determined to increase private sector involvement in key SOEs. To reinvigorate the privatization effort, they have completed a SPO of 15 percent of the shares in Transgaz in April 2013, and signed the contract with the transaction advisor in May for an IPO of 15 percent of shares in Oltenia, in order to finance new investments in the company The government will also hold IPOs for Romgaz, after the audit of its reserves is completed per the recommendation of the transaction advisor, as well as for Hidroelectrica after the company exits insolvency. In addition, the government has taken measures to reduce SOE arrears over the program period. The program had indicative targets on the operating performance and arrears of about 20 monitored SOEs. SOE arrears were reduced from 4.7 percent of GDP in 2010 to a projected 2.2 percent at end-May 2013. Measures to reduce arrears included the cancellation of arrears among SOEs, debt for equity swaps, placement of SOEs into insolvency, and liquidation of SOEs. An improvement in the operating performance of central government SOEs, supported by an 11 percent cutback in employees, helped to reduce arrears. The appointment process of professional boards and management for key SOEs under majority government ownership has been initiated.

In the **healthcare sector**, the authorities will continue with the reform of the healthcare system. Rather than adopting a new framework law, they will prepare a new strategy plan, which sets out the main objectives of the reform and deadlines, as well as the measures to achieve the objectives. The authorities intend to publish the assessment of the impact of the reform proposals. The reform will aim to raise the efficiency of healthcare spending in Romania, enhance service quality and thereby improve health outcomes, as well as address the persistent budgetary shortfalls.

In conclusion, my authorities concur that the current precautionary Stand-By Arrangement was crucial in maintaining the reform momentum, provide additional security against unforeseen risks, and build on the considerable progress achieved over the past years. The program set the stage for strong and sustainable economic development while maintaining external and internal stability. The authorities remain committed to the economic program. They believe that a follow-up arrangement would anchor economic policies and reforms, while providing a buffer against financial and external risks.