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Romania and the IMF

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Press Release: IMF Completes Seventh and Eighth Reviews Under the SBA for Romania
June 26, 2013

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Romania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 10, 2013

ROMANIA: 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

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.[1] 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 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

[1] 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.

(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.

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.

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.