INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/87

ROMANIA

March 2014

FIRST AND SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PROGRAM CONDITIONALITY, AND REPHASING OF THE AVAILABILITY DATES OF PURCHASES; STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ROMANIA

In the context of the first and second reviews under the Stand-By Arrangement and requests for a waiver of nonobservance of a performance criterion, modification of program conditionality, and rephasing of the availability dates of purchases, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 26, 2014, following discussions that ended on February 4, 2014, with the officials of Romania on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on March 11, 2014.
- A **Staff Supplement** of March 21, 2014 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Romania.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Romania*
Memorandum of Economic and Financial Policies by the authorities of Romania*
Technical Memorandum of Understanding*
Ex Post Evaluation of Exceptional Access Under the 2011 Stand-By Arrangement

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ROMANIA

March 11, 2014

FIRST AND SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PROGRAM CONDITIONALITY, AND REPHASING OF THE AVAILABILITY DATES OF PURCHASES

KEY ISSUES

Stand-by Arrangement (SBA): A 24-month SBA with access of SDR 1,751.34 million (about €1.98 billion, 170 percent of quota) was approved by the Executive Board on September 27, 2013. The second and third tranches of SDR 194.7 million each (cumulative SDR 584.1 million) would be made available upon completion of the first and second reviews. Balance-of-payments assistance of €2 billion is also available from the European Union (EU). The authorities treat both arrangements as precautionary.

Program status: Four of five end-December 2013 quantitative performance criteria and four of five indicative targets were met. The performance criterion on the general government overall balance was missed by a small margin. The 2014 budget provides for gradual fiscal adjustment consistent with EU requirements, while allowing for greater absorption of EU funds. On the structural agenda, a landmark initial public offering of government shares in the state-owned natural gas producer (Romgaz) was concluded and the energy regulator increased energy prices as planned. The privatization of the state-owned freight railway company (Marfa), however, failed. In addition, the end-December indicative target on state-owned enterprise (SOE) arrears was missed.

Program modalities: One prior action was established that requires implementation of specific measures to reduce significantly SOE arrears. In addition, five new structural benchmarks and a new indicative target on Marfa's arrears are proposed along with modifications of three other structural benchmarks.

Staff views: Staff recommends completion of the first and second reviews and supports the authorities' request for a waiver of nonobservance of a performance criterion, modifications to program conditionality, and rephasing of availability dates. Sound macroeconomic policies have shielded Romania from most of the recent volatility in emerging financial markets. Political risks to program implementation are rising as tension between the government and the president mounts in advance of elections later this year.

Approved By
Poul M. Thomsen and Vivek Arora

Discussions were held in Bucharest during January 21–February 4, 2014. The mission met with President Basescu, Prime Minister Ponta, Deputy Prime Minister and Minister of Public Finance Chitoiu, Minister Delegate of the Budget Voinea, other members of the government, National Bank of Romania Governor Isarescu and his staff, other senior officials, and representatives of political parties, labor and business organizations, and financial institutions. The staff team comprised A. Schaechter (head), J. Ralyea, V. Stepanyan, T. Xu (EUR); J. Bersch (SPR); M. Mansilla (MCM); and I. Razafimahefa (FAD). G. Tolosa and G. Babici (Resident Representative office) assisted the mission. Discussions were held jointly with staff from the European Commission. S. Matei (Senior Advisor to the Executive Director) and World Bank staff attended some of the meetings; European Central Bank staff participated as an observer.

CONTENTS

BOXES

FIGURES

TABLES

ANNEX

APPENDICES

INTRODUCTION

1. **GDP growth has picked up though the economy and the financial sector remain fragile.** The economy is estimated to have expanded 3.5 percent in 2013 as exports offset a sharp fall in domestic demand and a bountiful harvest and good industry performance boosted output. The central bank lowered the policy rate to a record low of 3.5 percent as inflation declined considerably and entered the central bank's target range in September. Weak domestic demand has held import growth in check, precipitating a significant narrowing in the current account deficit. The exchange rate, bond spreads, and equity prices have remained rather firm despite recent volatility in emerging market asset prices. However, foreign parent banks withdrew almost EUR 3.3 billion in funding since the beginning of 2013 and the stock of non-performing loans is now among the highest in the region.

2. **Romania's overall performance under the program was good.** Staff level agreement was reached in February 2014 on a combined first and second review.[1] The combined review assessed performance relative to performance criteria and indicative targets for end-December 2013 (Table 1), which were set at program approval, as well as the structural benchmarks established at that time. One performance criterion and one indicative target were missed. At the same time, all end-September 2013 performance criteria and indicative targets were met:

- The 2013 fiscal deficit reached 2.5 percent of GDP, in line with the revised budget discussed during the November mission. It nevertheless breaches the performance criterion on the floor on the general government balance that was set at program approval by a small margin, with higher than anticipated co-financing of EU-funded projects a significant contributing factor.

- The indicative target for SOE arrears was missed by a substantial margin. The authorities will take a number of corrective measures (prior action), including budgetary transfers, placement of several SOEs into voluntary liquidation or insolvency procedures, and implementation of restructuring measures.

3. **The authorities met seven of nine structural benchmarks (Table 2).** The benchmarks covered fiscal institutional, financial sector, and SOE reforms. The target date for submitting covered bond legislation was not met and the authorities request to reset the target date to end-March to reflect the consultative process. The authorities also request to reset the target for implementation of a new commitment control system for pilot units to end-April 2014, mainly to add functionalities and train users. The benchmark on preparing a basic health package was met with delay. Inflation consultations were held, since inflation fell below the inner band of the consultation mechanism.

[1] Staff-level agreement was reached in November 2013 on the first review. However, the president withheld his approval to sign the letter of intent over his concerns about the composition of the 2014 budget. He subsequently approved the budget following an agreement with the government to delay the implementation of 7 euro cent charge on diesel and gasoline products for three months until April 1, 2014.

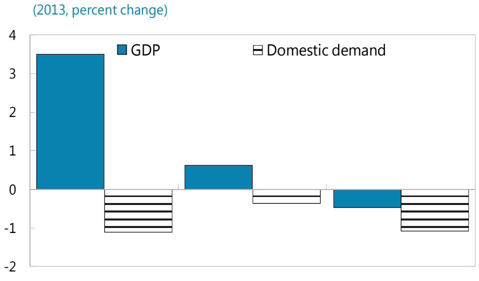
4. **Fiscal policy remains in line with the authorities' medium-term budgetary objective, while supporting greater absorption of EU funds.** The budget envelope implies a structural effort of a cumulative 0.7 percent of GDP in 2013–14 in ESA terms. The 2014 budget relies primarily on revenue raising measures to meet the deficit target. However, the authorities are considering a reduction in the social security contribution rate by up to 5 percentage points in the mid-year budget rectification provided it can be done in a budget-neutral manner. Moreover, they have announced to ease liquidity constraints on indebted households in order to address the weak consumption.

5. **Progress was made on the ambitious structural reform agenda though the privatization of the state-owned freight railway company (Marfa) failed.** The authorities successfully completed initial public offerings (IPO) in two state-owned energy companies (Nuclearelectrica and Romgaz), decided to increase the number of government shares to be sold in the planned IPO in Hidroelectrica, and further deregulated the electricity and gas markets. However, the failure to complete the majority sale of Marfa is a setback. Marfa's management, with the authorities' backing, has adopted a major restructuring plan to restore Marfa to financial health and restart the privatization process, with Marfa's sale expected in May 2015. Financial sector reform progress was uneven. A new guarantee scheme for small- and medium-sized enterprises (SMEs) is being implemented, and measures to facilitate NPL write-offs are under preparation, but the newly consolidated non-bank supervisory authority is still at an organization stage and a draft insolvency code and a covered bond law are yet to be discussed in parliament.

6. **The program continues to be a policy priority for the government's leadership but risks emanating from the political arena are growing**. Prime Minister Ponta remains actively engaged in program development and execution. Following the withdrawal of the National Liberal Party (PNL) from the coalition, the prime minister reaffirmed the government's commitment to program objectives and policies. However, this year's European parliamentary elections in May and Romanian presidential elections at year-end are starting to dominate policy discussions. Moreover, the president and the government continue to differ on proposed budget measures such as the excise tax and the proposed measure to stimulate demand. These factors could complicate program execution and undermine the government's resolve to implement the structural reform agenda.

RECENT ECONOMIC DEVELOPMENTS

Real GDP and Domestic Demand
(2013, percent change)



Source: Eurostat, National Institute of Statistics for Romania.
Note: Region includes Bulgaria (only GDP data), Czech Republic, Hungary (up to 2013:Q3 for domestic demand), Poland and Slovakia.

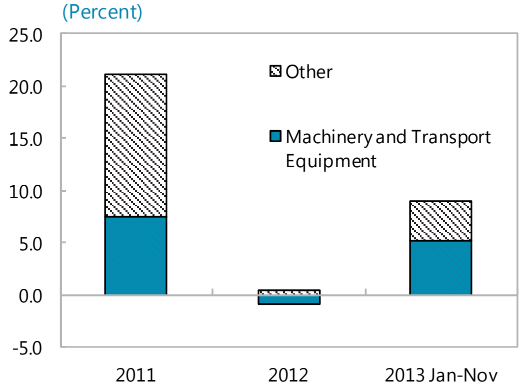
7. **GDP growth accelerated in 2013.** Real GDP grew 3.5 percent yoy in 2013 (Figure 1) driven mostly by net exports. Domestic demand contributed negatively (-0.6 percentage points in 2013), largely due to a decline in investment as credit growth remained subdued. Growth was supported by robust industrial output and the agriculture harvest on the supply side. Overall, agriculture accounted for almost a third of the annual output increase.

Unemployment is still higher than in 2012 but has started to decline to 7.1 percent in December 2013 (Figure 3).

8. **Inflation has fallen below the central bank's target range** (Figure 4). Annual headline inflation decelerated rapidly from the second half of 2013 to 1.1 percent (yoy) in January 2014. This reflects mainly declining food prices due to the abundant autumn harvest, a reduction in VAT on flour and bakery products, the dissipating effects of administered price increases in 2012, and weak domestic demand. Annual core inflation declined to -0.1 percent in January, from an average of 3 percent in the first half of 2013.[2]

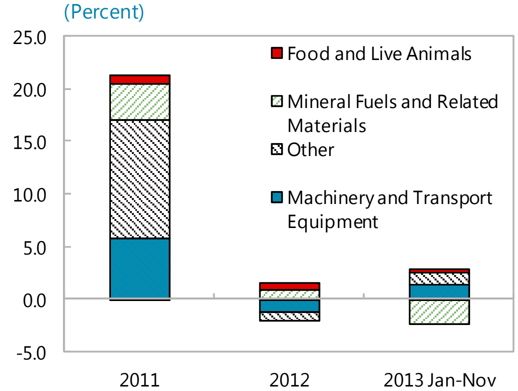
9. **The current account deficit has narrowed further while public capital inflows were strong** (Figure 2). With weak domestic demand and export growth outpacing imports, staff projects the current account deficit to have reached 1.1 percent of GDP in 2013. While it is too early for a conclusive assessment, there are signs that some of the improvement could be permanent, such as the greater value added in exports, larger share of service exports, and lower energy imports (Box 1). Public sector capital inflows from international bond placements were strong and non-resident holding of RON-denominated government bonds increased substantially over the year. In addition, Romania drew down €700 million of the €1 billion World Bank Development Policy Loan—Deferred Drawdown Option (DPL-DDO). Private sector capital flows were more mixed with FDI picking up from recent lows, while banking sector deleveraging continued at a heightened pace. The central bank sustained international reserves at €36 billion as of end-January, while making substantial repayments to the Fund in 2013.

Contributions to Export Growth
(Percent)



Source: Haver.

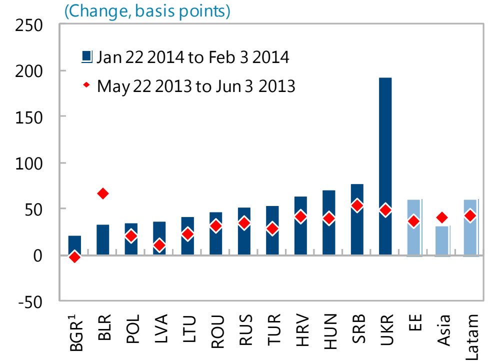
Contributions to Import Growth
(Percent)



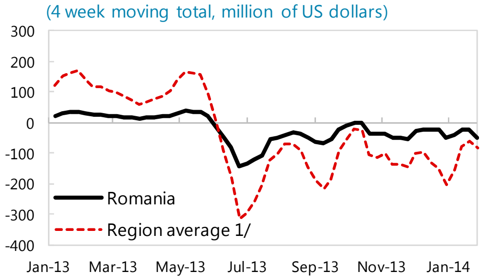
[2] Food items comprise over 40 percent of the core index.

10. **Romania's asset prices have remained relatively stable amid heightened volatility in emerging markets.** Romania successfully tapped international capital markets several times since September, most recently garnering US$2 billion from an issuance of 10- and 30-year Eurobonds in January. This follows issuances for €1.5 billion in September 2013 and €0.5 billion in October 2013. Sovereign and CDS spreads widened during the recent market turbulence, but less than in emerging markets with weaker fundamentals. The exchange rate remained largely stable, in part due to central bank support for the currency.

EMBIG Spreads
(Change, basis points)

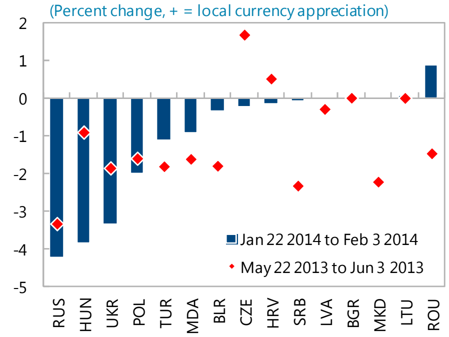


Bond Flows: ETFs/Mutual Funds
(4 week moving total, million of US dollars)



Source: Haver Analytics.
1/ Region average weighted by GDP; includes Bulgaria, Hungary, and Poland. Excludes Bulgaria from August.

Exchange Rate Developments
(Percent change, + = local currency appreciation)



11. **The estimated fiscal deficit for 2013 is 2.5 percent of GDP.** The cash deficit exceeded the adjusted floor on the general government overall balance, agreed at the time of program approval, by RON 477 million (0.1 percent of GDP), primarily due to higher-than-expected national co-financing of EU-funded projects.[3] The authorities request a waiver as the nonobservance was minor (LOI ¶12). The 2.5 percent deficit was in line with the target set out in the second budget rectification and discussed with staff during the November mission. Revenues underperformed primarily reflecting declining VAT from imports, lower nontax revenues, and weakened collections partly due to a restructuring of the tax administrator. The revenue shortfall was largely offset by lower than expected social transfers and capital spending. Program arrears targets were met. Central government arrears remain at a de minimis level, while local government arrears increased by about RON 60 million but remained below the end-December indicative ceiling.

Fiscal Performance, January to December 2013
(In billions of lei)

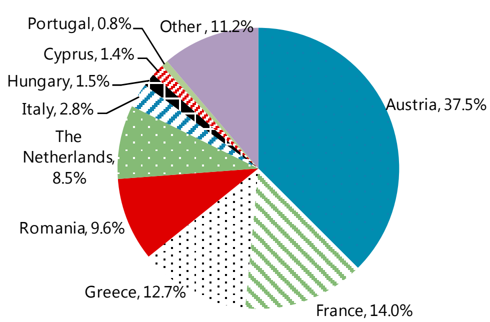
	(1) Prog. Appr.	(2) Amend Budget	(3) Actual	Difference (3)-(1)	Difference (3)-(2)
Total revenue	209.4	206.0	200.0	-9.4	-5.9
Tax revenue	176.9	174.9	173.5	-3.4	-1.4
Nontax revenue	19.0	17.4	17.2	-1.9	-0.2
Grants	12.8	13.1	9.1	-3.7	-4.0
Total expenditure	224.1	221.9	215.8	-8.3	-6.1
Current	206.2	203.9	199.0	-7.2	-4.9
Personnel	46.2	46.2	46.3	0.1	0.1
Goods and services	39.7	39.6	38.6	-1.2	-1.0
Interest	11.4	11.0	10.7	-0.6	-0.2
Subsidies	5.2	5.2	5.2	-0.1	-0.1
Transfers	102.6	101.1	97.3	-5.3	-3.8
Social assistance	69.4	68.6	68.4	-1.0	-0.3
Transfers for public entitie	1.7	1.5	1.0	-0.7	-0.5
Other transfers	11.8	11.3	10.7	-1.1	-0.6
EU Funds, post-accession	16.8	16.7	14.0	-2.9	-2.7
Other expenditure	2.9	2.9	3.2	0.4	0.3
Projects financed from ext	1.1	0.9	0.9	-0.2	0.0
Capital	17.7	17.6	17.9	0.1	0.3
Total capital spending	35.7	35.2	32.7	-2.9	-2.5
Adjuster for EU cofinancing	-0.6	…	…		
Deficit/Surplus	-15.3	-15.9	-15.8	-0.5	0.1

Source: Romanian authorities; and IMF staff estimates.

[3] The floor was adjusted downwards by RON 600 million to RON 15.3 billion as spending on national co-financing of EU funded projects exceeded agreed thresholds under the program by RON 2.7 billion.

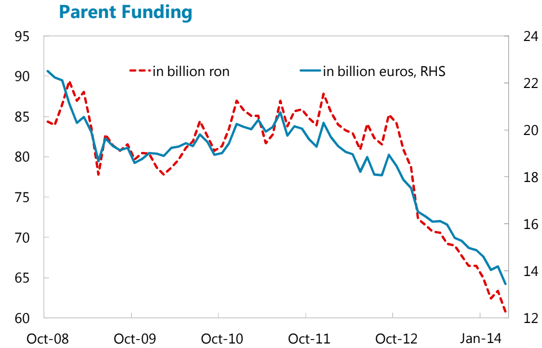
12. **The banking system ability to support the recovery remains limited due to high NPLs and on-going deleveraging.** Recent stress tests by the central bank (NBR) showed that the solvency of the Romanian banking system would be resilient to severe scenarios, although a number of banks would need to raise additional capital. However, the asset quality is still poor with NPLs of 21.9 percent at the end of 2013 (Figure 6). Provisioning kept pace and has been reinforced by collateral valuation audits mandated by the NBR, though additional efforts may be needed. While this could further affect short-term profitability, which is low, more broad-based economic growth in 2014 should be a counterbalancing factor. In addition, the mostly foreign-owned banking system faced the withdrawal of 19 percent of its parent funding from end-2012 until end-December 2013. As a consequence, banks' reliance on local funding has increased, especially deposits, prompting a significant fall of the system-wide loan-to-deposit ratio to 105 percent at end-2013, from 117 percent the previous year. Credit to the private sector declined by 4.8 percent in real terms (yoy) in 2013, given the weak credit demand environment and also due to the drag imposed by the parent financing retrenchment. While euroization of loans has started to decrease in response to government programs in lei, particularly in the mortgage segment, the share of FX loans is still above 60 percent of the total and remains a weak spot of the system's balance sheet.

Bank Ownership Structure (Percent of total gross assets, 2013)



Sources: National Bank of Romania

Parent Funding



Sources: Haver; and National Bank of Romania.

OUTLOOK AND RISKS

13. **The baseline scenario envisages a sustained and more broad-based recovery in 2014.**

- ***Growth*** is projected to advance by 2.2 percent in 2014, less than in 2013 but with a significant pick-up in non-agricultural growth. Better absorption of EU funds is set to support a gradual recovery in investment. Private consumption is expected to pick up with a rise in real disposable income following the recent policy easing and record low inflation, higher minimum wages (Box 2), as well as a general improvement in consumer confidence as the euro area returns to positive growth. The output gap is projected to close over the medium term, as employment and investment conditions improve.

- ***Inflation*** is projected to remain subdued in the first quarter of 2014 (below the NBR's lower target band), before returning to the upper part of the band in the second half of 2014, mainly reflecting base effects and further administrated price hikes. Potential food price volatility, however, will continue to be a major factor of uncertainty for inflation developments.

- ***External position.*** Staff forecasts the current account deficit to widen slightly to 1½–2 percent of GDP in 2014–15 as domestic demand starts to recover. Capital inflows are projected to hold up with (i) FDI increasing from recent lows as Europe's growth outlook brightens; (ii) a slowing pace of foreign bank deleveraging; and (iii) continued inflows of EU funds. With sizable repayments to the Fund, gross international reserves are projected to decline to €30 billion (five months of imports) by end-2015. Under the baseline scenario, no financing gaps are envisaged.

Romania: Macroeconomic Outlook

(Percent)

	2010	2011	2012	2013	2014	2015
Real GDP growth	-1.1	2.2	0.7	3.5	2.2	2.5
CPI inflation, average	6.1	5.8	3.3	4.0	2.2	3.1
CPI inflation, eop	8.0	3.1	5.0	1.6	3.5	3.1
Current account balance (percent of GDP)	-4.4	-4.5	-4.4	-1.1	-1.5	-1.9
Fiscal balance (percent of GDP, cash)	-6.4	-4.3	-2.5	-2.5	-2.2	-1.4
Gross international reserves (bn euros)	36.0	37.3	35.4	35.4	31.6	30.0

Source: Eurostat; Romanian authorities; and IMF staff projections.

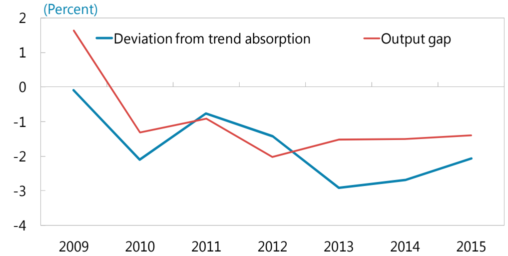
14. **Risks to the economic outlook are broadly balanced for 2014.** While strong industry performance could continue to support growth on the supply side, and better EU funds absorption could support a more robust recovery in investment, household, corporate, and foreign-parent bank deleveraging, along with rising non-performing loans, could continue to constrain credit growth and hinder the recovery in domestic demand. Moreover, monetary policy tightening in advanced economies could trigger capital outflows as investors reassess portfolio risks and return, which would put downward pressure on the exchange rate. Capital flows could also come under pressure if confidence wanes as the situation in Ukraine unfolds. Given the large volume of foreign-currency lending, a sharp depreciation in the exchange rate could lead to further deterioration in bank and private sector balance sheets. A buffer of more than four months of projected fiscal financing needs, a flexible exchange rate, and a broadly adequate level of international reserves provide insurance in the event of an external shock. Finally, heightened political uncertainty in the run-up to elections in 2014, in particular the presidential elections, could impact the stability of policy discussions and potentially weigh on investor and consumer sentiment.

PROGRAM POLICIES

A. Fiscal Policy: Staying the Course of Adjustment while Managing Risks to Growth

15. **Fiscal policy aims to continue fiscal adjustment and strengthen the institutional framework while supporting more EU funds absorption.** The authorities are set to lower the structural deficit by a cumulative 0.7 percent of GDP in 2013–14 at a time when output has started to recover, but domestic demand is still distant from its potential as reflected in a higher deviation from trend absorption than the output gap. Recent acceleration of EU funds absorption is projected to stir investment but also adds to budgetary pressures.

Romania: Deviation from Trend Absorption and Output Gap
(Percent)



Source: IMF staff estimates.
Note: The deviation from trend absorption and output gap measures are based on IMF staff calculations and may differ from the European Commission, due to differences in methodology.

16. **The authorities approved a budget consistent with a deficit target of 2.2 percent of GDP (in both cash and ESA terms) in 2014**. Given the recent acceleration in the absorption of EU funds, the deficit ceiling was increased by 0.2 percent of GDP compared to program approval to create room for more co-financing of EU funds (in the form of an adjuster). Specifically, additional EU funds absorption has been incorporated into the baseline deficit target, which will be tightened if actual EU cofinancing is less than projected. The budget envelope implies a structural effort of 0.3 percent of GDP in 2014 in ESA terms. In addition, the wage bill increase is held to below projected nominal GDP growth, while accommodating a court-mandated reinstatement of certain wages equivalent to 0.3 percent of GDP and a two-stepped minimum wage increase. Final payments towards implementation of the EU Payments Directive, the second step of the planned increase of the Guaranteed Minimum Income, and additional transfers to SOEs to facilitate restructuring and arrears clearance are also budgeted and amount to 0.2 percent of GDP. Moreover, the budget provides for potential payments in 2014 related to restitution of World War II and communist era claims (0.1 percent of GDP). These spending requirements total 0.6 percent of GDP. Public pensions were increased by 3.8 percent in line with the pension law.

17. **Compensating measures to achieve the deficit target focus primarily on revenues (MEFP ¶5–7).** Excises have been increased in line with inflation instead of the exchange rate and the base on property taxes has been expanded to include special constructions. A three-month delay in implementing a 7 euro cent surcharge on (about 0.1 percent of GDP) on diesel and gasoline products will be offset by a freeze on certain expenditures, including spending for local-government projects, unless revenues outperform by mid-year. On the expenditure side, the

List of Measures (Percent of projected 2014 GDP)

Revenues (relative to baseline)	**0.56**
Change in indexation of excises from exchange rate to inflation	0.17
Increase in excise-diesel (by 7 euro cents), incl. VAT	0.19
Increase in excise-unleaded fuel (by 7 euro cents), incl. VAT	0.07
Special constructions	0.07
Royalty tax on mining (25 percent)	0.01
Minimum wage increase by inflation to RON 900 in 2 steps 1/	0.05
Expenditure	**0.13**
Wage bill increase less than projected average inflation 2/	0.11
Other expenditures 3/	0.01
Total	**0.69**

1/ While not a pure fiscal measure, the increase in the minimum wage generates net revenue for the government because the increase in personal income and social security tax receipts exceeds the increase in the public-sector wage bill from increasing the minimum wage.
2/ Relative to 2013 budget outturn (net of court-ordered payments).
3/ Relative to 2013 budget outturn.

public wage bill falls in nominal terms if expenditures to accommodated court rulings and the minimum wage hike are excluded. The budget also foresees discretionary cuts in other expenditures and savings on interest payments. To safeguard against revenue collection uncertainties, the budget's 10 percent buffer on certain expenditure items (about RON 2.3 billion, 0.3 percent of GDP) will not be released until the second budget rectification in autumn of 2014.

18. **The government announced an intention to implement a new scheme to support indebted low- and middle-income households to address weak domestic demand.** The voluntary scheme, which is a high priority of the government, allows a delay in debt service payments by two years for those whose debt is not overdue more than 90 days. The payment deferral is to be repaid in subsequent years. To ease the repayment burden, a tax credit would be offered in 2016–17. This measure aims to ease the liquidity constraint of households and contribute to higher consumption. While the proposal may potentially impact on the credit payment culture, this is mitigated by its voluntary nature. As it was presented, the measure has no budgetary impact in 2014–15, the fiscal liability will be contained to 0.1 percent of GDP per year in 2016–17, and the government as well as banks are committed to ensure proper consumer protection.

19. **The authorities are moving ahead with structural fiscal reforms.** The measures include:

- **Fiscal Compact:** In compliance with the EU fiscal governance requirements, the authorities revised the Fiscal Responsibility Law to integrate structural fiscal targets and corrective actions in case of deviations.
- **Public financial management** (MEFP ¶15): The authorities are taking measures to (i) prevent government arrears; (ii) improve the commitment control and fiscal reporting systems; and (iii) better manage fiscal risks. They have published detailed information on arrears (structural benchmark) and the Court of Accounts conducted an audit on the disputed invoices presented by local governments, which confirmed the amount of disputed invoices initially reported to staff. They have made good progress in implementing the commitment control system, but did not meet the end-January 2014 structural benchmark as some functionalities still need to be added and end-users trained so as to fully operationalize the system in three pilot institutions. The authorities expect to achieve this by end-April 2014 (reset structural benchmark). Fiscal reporting reforms are advancing more slowly than anticipated, due to a combination of highly ambitious objectives and capacity constraint. The authorities analyzed for the first time fiscal risks as part of the 2014 draft budget documents. The analysis could be expanded and deepened further, as recommended by the IMF fiscal transparency assessment that took place in February 2014.
- **EU funds absorption and public investment planning:** The pace of EU funds absorption has accelerated in recent months as all operational programs were un-blocked and procedures were simplified. To create more fiscal space for EU funded investment and reduce inefficient domestic spending the authorities have taken steps to improve project prioritization. The MOPF staffed its Public Investment Evaluation and Monitoring Unit, the authorities prepared a list of investment projects based on predefined prioritization criteria (structural benchmark), and the fiscal implications of EU-funded projects over the medium

term were identified to ensure sufficient resources for co-financing and needed financial corrections (structural benchmark). Efforts are also underway to improve prioritization of local government investment projects. Moreover, the authorities have committed to reappraise significant projects according to approved investment prioritization norms, and identify a list of projects to be cancelled in time for preparation of the 2015 budget. The World Bank is assisting the authorities in capacity building for evaluating fiscal commitments in concession and PPP projects.

- **Public administration:** The authorities continue to maintain a tight control over public employment even after substituting the 1 for 7 replacement rule, i.e., ministries could only hire a new staff member after seven had departed, with a 1 for 1 rule. Public employment fell by about 6,500 in the second half of 2013 and is expected to decline further in 2014 through attrition and identification of redundancies.

- **Tax administration:** A newly setup task force assessed the weak revenue collection in the second half of 2013 and found it to reflect mainly the tax-poor composition of economic growth as well as the ongoing reorganization of the tax administration agency (ANAF) (MEFP¶18). To raise revenue collection and efficiency, the authorities are committed to enhance monitoring of all aspects of corporate tax. The authorities will produce quarterly progress reports from end-2013 showing the number of audits, installment agreements and collection targets (proposed structural benchmark). As part of its wider reform efforts, ANAF is shifting resources towards its anti-fraud unit and will move to risk-based audits, which are expected to be more efficient than the current across-the-board audit system. ANAF aims to regain momentum for its high net-wealth individual taxpayer initiative supported by Fund technical assistance, and continues to seek improvements to taxpayer services. ANAF also plans to launch publicly a pilot project, in line with EU compliance strategies, to address undeclared labor and tax evasion by May 2014 (proposed structural benchmark).

20. **The authorities are studying tax policies with the goal of further improving tax buoyancy and efficiency** (MEFP ¶8). Preparations for a new oil and gas taxation and royalty regime have started while royalties for other minerals were raised by 25 percent from 2014. The authorities seek to lower the tax wedge on labor by a social security rate reduction up to 5 percentage points at the earliest from the second half of 2014. For that purpose they are assessing, with the support of the World Bank, how rate cuts could be done in a budget neutral way, including by base widening, while supporting program objectives. The authorities are also analyzing the impact of the September 2013 reduction in VAT rates for flour and bakery products before considering any further reduction in VAT rates for specific sectors.

21. **The authorities are pressing ahead with a large-scale highway project (Comarnic-Brasov) despite the reputational risk should funding fail to materialize.** The authorities consider constructing the highway a priority and are committed to carry it out at least cost and in a fiscally affordable way (MEFP ¶16). The intention is to finance the highway through a concession agreement, a first for such type of project for Romania. However, the authorities plan to sign a commercial contract by April and begin preparatory work before financing terms are agreed and resources are

identified. Possible funding from the EIB and EBRD to potential private investors might be at risk, if the selection of a concession winner is not carried out in accordance with their practices and the provisions of the relevant EU Directives. While a budget allocation has been made to cover the fiscal risk in 2014 in the event that financing does not materialize, staff stressed that the reputational risk from announcing and starting such a project without allowing for proper due diligence on the financing is high.

22. **Progress was made in reforming the healthcare system to ensure financial sustainability, raise efficiency, and improve health services delivery** (MEFP ¶19–21). Romania's public healthcare system relies heavily on transfers from the central government budget, and faces significant financial imbalances and increasing spending pressures from an aging population. Design of the healthcare reforms is being done in close consultation with the World Bank and the European Commission (EC). The authorities have defined and costed a basic health package (structural benchmark) but exceeded the original deadline of September 2013 as they needed more time to ensure consistency with the other pillars of the reforms (namely the minimum package for the uninsured, the list of reimbursable medicines, and healthcare programs). The reform measures are designed to remain within the existing budget in 2014. Remaining services to be covered by private co-payments and private health insurance will be defined by September 2014. The authorities have already launched discussions with the private sector on various private insurance schemes to cover those remaining services. Other reforms include eliminating cost ineffective medicines from the drug list, shifting the delivery of health services from hospitals to less costly ambulatory health care providers, centralizing procurement, introducing a lower tax rate for generics within the claw-back tax, and monitoring public hospital budgets.

23. **Romania's public debt is sustainable.** In the baseline scenario, continued fiscal adjustment would ensure debt sustainability. The main vulnerability is a projected gross financing need of 9.5 percent of GDP. Main risks arise from underperformance of GDP growth and banking sector contingent liabilities, which could push the public debt ratio to nearly 50 percent of GDP in the Debt Sustainability Analysis (DSA) scenario (Annex I). Risks from contingent liabilities are contained, however, since all outstanding guarantees are already included in the public debt, SOE debt is less than 10 percent of GDP, and banks are well capitalized. External vulnerabilities persist due to relatively high external debt and rollover needs, but the projected current account deficits are sustainable.

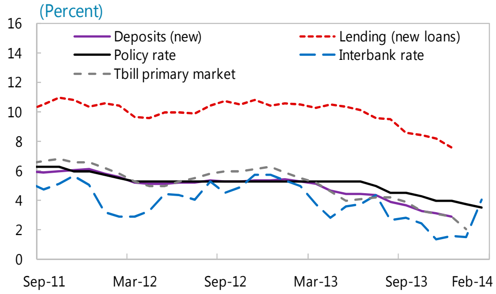
B. Monetary and Exchange Rate Policies: Proceed with Caution

24. **The central bank (NBR) remains committed to maintaining a prudent monetary policy stance** (MEFP ¶23–25). Headline inflation decelerated to 1.1 percent in January from 1.6 percent in December, thereby undershooting the lower band of the consultation mechanism, after entering the NBR's target band in September 2013. Staff discussed with the NBR recent inflation developments and the outlook as part of the inflation consultation mechanism. In the near term, inflation is expected to stay temporarily at levels below the target band, then gradually return into the band,

and move into the upper part in the second half of 2014. The NBR's end-year inflation target was converted to a continuous target from January 2014 onward.

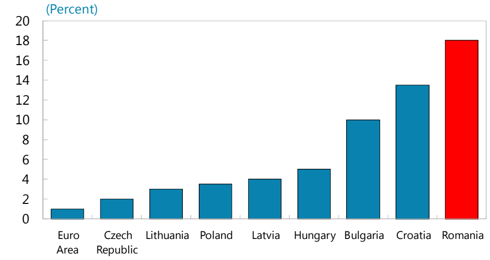
25. **The current monetary policy stance appears appropriate; however, increased caution should be exercised going forward.** The authorities continued the easing cycle during September 2013 to February 2014, lowering the policy rate by a cumulative 100 basis points to 3.5 percent. Reflecting this decline, average interest rates on new loans reached historical lows at end-2013. In addition, in January the NBR reduced the high minimum reserve requirements (MRRs) by three and two percentage points for leu- and foreign exchange denominated liabilities, respectively, with a view to gradually bring the MRRs closer to levels maintained by the European Central Bank and prevailing in most other EU countries. These decisions were taken with both headline and core inflation expected to remain within the NBR's comfort zone throughout the projection horizon amid a still sizeable negative output gap and subdued credit. However, the reduction in the MRRs exacerbated the excess liquidity situation as the recent emerging market turmoil did not leave the Romanian financial markets unscathed creating pressures on the leu. The NBR intervened to support the leu resulting in the elimination of excess liquidity and an increase in interbank rates to levels above the policy rate.

Selected Interest Rates
(Percent)



Sources: NBR; and Haver.

Selected EU Central Banks: Minimum Reserve Requirements 1/
(Percent)



Source: IMF Information System for Instruments of Monetary Policy database.
1/ Maximum rate in case of differentiated rates.

26. **The NBR needs to reassess the effectiveness of its monetary policy framework.** Base money creation has increasingly reflected treasury operations related to disbursements of EU funds; however, rather than using the regular toolkit to absorb the excess liquidity the NBR has relied on foreign exchange sales due to their limited impact on its profitability. On the other hand, divergence between interbank rates and the policy rate as well as excessive interbank rate volatility risk undermining the monetary policy transmission. NBR should aim for a more clear-cut operational framework and effective transmission mechanism through a further narrowing of the interest rate corridor as well as improved liquidity management. In case of a need for liquidity absorption, and with a view to maintain FX reserve adequacy, the NBR should implement it primarily through deposit taking operations or issuance of certificates of deposit.

27. **International reserves remain adequate.** International reserves have been bolstered by the recent Eurobond placements and a disbursement under the World Bank's DPL. The net international reserves (NIR) performance criterion for end-December was met with a wide margin while short-term debt coverage of reserves remained just below 100 percent. Going forward, the path for NIR

has been adjusted to reflect recent temporary pressures on financial markets due to spillovers from emerging market turbulences. The real exchange rate remains broadly in line with fundamentals. The NBR should hence continue to allow the exchange rate to adjust with market conditions and limit interventions in support of the leu to smoothing disorderly exchange rate volatility. Discussions are underway with the World Bank on two Development Policy Loans for 2014 and 2015 of about €500 million each.

C. Financial Sector Priorities: Strengthening Banks' Balance Sheets and Supporting the Economy

28. **Continued parent bank deleveraging and credit supply constraints call for policies to improve financial intermediation.** Lower reserve requirements have freed up some liquidity and could help ease the funding pressure from parent bank withdrawals. However, the authorities must remain vigilant to avoid unwanted capital outflows and exchange rate pressures. The wedge between the foreign currency and the lei minimum reserve requirement (MRR) serves to discourage foreign-currency lending at the margin, but macroeconomic stability, prudential measures, and the funding mix are important to boosting national currency lending in the long term. In this context, enabling long-term bank funding such as that derived from a new covered bond law will also benefit intermediation (reset structural benchmark) (MEFP ¶35). On the demand side, particularly SMEs experience difficulties in accessing bank lending as they also have the highest ratio of NPLs. To mitigate this situation, the government has devised a guarantee scheme for the sector, where the government shares the credit risk of the loan with the bank. Continued dialogue with market players is needed to help fine-tune the rules, as necessary, and contain risks.

29. **Strengthening the banking system's balance sheet requires a plan to reduce NPLs while permanently monitoring banks' asset portfolio quality.** Recent progress achieved on the basis of portfolio audits and the gradual closing of the provisioning gaps has helped keep provision coverage at prudent levels 89.8 percent at end-2013 including the prudential filter. However, in view of the unprecedented accumulation of NPLs (see Box 3), the central bank is working on the key elements of an NPL reduction action plan (proposed structural benchmark) (MEFP ¶ 32). The plan will establish the role of the NBR in the process, set out the responsibilities of supervised entities, and seek to provide appropriate incentives for self-discipline regarding the timely write off of unrecoverable loans. In addition, with the objective to add transparency to the system's balance sheet, the plan will specify the accounting treatment that helps distinguish fully-provisioned and unrecoverable NPLs from other impaired loans.

30. **Enhancing the insolvency law could help in dealing with high NPLs.** In October, the cabinet approved a new insolvency code as a government emergency ordinance, but the manner of its promulgation and two of its substantive provisions were challenged successfully before the constitutional court. A revised draft insolvency code to address the court decision was submitted to parliament for consideration. In consultation with the IMF staff, amendments will be proposed to the revised draft so that an insolvency code aims to better support the early rescue of viable firms and speedy exit of non-viable ones, and includes at a minimum provisions on: pre-insolvency

procedures, creditor voting, priority financing, automatic stay, ranking of claims, notice requirements will be submitted to Parliament by end-April 2014 for consideration (proposed structural benchmark) (MEFP ¶49).

31. **The risk of financial instability arising from the recently enacted civil procedure code needs to be mitigated.** The application of the new code since October 1, 2013, created certain interpretations of the abusive clauses provisions that, once applied to financial sector contracts, could give rise to the prohibition of some interest charges, decisions with retroactive impact, and class action suits regarding loan financial terms. Those interpretations have already been sanctioned in certain lower court cases, and could become a source of instability for some banks. To avoid such cases the authorities are setting up a new specialized court in Bucharest to ensure a harmonized application of those provisions in line with the spirit of the law (MEFP ¶ 37).

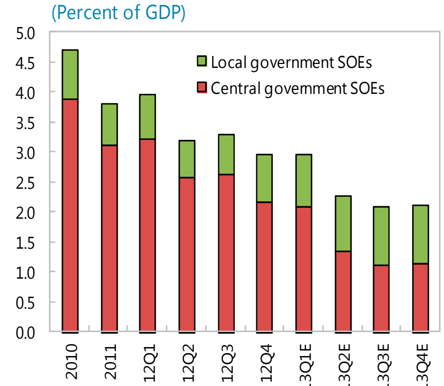
32. **The incipient non-banking system and capital market as well as their supervision need to be developed and strengthened further.** Given their limited market share, risks in the securities, insurance, and pension funds sectors appear non-systemic, though the Financial Supervisory Authority (FSA) recently placed one of the main insurance companies under special administration and appointed a private accounting firm to be the administrator. This leaves the non-bank FSA with the responsibility to develop a consistent framework of regulation and supervision of the sources of funds mobilization, and of consumer/investor protection, which in turn will promote the healthy development of the capital market. At the same time, the FSA needs to support the growth of the stock exchange with the necessary transparency and efficiency. A priority should be the ongoing work on the type and level of fees and assessment charges to put those on comparable levels with similar markets in the region (MEFP ¶ 36). The FSA is also actively working on its internal organization with support from external advisors.

D. Structural Reforms: Better Infrastructure, Better Growth

Energy and Transportation Sector

33. **Implementation of the reform agenda in the energy and transportation sectors is a vital component for increasing economic growth** (MEFP ¶38–46). The program seeks to improve the financial position, operating efficiency, and transparency of SOEs and the pricing framework in the energy and transportation sectors with program commitments having been developed in collaboration with World Bank and EC staff. Since program approval, the state-owned natural gas producer (Romgaz) launched a landmark initial public offering (IPO) and energy regulator raised prices in accordance with the liberalization calendars. The authorities also committed to undertake a major restructuring of the state-owned freight railway operator (Marfa) in the wake of the failed privatization effort.

SOE Arrears
(Percent of GDP)



Sources: Romanian authorities; and IMF staff estimates.

34. **Stronger efforts are needed to reduce and prevent the re-emergence of outstanding past due payments (arrears) of SOEs.** While the end-December 2013 target for the operating balance of companies under monitoring was met, the central-government owned SOEs arrears target was missed by a large margin. This was mainly due to a delayed budgetary payment to the road company for EU funded works, less than-budgeted subsidies to railway companies, and SOEs under insolvency increasing their arrears. The latter was not under the control of the government and staff proposes to take it out of the definition going forward. Also, arrears of local-government SOEs increased. The authorities have committed to take a number of corrective actions to reduce arrears significantly in the first quarter of 2014 (prior action), including a budgetary transfer, measures to improve governance and financial performance, and placement of companies into the insolvency process or liquidation. They have also started a write-off process for defense industry SOE arrears and will prepare an action plan to adhere to future arrears targets (proposed structural benchmark). Moreover, the authorities plan to strengthen monitoring and oversight of SOEs (MEFP ¶39).

35. **Good progress is being made in implementing IPOs in energy companies, which can foster greater transparency and efficiency in the sector.** The authorities followed the successful September IPO of shares in the nuclear power company (Nuclearelectrica) with a ground-breaking IPO of 15 percent of government shares in Romgaz. In a first for Romania, Romgaz shares were also sold through Global Depository Receipts (GDRs) traded in London. Given the success of the transaction structure, the authorities indicated their plans to do the IPOs of shares in the electricity supply and distribution company (Electrica) (structural benchmark for end-May 2014) and the hydro-power generator (Hidroelectrica) (structural benchmark for end-June 2014) through a dual listing or include GDRs. In addition, the authorities increased the percentage of shares to be sold in the Hidroelectrica IPO to 15 percent from 10 percent (MEFP ¶43) (Box 4). However, in late February, an Appeals Court placed Hidroelectrica back into insolvency until the legal claims of energy traders against the company are resolved. While the authorities remain committed to the IPO, as soon as possible after it exits insolvency, the timing of the structural benchmark may have to be revisited.

36. **In contrast, the majority sale of Marfa failed.** The competition council was not able to issue a ruling on market concentration, which was a condition precedent for concluding the transaction by the government-imposed deadline of October 2014. The authorities now plan to restructure the company and simultaneously restarted the privatization process. Specifically, Marfa's management has developed a list of restructuring measures, including cuts in personnel costs, to restore the company to an operating profit in 2014 and prevent the accumulation of arrears. The authorities have committed to support Marfa's management in restructuring the company and approved a 2014 budget for Marfa that incorporates such measures. Progress will be monitored through a new quarterly indicative target that allows for no accumulation of outstanding past due principal payments by Marfa starting from end-December 2013. Marfa's operating performance will continue to be monitored under the existing indicative target of a floor on the operating balance of the railway companies. In the event that the restructuring does not produce the desired results, the authorities agreed to explore other options for advancing the restructuring process. The majority sale is envisaged in May 2015.

37. **Improved governance and oversight of SOEs are also cornerstones of the structural reform agenda.** The authorities appointed the supervisory board of Hidroelectrica in November 2013 (structural benchmark). They are also working closely with the World Bank on SOE corporate governance and monitoring (MEFP ¶40). However, the SOE Corporate Governance Law continues to languish in parliament as the government decided to wait for the conclusion of an independent study on the experience with the SOE corporate governance ordinance before pressing ahead with passage of the law.

38. **The authorities continue to take steps to improve the pricing and operating framework of the energy and transportation sectors** (MEFP ¶42 and ¶45). The energy regulator (ANRE) implemented the October 1, 2013 and January 1, 2014 steps of the energy price liberalization roadmaps and also intends to implement the April 1, 2014 price increases. Electricity sales to non-residential consumers are now fully sourced from the competitive market and the gas price deregulation for non-residential consumers may be completed in July, earlier than scheduled. ANRE will take that decision based on a risk assessment study. In the transportation sector, the authorities raised rail passenger ticket prices up to 10 percent effective September 1, 2013, and completed a review of railway access charges with the support of the World Bank.

Romania: Energy Price Liberalization Roadmaps (abridged)

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

Source: Romanian authorities and IMF staff

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

2/ The gas roadmap contains a calendar of price increases to raise the price of domestically produced gas up to international levels and the corresponding estimated increase in the regulated end-user price. Non-household prices are to be raised to international levels by October 1, 2014, and household prices by October 1, 2018.

Labor Markets

39. **The authorities continue to monitor the functioning of the labor legislations and are taking further steps to improve youth employment** (MEFP ¶48). The Labor Code has introduced more flexibility in employment relations and supported employment growth. The share of fixed term contracts grew slightly from 8.2 percent of total active contracts in 2012 to 8.4 percent in 2013. The authorities plan to review the Social Dialogue Law by end-2014 and have invited input from social partners for potential legislative revisions. To address the issue of high youth unemployment in

Romania, which stood at 23 percent in September 2013, the authorities are adopting measures under the National Job Plan. They also plan to implement the secondary legislation for the Apprenticeship Law, which introduces a dual apprenticeship model, and a law facilitating professional training stages for higher-education graduates.

PROGRAM MODALITIES

A. Program Conditionality and Monitoring

40. **The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program.** Staff recommends the waiver of nonobservance of the end-December 2013 performance criterion on the general government balance on the basis that the deviation is minor. Some modifications to the program's conditionality are proposed (Tables 1–2), including setting the performance criteria for end-March and end-June 2014:

- ***Prior action*** (Table 2). Provide a report to the IMF on the completion of the actions specified in Section L of the TMU to significantly reduce SOE arrears.

- ***Five new structural benchmarks*** (Table 2): (i) Provide quarterly progress reports on the number of completed audits in the large taxpayers unit and high net wealth unit, and the number of installment agreements signed for large taxpayers and medium-size taxpayers to clear tax arrears as well as collection targets based on these actions; (ii) submit to parliament an insolvency code law, aimed at better supporting early rescue of viable firms and speedy exit of non-viable firms, prepared in consultation with IMF staff, at a minimum on: pre-insolvency procedures, creditor voting, priority financing, automatic stay, ranking of claims, and notice requirements; (iii) prepare a strategy for the reduction of fully provisioned uncollectible NPLs on commercial banks' balance sheets; (iv) prepare a plan that clearly identifies the companies and the actions that will be taken to adhere to the overall path of arrears reduction established under the program; and (v) issue a press release announcing the pilot structural compliance project targeted at undocumented labor and tax evasion.

- ***Modifications to three structural benchmarks*** (Table 2): (i) the structural benchmark on launching an IPO for Hidroelectrica (end-June 2014) is modified to increase the amount from 10 to 15 percent of the shares to provide for greater trading liquidity; (ii) the structural benchmark to fully operationalize the commitment control system for all general government entities is modified to facilitate monitoring by specifying the required actions; and (iii) the structural benchmark on the covered bond legislation is modified to specify submission to parliament as the required action.

- **Resetting two structural benchmarks:** (i) the structural benchmark on submitting covered bond legislation to Parliament is proposed to be reset to end-March 2014; and (ii) the structural benchmark to fully operationalize the commitment control system, covering expenditures of the MOPF and at least one additional unit at both the central and local government levels, is proposed to be reset to end-April 2014.

- ***One new indicative target*** (Table 1): A quarterly ceiling on outstanding principal payments past due of Marfa that provides for no accumulation over the program.

- ***Rephasing of availability dates*** (Table 10): The authorities request a rephasing of the availability dates for the purchase associated with this review and the following reviews as well as add a review based on end-June 2014 performance. The additional review would coincide with the planned Article IV consultation and the mid-year budget rectification.

B. Capacity to Repay the Fund

41. **Romania is not expected to face actual balance of payments financing needs in 2014–15.** The authorities have expressed that they will continue treating the SBA as precautionary.

42. **Romania's capacity to repay the Fund is expected to remain strong.** Fund credit outstanding fell below 600 percent of quota in early November 2013, thereby bringing it below exceptional access limits. Scheduled payments will peak this year and remain at a manageable 11.6 percent of gross reserves, or 6 percent of exports of goods and services. While this exposure is large, servicing risks are mitigated by the relatively low level of public debt. General government indebtedness (including guarantees) is expected to remain under 40 percent of GDP, with general government external (excluding guarantees) debt peaking at 18.2 percent of GDP in 2013. Total external debt was an estimated 68.2 percent of GDP in at end-2013 and is projected to decline over the medium term. Romania's broad political commitment to the SBA program and its excellent track record servicing external obligations, also provide comfort that it will fulfill its financial obligations to the Fund in a timely manner.

Repurchases from IMF and Principal Repayments to the EC
(In millions of euros)

	2012	2013	2014	2015	2016	2017
IMF	1,570	4,639	4,426	1,400	109	-
BOP	1,445	3,680	3,439	1,245	109	-
Budget	125	959	987	155	-	-
EC	-	-	-	1,500	-	1,150

Source: Romanian National Authorities.

C. Ex-Post Evaluation and Update of Safeguards Assessment

43. **Staff prepared an Ex Post Evaluation (EPE) of the 2011 SBA and a safeguard assessment update for the current arrangement.**[4] The EPE highlights that the program supported by the 2011 SBA was successful in preserving macroeconomic stability and advancing economic

[4] Fund policy requires performing an ex post evaluation (EPE) of GRA-supported programs with exceptional access within a year after the end of the arrangement. Fund policy also stipulates that that an update of the previous safeguards assessment be completed no later than the first program review under the successor arrangement.

adjustment, although progress on the structural reform agenda was uneven. The 2013 update assessment of the NBR finds that the safeguards framework at the central bank remains robust.

- **Ex Post evaluation:** The new program is consistent with conclusions in the EPE report. Since implementation of the broad-based structural reform agenda under the 2011 SBA faced delays, the current program focuses mainly on two macro-critical sectors, energy and transportation. To test the authorities' commitment conditionality was front-loaded with two IPOs already completed by the time of the scheduled first review. Moreover, the coverage of the arrears target was broadened and staff suggests adding a target on the non-accumulation of arrears for the rail-freight company Marfa (¶33). Given the rising urgency to repair bank balance sheets, the current arrangement proposes two new structural benchmarks related to the financial sector. The use of net international reserves instead of net foreign assets as a performance criterion is also consistent with the EPE.
- **Safeguard assessment update:** The NBR continues to publish audited financial statements and maintains strong controls over foreign reserves management, government banking, and vault operations. Staff recommended that the internal audits of foreign reserves data (a measure during both the 2009 and 2011 arrangements) be continued during the current program.

STAFF APPRAISAL

44. **Growth remains challenging and the economy vulnerable to shocks, notwithstanding the limited impact of recent volatility in emerging financial markets.** Household and bank balance sheet restructuring continue to hold back domestic demand and growth in Romania's main trading partners remains weak. In addition, gross financing requirements are significant, the energy and transport sectors are dominated by inefficient SOEs, and global liquidity tightening presents a risk for portfolio flows. This puts a premium on decisive implementation of the program to foster confidence, stimulate private capital flows, and address longstanding structural weaknesses. Moreover, better absorption of EU funds would provide a boost to investment and growth.

45. **The policy focus should remain on supporting sound macro- and financial policies.** There is no room left for additional monetary support of cyclical consumption and investment weakness, thus emphasis should shift to dealing with the NPLs burden to facilitate bank intermediation. Fiscal policy can accommodate some easing, compared to program approval, in particular to finance accelerated EU fund absorption and possibly expand SME lending guarantees. But medium-term fiscal risks need to be carefully managed. Beyond cyclical concerns, Romania's economic convergence hinges on the success of structural reforms, with the program focusing on removing bottlenecks in the energy and transportation sectors.

46. **Improved revenue collection and strict spending discipline will be needed to achieve the fiscal targets.** The deficit ceilings have been increased somewhat to accommodate higher EU co-financing, in an environment of weak domestic demand. Nonetheless, the targets remain in line with the EU governance framework. Most of the adjustment is through revenue measures and will

require strong efforts by the tax administration to raise revenue collection. In addition, inefficient domestic capital spending needs to make room for increased EU funds absorption. As Romania is getting closer to meeting its MTO, a premium should also be placed on predictability and stability of the revenue and social safety system. This implies resisting pressure to reverse previous reforms, including to the pension system, and not rushing any major changes before careful assessment of all implications. Any reduction in social contributions at the mid-term budget rectification should only be considered if it is budget-neutral, ensures the sustainability of the pension system, and is in line with program objectives. To manage risks of potential fiscal costs from concessions and PPPs, the authorities need to step up the strengthening of public financial management and procedures.

47. **Monetary policy should not be eased further.** A cautious approach is warranted following the recent easing steps and emerging market turmoil. In addition, prolonged periods of divergence between interbank rates and the policy rate as well as excessive interbank rate volatility risk undermining the monetary policy transmission. A further narrowing of the interest rate corridor would be appropriate as well as improved liquidity management by the central bank. Any further changes with respect to the MRRs should be implemented gradually and timed properly to avoid such episodes as the one in January 2014 when the excess liquidity situation was exacerbated by the cut in the MRRs. Going forward, if there is a need for liquidity absorption, the NBR should implement it primarily through deposit taking operations or issuance of certificates of deposit. In addition, the NBR should closely monitor bank liquidity profiles, including through stress tests, to keep them resilient to exogenous shocks.

48. **Concrete actions are needed to foster a financial sector that is more supportive of growth.** The improvement in the guarantee scheme for SMEs is a small step in the right direction. However, key measures to help repair bank balance sheets remain undone. The NBR has prudently focused its efforts on strengthening the supervision and regulatory enforcement of loan classification and collateral valuation. However, an NPL reduction plan that clearly establishes stakeholder responsibilities and appropriate incentives for the write-off of non-collectible loans is still needed. The authorities should also submit to parliament an insolvency law that better supports early rescue of viable firms and speedy exit of non-viable ones. If the authorities proceed with the proposed support scheme for indebted low and middle income households, its design should limit any potential impact on credit payment culture, in particular through a voluntary basis, ensure proper consumer protection, and strictly limit future fiscal liabilities. Moreover, the FSA needs to be urgently reformed to adhere to best international practices.

49. **Growth prospects would be enhanced through continued implementation of the macro-critical reforms to improve service quality in the energy and transportation sectors.** The published energy market liberalization roadmaps with gradual price adjustments allow firms and households time to adjust consumption patterns. Future planned price increases should be implemented without delay; and possible earlier than planned full deregulation would be a welcome step. Other positive steps include the recent and planned IPOs of energy companies, including through dual listings or with GDRs, as well as the increase in the number of shares to be sold in Hidroelectica. However, stalled progress on reducing SOE arrears is a disappointment and points to

fiscal pressures that have not been fully accounted for as well as to the need for sustained corrections, including stronger restructuring efforts in the railway sector. The authorities' identified specific steps, including plans to establish greater accountability within the government, should help reduce SOE arrears and improve resource allocation within the economy if fully implemented.

50. **The failure to sell Marfa was a setback.** The company continues to incur losses. Staff welcomes the authorities' decision to relaunch the privatization process. However, the process will take time. In the interim, without a significant restructuring, Marfa is unlikely to remain a going concern. Marfa's management has developed a restructuring plan to restore the company to financial viability. Successful implementation of the plan will require the strong backing of the government as the sole shareholder in Marfa. In the event that such backing proves too politically difficult, the authorities should voluntarily place Marfa into the insolvency process.

51. **Political risks to program implementation are growing.** Staff is concerned that electoral pressures, particularly those related to the presidential elections later in the year, could lead to decisions to reduce taxes, increase expenditures, and loosen the fiscal targets at the time of the budget rectification. It will be difficult, but critical to undertake any new measures in a budget neutral manner. In addition, as structural reforms advance, deeply entrenched vested interests could press for delays in the reform agenda. Continued active engagement at the highest levels in program implementation will likely be required to manage these pressures.

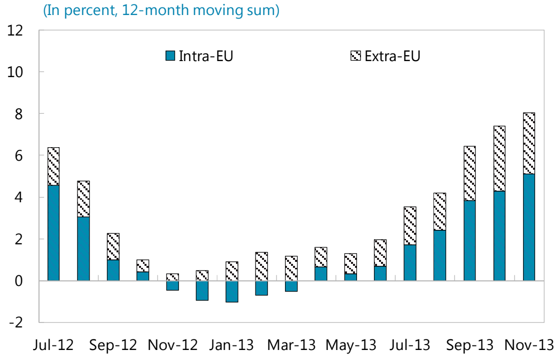
52. **Staff supports the authorities' request for completion of the combined first and second review.** Staff also recommends the waiver of nonobservance of the end-December 2013 performance criterion on the general government budget balance, the setting of performance criteria for end-March and end-June 2014, and approval of the modification of the program conditionality and the rephasing of availability dates for purchases, as proposed in the attached LOI/MEFP.

Box 1. Romania: Recent Current Account Developments

Romania's current account deficit narrowed significantly last year. It fell from 4.4 percent of GDP in 2012 to an estimated 1.1 percent of GDP in 2013, mainly driven by improved trade and services balances.

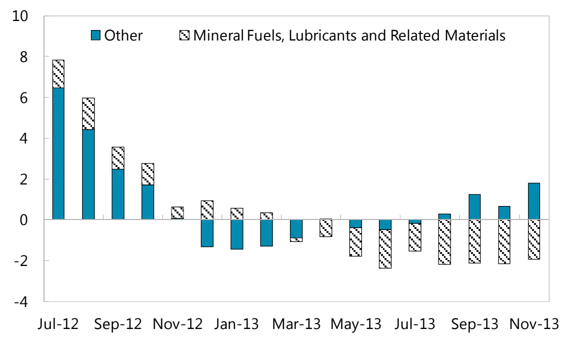
- During January–November 2013, exports to other EU countries increased by 8 percent (yoy), notwithstanding continued weak growth in the EU, while exports to non-EU countries were even stronger, growing at 10 percent. As in previous years, machinery and transportation equipment together with manufacturing accounted for the majority of exports. In the meantime, imports were broadly flat as domestic demand remained weak and energy imports declined.
- The services balance surplus widened to 1.8 percent of GDP after being broadly flat until 2012. Higher exports of goods also increased the demand for services such as transportation. Moreover, part of the improvement reflects methodological advances in the collection of services export data.
- The income balance deteriorated as FDI picked up, while current transfers held up.

Contributions to Export Growth
(In percent, 12-month moving sum)



Source: Haver and IMF staff calculations.

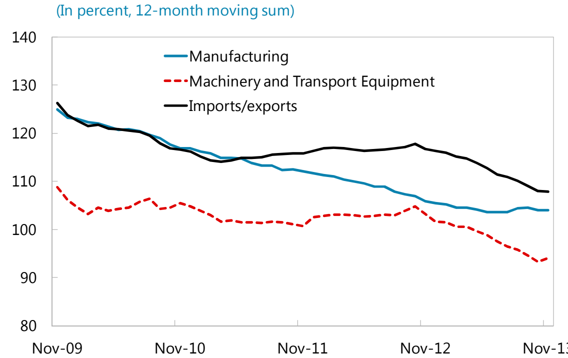
Contributions to Import Growth
(In percent, 12-month moving sum)



Source: Haver and IMF staff calculations.

Some of these developments could lead to a lasting narrowing of the current account deficit. The improvements in the services balance due to the changes in data collection should be permanent but the size of that impact is hard to disentangle from other factors. Also, there is some anecdotal evidence for the reduction in energy imports being more durable as some particularly energy intensive companies have closed down and energy efficiency is increasing. There are also indications that Romania's exports are moving up the value-added chain. For example, in the machinery and transportation equipment sector, accounting for some 40 percent of exports, the ratio of imports to exports has declined noticeably during the last year. These developments could contribute to relatively small current account deficits going forward, even though we expect a small widening in the short run as domestic demand recovers.

Import to Export Ratio
(In percent, 12-month moving sum)

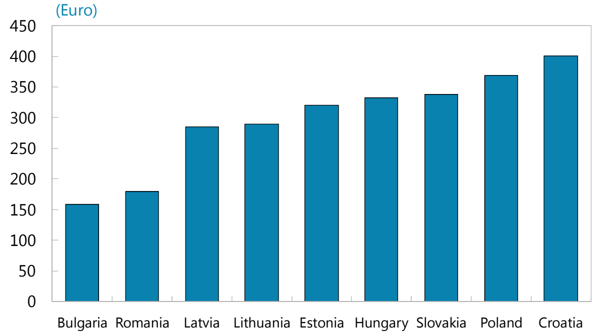


Source: Haver and IMF staff calculations.

Box 2. Romania: Minimum Wage

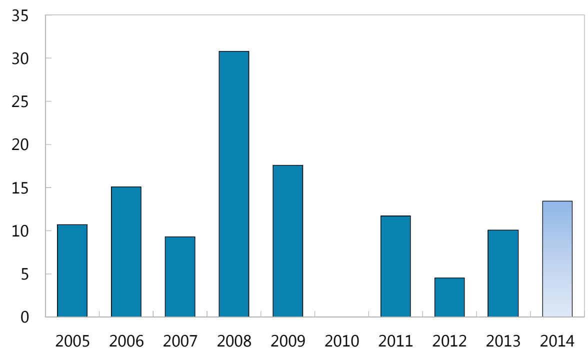
The minimum wage will rise significantly in 2014 but remain low compared to regional peers. An increase to RON900 from the 2013 level of RON800 (about €180) is planned in two steps (RON850 from January 1 which took place and RON900 lei from July 1). Since 2011, the minimum wage would then have increased by 31 percent in nominal and 19 percent in real terms. The current minimum wage is the second lowest in the region, above the level in Bulgaria (€158.5 euro), but around 50 percent lower than in other emerging EU member states, such as Croatia, Poland and Slovakia (while GDP per capita in Romania is around 40 percent below these three countries).

Monthly Minimum Wage in Selected EU Member States
(Euro)



Source: Eurostat.
Last updated: September 27, 2013.

Romania: Average Increase in Minimum Wage
(Percent)



Source: Romania National Commission for Prognosis.

So far minimum wage increases have had a limited impact on overall wage developments and competitiveness. Despite a 10 percent hike in the minimum wage in 2013, average private sector salaries increased only by 3.3 percent for the year. The relatively low share of employees paid at the minimum wage (5 to 12 percent) is one factor behind this. In general, unit labor costs have been broadly flat over the past two years. Going forward, the new minimum wage increase will put pressure on the pay scale. The overall impact on wages and competiveness will depend on the degree of pass-through (to higher salary categories) and productivity growth.

Sharp minimum wage increases could put at risk employment options for low-skilled, short-term and young workers. Given the high youth unemployment rate in Romania (23.2 percent on average in the first nine months of 2013) and the rising proportion of fixed term contracts following the introduction of the Labor Code, higher minimum wages may have negative implications for employment. The unemployment rate rose to an average of 7.3 percent in 2013, compared with 7 percent in 2012.

The fiscal impact of the minimum wage increase is projected to be mixed. On the one hand, higher minimum wages are expected to contribute to higher social security contributions, personal income tax payments, and higher VAT revenue. On the other hand, the public sector wage bill is expected to increase by about RON100 million and the private sector profitability of firms could be affected negatively with implications for corporate income tax collection. However, anecdotal evidence indicates that a higher minimum wage would in many cases merely reduce the unofficial part of the employees' take-home pay.

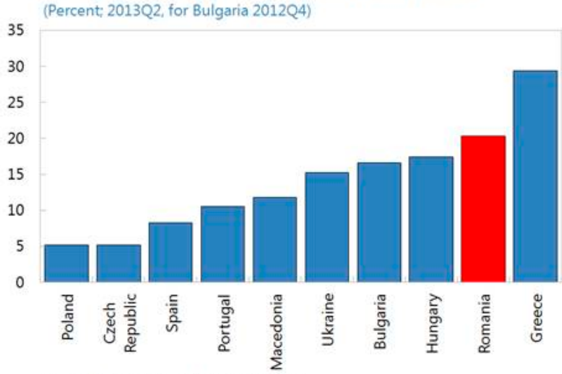
Box 3. Romania: The Nonperforming Loan Problem

NPLs in Romania have reached a historical high and exceed the levels observed in most of its peers. The bulk of problem loans is a legacy of several years of very high credit growth in the pre-crisis period when credit standards were relaxed and external funding fueled FX loans at nominally low interest rates. At the same time, part of the continuous upward trend in the past two years, despite a stable macroeconomic environment, is explained by the low or negative overall credit growth (denominator effect).

Most problem loans are concentrated in the SMEs. They have an average NPL ratio of 26.9 percent versus 21.9 for the system as a whole in December 2013. Households have on average a lower incidence of loan deterioration (13.6 percent NPLs), except for the sub-segment related to credit card debt and debt in foreign currency. The NPL dispersion across economic sectors of corporate borrowers is less marked, though in the past two years companies in agriculture and utilities exhibit a higher tendency to default.

Non-performing Loans to Total Gross Loans

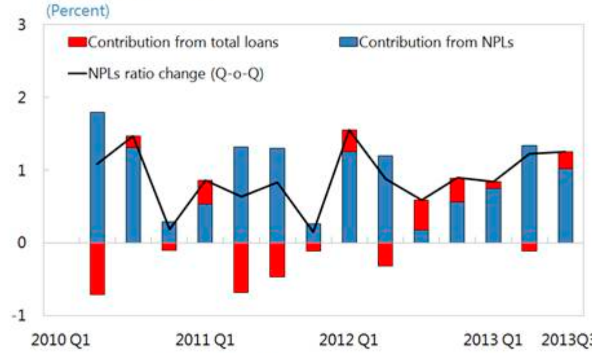
(Percent; 2013Q2, for Bulgaria 2012Q4)



Source: Financial Soundness Indicators.

Romania: Contributions to Changes in the Banking System NPL Ratio

(Percent)



Sources: Financial Soundness Indicators; and IMF staff calculations.

The central bank (NBR) has made important strides to ensure that weak asset quality does not undermine banking sector soundness. Strengthened prudential supervision of loan classification standards as well as collateral valuation, resulted in higher provisioning. The provision coverage includes the prudential filter, a concept implemented at the time of the adoption of IFRS standards.[1] The recent clarification of an accounting matter that created tax liabilities to NPL sales and an NBR plan to support an orderly reduction of fully-provisioned NPLs should help the gradual convergence to more normal levels associated with the business cycle.

Other initiatives also aim to strengthen banks' loan portfolio and stimulate lending. A new guarantee scheme for the NPL-plagued SME sector has been started, where the government shares the credit risk of the loan with the lending bank. While this plan holds some promise, its ultimate success will depend on its adoption by the private sector and the minimization of moral hazard. At the same time, the program that provides housing loans guarantees was switched to domestic currency starting in September 2013, and will gradually help reduce FX risk in the banks' portfolio.

---

[1] Since the previous Romanian provisioning standards were stricter than IFRS, the NBR imposed the prudential filter for the difference, which is charged against own funds for prudential reporting. In line with EU regulatory requirements, starting in 2014 the prudential filter will be phased-out in five equal annual cuts until 2018. This will not have an immediate impact on capital but will increase the lending capacity of banks.

Box 4. Romania: Initial Public Offerings

The authorities have completed two of the five planned initial public offerings (IPO) in key state-owned energy companies (MEFP ¶43):

- Nuclearelectrica (generates about 20 percent of Romania's electricity from nuclear power)—successfully **concluded** an IPO for 10 percent of the government's shares in September 2013;
- Romgaz (produces about 45 percent of Romania's natural gas)—successfully **concluded** an IPO for 15 percent of the government's shares in November 2013;
- Electrica (electricity distribution, supply, and service company)—launch an IPO for the majority of the government's shares by end-May 2014;
- Oltenia (produces about 30 percent of Romania's electricity from coal-fired generators)—launch an IPO for 15 percent of the government's shares by end-June 2014; and
- Hidroelectrica (generates about 25 percent of Romania's electricity from hydro power)—launch an IPO for 15 percent of the shares by end-June 2014. The timing may need to be revisited, following the decision by an Appeals Court in late February to place Hidroelectrica back into insolvency.

Table 1. Romania: Quantitative Program Targets

	2012	2013					2014					
	Dec	June	Sept	Sept	Dec		March		June		Sept	Dec
	Actual	Actual	Prog.	Actual	Prog.	Actual	Indicative	Prog.	Indicative	Prog.	Indicative	Indicative
I. Quantitative Performance Criteria												
1. Floor on the change in net international reserves (mln euros) 1/ 2/	16,344	3,922	3,922	6,326	4,622	7,343	250	-500	0	0	200	500
2. Floor on the general government overall balance (mln lei) 3/	-17,430	-6,629	-9,340	-8,143	-15,300	-15,771	-4,000	-4,539	-6,200	-8,230	-7,209	-14,712
3. Ceiling on the stock of central government and social security arrears (bn lei)	0.027	0.04	0.020	0.018	0.02	0.01995	0.02	0.02	0.02	0.02	0.0175	0.015
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	9.8	10.9	16.0	11.45	16.0	12.1	18.0	18.0	18.0	18.0	18.0	18.0
II. Continuous Performance Criterion												
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation												
6. 12-month rate of inflation in consumer prices												
Outer band (upper limit)	...	...	5.1	...	5.3	...	4.6	3.0	5.0	3.6	5.0	5.5
Inner band (upper limit)	...	...	4.1	...	4.3	...	3.6	2.0	4.0	2.6	4.0	4.5
Actual/Center point	5.0	5.4	3.1	1.9	3.3	1.6	2.6	1.0	3.0	1.6	3.0	3.5
Inner band (lower limit)	...	...	2.1	...	2.3	...	1.6	0.0	2.0	0.6	2.0	2.5
Outer band (lower limit)	...	...	1.1	...	1.3	...	0.6	-1.0	1.0	-0.4	1.0	1.5
IV. Indicative Target												
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei) 3/	134,330	70,412	106,300	105,570	147,509	144,560	36,700	36,500	74,400	73,000	109,000	150,500
8. Floor on operating balance (earnings before interest and tax, net of subsidies and one-off adjustments to income due to financial or accounting operations) of key SOEs (as defined in paragraph 22 of the TMU (bn. lei)) 3/	-3.1	-1.0	-1.6	-1.3	-2.3	-2.2	-0.5	-0.7	-0.8	-0.9	-1.2	-2.1
9. Ceiling on outstanding payments past due of all central-government owned enterprises (as defined in TMU, bn lei) 4/	12.7	8.3	7.5	7.0	5.6	7.2	4.7	5.4	3.7	4.6	3.9	3.4
10. Ceiling on stock of local government arrears (bn lei)	0.84	0.14	0.30	0.24	0.30	0.20	0.30	0.30	0.30	0.25	0.20	0.20
11. Ceiling on stock of net Treasury loans for EU-funded projects (mln lei) 3/	...	1,546	3,000	2,004	3,000	1,852	3,000	4,000	3,000	4,000	4,000	4,000
12. Ceiling on outstanding payments past due of CFR Marfa (as defined in TMU, mln lei)	...	...	...	...	...		...	99.2	...	99.2	99.2	99.2
Memorandum items:												
Central government hospital arrears (bn lei)	...	...	...	0.011	...	0.014	...	...	...	...	...	...
Local government hospital arrears (bn lei)	...	...	...	0.045	...	0.053	...	...	...	...	...	...

1/ The end-December 2012 figure is a stock. Reported at program exchange rates and gold price.

2/ The December 2013 target is adjusted upward by EUR 700 million to reflect the higher than projected program financing due to the drawings under the World Bank DPL-DDO.

3/ Cumulative figure during calendar year (e.g. September 2013 figure is cumulative from January 1, 2013). The September 2013 target is adjusted downward by RON 159 million for higher than programmed spending on national cofinancing of EU funded projects. The December 2013 target is adjusted downward by RON 600 million for higher than programmed spending on national cofinancing of EU funded projects.

4/ Starting end-March 2014, outstanding payments past due accumulated and reported by companies while they are under insolvency procedures are excluded from the target. These past due payments amounted to RON 438 million for end-December 2013.

Table 2. Romania: Performance for First and Second Reviews

	Measure	Target Date	Comments
Prior action			
1.	Provide a report to the IMF on the completion of the actions specified in Section L of the TMU to significantly reduce SOE arrears		
Quantitative performance criteria			
1.	Floor on net international reserves	December 31, 2013	Met
2.	Floor on general government overall balance	December 31, 2013	Not met
3.	Ceiling on central government and social security domestic arrears	December 31, 2013	Met
4.	Ceiling on general government guarantees	December 31, 2013	Met
5.	Non-accumulation of external debt arrears	December 31, 2013	Met
Quantitative Indicative Target			
1.	Ceiling on general government current primary spending	December 31, 2013	Met
2.	Floor on operating balance of key SOEs	December 31, 2013	Met
3.	Ceiling on outstanding payments past due of all central-government owned SOEs	December 31, 2013	Not met
4.	Ceiling on stock of local government arrears	December 31, 2013	Met
5.	Ceiling on stock of net Treasury loans for EU-funded projects	December 31, 2013	Met
Inflation consultation band			
	Inner band	December 31, 2013	Crossed
	Outer band	December 31, 2013	Met
Structural benchmarks			
1.	Start publishing monthly arrears reports and corrective measures being taken by the central and local governments, by unit, on a quarterly basis.	End-September 2013	Met
2.	Prepare the basic health package within the existing spending envelope which will also define the scope of the private sector in the health care system in the future.	End-September 2013	Met with delay
3.	Prepare medium-term financial projections that properly identify the fiscal implications of EU-funded projects, including co-financing needs, financial corrections and non-eligible spending.	Mid-October 2013	Met
4.	Approve, by government memorandum, a list of significant priority projects, based on the prioritization criteria, to help prepare for the 2014 budget.	Mid-October 2013	Met
5.	Launch an initial public offering of 15 percent of the government's shares in Romgaz.	Mid-November 2013	Met
6.	Appoint a professional board in Hidroelectrica in accordance with the provisions of Ordinance 109/2011.	End-November 2013	Met
7.	Approve Covered Bond legislation. 1/	End-December 2013	Not met; propose to reset to end-March
8.	Fully operationalize the commitment control system, supported by necessary legal and procedural changes and cover expenditures of the MoPF and at least one additional unit at both the central and local government levels.	End-January 2014	Not met; propose to reset to end-April
9.	Launch an initial public offering of a majority of the government's shares in Electrica, after the planned capital increase.	End-May 2014	
10.	Make the commitment control system available for operation in all general government entities as a pilot. 2/	End-June 2014	
11.	Launch an initial public offering of 15 percent of the government's shares in Oltenia, prior to the planned capital increase.	End-June 2014	
12.	Launch an initial public offering of 15 percent of shares in Hidroelectrica. 3/	End-June 2014	
13.	Roll out the consolidated fiscal reporting system to all government entities.	End-June 2014	
14.	Resolve possible discrepancies in the fiscal code and IFRS accounting rules on the treatment of NPLs sold to domestic debt management companies in line with the outcome of the pending EC infringement case.	End-December 2014	Met
15.	Prepare and publish consolidated general government accrual based financial statements and ESA95 based reports from the system (the first sets of reports will be for the year ending 2014), and reconcile with each other and with cash-based budget execution reports.	End-June 2015	
New structural benchmarks			
1.	Provide quarterly progress reports on the number of completed audits in the large taxpayers unit and high net wealth individuals unit, and number of installment agreements signed for large taxpayers and medium-size taxpayers to clear tax arrears as well as collection targets based on these actions (see TMU, paragraph 28).	End-March 2014	
2.	Submit to parliament an insolvency code law aimed at better supporting early rescue of viable firms and speedy exit of non-viable firms, prepared in consultation with IMF staff, at a minimum on: pre-insolvency procedures, creditor voting, priority financing, automatic stay, ranking of claims, and notice requirements.	End-April 2014	
3.	Prepare a strategy for the reduction of fully provisioned uncollectible NPLs on commercial banks' balance sheets	End-May 2014	
4.	Prepare a plan that clearly identifies the companies and the actions that will be taken to adhere to the overall path of arrears reduction established under the program.	End-April 2014	
5.	Issue a press release announcing the pilot structural compliance project targeted at undocumented labor and tax evasion.	End-May 2014	

1/ A modification of this benchmark is proposed to specify that the required action is submission of draft legislation to parliament.
2/ A modification of this benchmark is proposed to facilitate monitoring by specifying the required actions.
3/ The content of this benchmark has been modified: the size of the IPO was increased from 10 to 15 percent and the reference to the planned capital increase dropped.

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

	2009	2010	2011	2012	2013		2014
			Est.	Est.	Prog.	Proj.	Proj.
Output and prices			(Annual percentage change)				
Real GDP	-6.6	-1.1	2.2	0.7	2.0	3.5	2.2
Contributions to GDP growth							
Domestic demand	-13.2	-1.2	2.5	1.5	0.4	-0.6	1.5
Net exports	7.0	0.0	-0.5	-0.8	1.6	4.1	0.7
Consumer price index (CPI, average)	5.6	6.1	5.8	3.3	4.5	4.0	2.2
Consumer price index (CPI, end of period)	4.8	8.0	3.1	5.0	3.3	1.6	3.5
Core price index (CPI, end of period)	2.3	4.1	2.4	3.3	2.0	-0.1	2.2
Producer price index (average)	2.5	4.4	7.1	5.4	…	2.3	…
Unemployment rate (average)	6.9	7.3	7.4	7.0	7.1	7.3	7.2
Nominal wages	8.4	2.5	4.9	5.0	5.3	5.0	4.5
Saving and Investment			(In percent of GDP)				
Gross domestic investment	25.4	25.6	26.8	26.0	26.1	23.2	20.5
Gross national savings	21.2	21.2	22.3	21.6	24.1	22.1	19.0
General government finances 1/							
Revenue	31.2	32.2	32.6	32.9	33.4	31.7	32.6
Expenditure	38.5	38.6	36.8	35.4	35.8	34.2	34.8
Fiscal balance 2/	-7.3	-6.4	-4.3	-2.5	-2.3	-2.5	-2.2
External financing	2.6	2.8	2.7	3.3	1.1	2.1	1.3
Domestic financing	4.6	3.6	1.5	-0.8	1.3	1.4	1.1
Privatization proceeds 3/	0.1	0.1	0.0	0.0	…	…	…
Primary balance	-6.1	-5.0	-2.7	-0.7	-0.5	-0.8	-0.5
Structural fiscal balance 4/	-7.9	-5.8	-3.5	-1.8	-1.2	-1.8	-1.3
Gross public debt (direct debt only)	21.7	28.1	32.2	35.8	35.9	36.9	37.5
Gross public debt (including guarantees)	23.8	31.1	34.3	38.2	38.1	39.3	39.7
Money and credit			(Annual percentage change)				
Broad money (M3)	9.0	6.9	6.6	2.7	6.6	8.8	6.5
Credit to private sector	0.9	4.7	6.6	1.3	-1.1	-3.3	1.3
Interest rates, eop 5/			(In percent)				
Euribor, six-months	4.5	1.2	1.6	0.3	…	0.4	0.4
NBR policy rate	8.0	6.25	6.0	5.25	…	4.0	3.5
NBR lending rate (Lombard)	12.0	10.25	10.0	9.25	…	7.0	6.5
Interbank offer rate (1 week)	10.7	3.6	6.0	5.8	…	1.5	4.0
Balance of payments			(In percent of GDP)				
Current account balance	-4.2	-4.4	-4.5	-4.4	-2.0	-1.1	-1.5
Merchandise trade balance	-5.8	-6.1	-5.6	-5.6	-3.9	-2.4	-2.7
Capital and financial account balance	-2.5	1.0	1.6	3.2	4.6	4.5	1.3
Foreign direct investment balance	3.0	1.8	1.4	1.7	1.0	1.8	1.8
International investment position	-62.4	-62.6	-64.2	-68.0	-65.1	-61.4	-62.0
Gross official reserves	26.1	28.9	28.3	26.9	24.3	24.8	21.4
Gross external debt	68.7	74.3	75.1	75.7	71.3	67.5	61.1
Exchange rates 5/							
Lei per euro (end of period)	4.2	4.3	4.3	4.4	…	4.5	4.5
Lei per euro (average)	4.2	4.2	4.2	4.5	…	4.4	4.5
Real effective exchange rate							
CPI based (percentage change)	-7.5	1.9	2.8	-6.1	…	…	…
GDP deflator based (percentage change)	-8.7	1.6	1.3	-5.0	…	5.4	…
Memorandum Items:							
Nominal GDP (in bn RON)	501.1	523.7	557.3	586.7	626.2	631.1	663.9
Potential output growth 6/	2.2	1.9	1.8	2.0	1.3	2.2	2.3
Potential output gap 6/	1.5	-1.5	-1.2	-2.4	-2.3	-1.2	-1.2

Social and Other Indicators

GDP per capita (current EUR, 2012): 6,179; **GDP per capita, PPP** (current international $, 2012): 16,518

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

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

1/ General government finances refer to cash data.

2/ Includes in 2011-12, the National Program for Infrastructure Projects (PNDI), which was cancelled thereafter.

3/ Excludes receipts from planned privatizations under the program.

4/ Fiscal balance (cash basis) adjusted for the automatic effects of the business cycle and one-off effects.

5/ For 2014: Latest available data.

6/ Recalculation of potential GDP growth and output gap since program approval resulted in a narrowing of the output gap in 2013 and prior years.

Table 4. Romania: Medium-Term Macroeconomic Framework, Current Policies, 2009–19

	2009	2010	2011	2012	2013		2014	2015	2016	2017	2018	2019
			Est.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)												
Real GDP	-6.6	-1.1	2.2	0.7	2.0	3.5	2.2	2.5	2.9	3.4	3.5	3.5
Agriculture 1/	-3.3	-5.3	13.3	-22.4	...	24.7	-2.6	2.5	2.9	3.4	3.5	3.5
Non-Agriculture 1/	-7.1	-0.5	1.3	2.7	...	1.8	2.7	2.5	2.9	3.4	3.5	3.5
Real domestic demand	-11.7	-1.1	2.4	1.4	0.4	-1.1	1.5	2.6	3.1	3.5	3.6	3.8
Consumption	-7.4	-1.3	0.9	1.2	0.9	0.3	1.9	2.4	3.0	3.3	3.4	3.5
Investment	-28.1	-1.8	7.3	4.9	0.5	-5.7	2.1	3.4	3.7	4.5	4.6	5.1
Exports	-6.4	13.2	10.3	-3.0	6.6	12.8	5.7	5.9	7.0	8.5	8.6	8.1
Imports	-20.5	11.1	10.0	-0.9	2.3	2.3	4.0	6.1	7.5	8.6	8.9	8.5
Consumer price index (CPI, average)	5.6	6.1	5.8	3.3	4.5	4.0	2.2	3.1	3.0	2.8	2.8	2.7
Consumer price index (CPI, end of period)	4.8	8.0	3.1	5.0	3.3	1.6	3.5	3.1	3.0	2.8	2.8	2.7
Saving and investment (in percent of GDP)												
Gross national saving	21.2	21.2	22.3	21.6	24.1	22.1	19.0	18.7	18.6	18.5	18.5	18.2
Government	-2.0	0.8	3.4	4.0	3.8	3.2	4.0	4.1	4.3	4.8	4.8	4.8
Private	23.2	20.3	18.9	17.6	20.3	18.9	15.0	14.6	14.3	13.7	13.7	13.5
Gross domestic investment	25.4	25.6	26.8	26.0	26.1	23.2	20.5	20.6	20.7	20.8	21.1	21.2
Government	5.2	7.2	7.7	6.5	6.2	5.7	6.2	5.5	5.7	6.1	6.2	6.2
Private	20.1	18.3	19.2	19.5	19.9	17.5	14.2	15.2	15.0	14.6	14.9	15.0
General government (in percent of GDP)												
Revenue	31.2	32.2	32.6	32.9	33.4	31.7	32.6	32.7	32.6	32.4	32.2	32.0
Tax revenue	27.2	26.5	27.9	28.2	28.2	27.5	27.6	27.5	27.4	27.4	27.3	27.2
Non-tax revenue	2.9	3.8	3.3	3.1	3.0	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Grants	1.0	1.8	1.2	1.4	2.0	1.4	2.2	2.4	2.5	2.4	2.3	2.1
Expenditure	38.5	38.6	36.8	35.4	35.8	34.2	34.8	34.0	34.0	33.7	33.6	33.5
Fiscal balance 2/	-7.3	-6.4	-4.3	-2.5	-2.3	-2.5	-2.2	-1.4	-1.4	-1.3	-1.4	-1.5
Structural fiscal balance 3/	-7.9	-5.8	-3.5	-1.8	-1.2	-1.8	-1.3	-0.5	-0.8	-1.1	-1.5	-1.8
Gross general government debt (direct debt only)	21.7	28.1	32.2	35.8	35.9	36.9	37.5	36.9	36.3	35.5	34.9	34.4
Gross general government debt (including guarantees)	23.8	31.1	34.3	38.2	38.1	39.3	39.7	39.0	38.3	37.4	36.7	36.1
Monetary aggregates (annual percent change)												
Broad money (M3)	9.0	6.9	6.6	2.7	6.6	8.8	6.5	6.0	6.5	6.5	6.0	6.0
Credit to private sector	0.9	4.7	6.6	1.3	-1.1	-3.3	1.3	5.2	4.9	6.1	6.6	7.2
Balance of payments (in percent of GDP)												
Current account	-4.2	-4.4	-4.5	-4.4	-2.0	-1.1	-1.5	-1.9	-2.1	-2.3	-2.6	-3.0
Trade balance	-5.8	-6.1	-5.6	-5.6	-3.9	-2.4	-2.7	-3.0	-3.1	-3.2	-3.4	-3.6
Services balance	-0.2	0.3	0.3	0.9	1.4	1.8	1.7	1.6	1.7	1.7	1.7	1.7
Income balance	-1.6	-1.5	-1.7	-2.3	-1.4	-3.1	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2
Transfers balance	3.5	2.9	2.5	2.6	2.0	2.6	2.6	2.5	2.5	2.3	2.3	2.1
Capital and financial account balance	-2.5	1.0	1.6	3.2	4.6	4.5	1.3	1.4	3.2	3.9	3.1	3.3
Foreign direct investment, balance	3.0	1.8	1.4	1.7	1.0	1.8	1.8	1.8	1.9	2.0	2.0	2.0
Memorandum items:												
Gross international reserves (in billions of euros)	30.9	36.0	37.3	35.4	34.1	35.4	31.6	30.0	31.7	34.4	35.4	35.9
Gross international reserves (in months of next year's imports)	7.2	7.2	7.5	7.0	6.5	6.9	5.9	5.2	5.1	5.1	5.1	5.1
International investment position (in percent of GDP)	-62.4	-62.6	-64.2	-68.0	-65.1	-61.4	-62.0	-60.3	-58.2	-56.0	-54.2	-53.0
External debt (in percent of GDP)	68.7	74.3	75.1	75.7	71.3	67.5	61.1	56.1	53.8	50.9	47.5	44.6
Short-term external debt (in percent of GDP)	13.2	15.7	17.3	15.9	15.2	13.6	12.5	11.9	11.3	10.6	10.0	9.4
Terms of trade (merchandise, percent change)	1.1	1.0	2.7	3.2	-0.1	-1.3	-2.4	-0.7	0.1	0.2	-0.2	-0.1
Nominal GDP (in billions of lei)	501.1	523.7	557.3	586.7	626.2	631.1	663.9	699.5	739.6	784.7	832.1	882.8
Output gap (percent of potential GDP)	1.5	-1.5	-1.2	-2.4	-2.3	-1.2	-1.2	-1.2	-0.9	-0.2	0.6	1.4
Potential GDP (percent change)	2.2	1.9	1.8	2.0	1.3	2.2	2.3	2.5	2.6	2.6	2.7	2.6

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

1/ Based on gross value added data from the National Institute of Statistics (NIS) in Romania. Note that there is a small discrepancy between the supply side GDP data from the NIS and the demand side data from Eurostat.

2/ Includes in 2011-12, the National Program for Infrastructure Projects (PNDI), which was cancelled thereafter.

3/ Actual fiscal balance adjusted for the automatic effects related to the business cycle and one-off effects.

Table 5. Romania: Balance of Payments, 2009–15
(In billions of euros, unless otherwise indicated)

	2009	2010	2011	2012	2013		2014		2015	
					Prog.	Est.	Prog.	Proj.	Prog.	Proj.
Current account balance	-4.9	-5.5	-5.9	-5.8	-2.7	-1.5	-3.6	-2.2	-4.1	-3.0
Merchandise trade balance	-6.9	-7.6	-7.4	-7.4	-5.5	-3.4	-6.1	-3.9	-6.4	-4.7
Exports (f.o.b.)	29.1	37.4	45.3	45.1	46.9	49.6	49.4	50.0	52.6	52.0
Imports (f.o.b.)	36.0	44.9	52.7	52.4	52.4	53.0	55.4	54.0	59.0	56.6
Services balance	-0.3	0.4	0.3	1.1	1.9	2.6	1.9	2.5	2.0	2.6
Exports of non-factor services	7.1	6.6	7.3	8.4	9.3	10.3	9.8	10.4	10.4	10.8
Imports of non-factor services	7.4	6.2	6.9	7.3	7.4	7.7	7.9	7.9	8.4	8.3
Income balance	-1.9	-1.9	-2.2	-3.0	-2.0	-4.4	-2.1	-4.5	-2.3	-4.8
Receipts	1.2	0.9	1.3	1.4	1.1	1.3	1.0	1.3	0.9	1.4
Payments	3.1	2.8	3.5	4.4	3.1	5.7	3.1	5.9	3.3	6.2
Current transfer balance	4.1	3.6	3.3	3.4	2.7	3.7	2.7	3.8	2.6	3.9
Capital and financial account balance	-2.9	1.2	2.0	4.1	6.4	6.4	5.5	1.9	4.4	2.2
Capital account balance	0.6	0.2	0.7	1.9	1.9	3.2	1.9	1.9	1.9	1.9
Foreign direct investment balance	3.6	2.2	1.8	2.2	1.4	2.6	2.1	2.6	2.4	2.8
Portfolio investment balance	0.5	0.9	1.6	3.4	4.4	3.9	1.2	0.9	-0.3	0.3
Other investment balance	-7.6	-2.1	-2.1	-3.4	-1.3	-3.2	0.3	-3.5	0.3	-2.7
General government	-2.0	0.1	-0.4	-0.4	-0.1	-0.1	-0.3	-0.7	-0.6	-2.5
Domestic banks	-4.5	1.0	-0.2	-2.2	-1.2	-2.5	0.3	-1.9	0.5	-0.2
Other private sector	-1.0	-3.2	-1.5	-0.7	0.0	-0.7	0.3	-0.9	0.5	0.0
Errors and omissions	-1.0	-0.2	0.4	0.8	-0.4	1.1	0.0	0.0	0.0	0.0
Multilateral financing	2.1	3.7	3.5	1.0	...	0.7	...	0.8	...	0.5
European Commission	1.5	2.2	1.4	0.0	...	...	...	...	...	...
World Bank	0.3	0.0	0.7	0.0	...	0.7	...	0.8	...	0.5
EIB/EBRD/IFC	0.3	1.5	1.4	1.0	...	...	...	...	...	...
Overall balance	-6.7	-0.8	0.0	0.1	3.3	6.8	1.9	0.6	0.3	-0.2
Financing	6.7	0.8	0.0	-0.1	-3.3	-6.8	-1.9	-0.6	-0.3	0.2
Gross international reserves (increase: -)	-1.1	-3.5	-0.9	1.5	1.3	-2.1	2.5	3.8	1.1	1.6
Use of Fund credit, net	6.8	4.3	0.9	-1.6	-4.6	-4.6	-4.4	-4.4	-1.4	-1.4
Purchases 1/	6.8	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	-1.6	-4.6	-4.6	-4.4	-4.4	-1.4	-1.4
Other liabilities, net	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(In percent of GDP)					
Current account balance	-4.2	-4.4	-4.5	-4.4	-2.0	-1.1	-2.5	-1.5	-2.7	-1.9
Foreign direct investment balance	3.0	1.8	1.4	1.7	1.0	1.8	1.5	1.8	1.6	1.8
Merchandise trade balance	-5.8	-6.1	-5.6	-5.6	-3.9	-2.4	-4.2	-2.7	-4.2	-3.0
Exports	24.6	30.0	34.4	34.2	33.4	34.7	34.1	33.9	34.4	33.5
Imports	30.4	36.1	40.1	39.8	37.3	37.1	38.3	36.5	38.5	36.5
Gross external financing requirement	29.8	26.7	29.1	33.9	28.0	31.6	27.6	25.0	23.9	23.0
					(Annual percent change)					
Terms of trade (merchandise)	1.1	1.0	2.7	3.2	-0.1	-1.3	-1.1	-2.4	0.1	-0.7
Export volume	-6.4	13.2	10.3	-3.0	6.6	12.8	6.4	5.7	7.6	5.9
Import volume	-20.5	11.1	10.0	-0.9	2.3	2.3	6.0	4.0	7.5	6.1
Export prices	-7.8	13.5	9.9	2.6	-2.5	-2.5	-1.2	-4.5	-1.1	-1.9
Import prices	-14.4	12.5	6.5	0.5	-2.4	-1.2	-0.1	-2.0	-1.2	-1.2
					(In billions of euros)					
Gross international reserves 2/	30.9	36.0	37.3	35.4	34.1	35.4	31.6	31.6	30.5	30.0
Excluding Fund credit	24.1	24.7	25.3	24.4	28.1	29.5	30.1	30.2	30.4	29.9

Sources: Romanian authorities; and IMF staff estimates and projections.
1/ Includes IMF disbursement to the Treasury of €0.9 billion in 2009 and €1.2 billion in 2010.
2/ Operational definition. Reflects the allocation of SDR 908.8 million that was made available in two tranches in August and September 2009.

Table 6. Romania: Gross External Financing Requirements, 2012–15
(In billions of euros, unless otherwise indicated)

	2012	2013					2014					2015
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
							Proj	Proj	Proj	Proj	Proj.	Proj.
I. Total financing requirements	**44.0**	**8.6**	**8.5**	**9.7**	**10.2**	**37.0**	**6.8**	**7.8**	**5.2**	**8.3**	**28.2**	**28.4**
I.A. Current account deficit	5.8	-0.1	-0.2	0.8	1.0	1.5	0.3	0.5	0.8	0.6	2.2	3.0
I.B. Short-term debt	25.8	5.5	4.8	5.5	5.4	21.2	3.7	4.4	2.8	4.3	15.2	14.1
Public sector	7.5	2.0	1.8	2.2	2.0	8.0	0.8	0.6	0.6	0.6	2.7	2.7
Banks	14.1	2.6	2.1	2.1	2.3	9.0	1.8	2.7	0.9	2.5	7.9	6.7
Corporates	4.2	1.0	0.9	1.1	1.1	4.2	1.1	1.1	1.2	1.2	4.6	4.6
I.C. Maturing medium- and long-term debt	12.1	2.8	3.9	3.6	3.9	14.2	2.3	3.3	1.9	3.4	10.9	11.3
Public sector	2.8	0.4	0.8	1.0	1.4	3.7	0.6	0.9	0.5	0.6	2.6	3.7
Banks	4.9	1.6	2.0	1.5	1.4	6.4	0.7	1.2	0.6	0.8	3.3	3.3
Corporates	4.4	0.9	1.1	1.1	1.1	4.2	0.9	1.2	0.8	2.1	4.9	4.3
I.D. Other net capital outflows 1/	0.3	0.3	0.0	-0.1	-0.2	0.1	0.6	-0.3	-0.2	-0.1	0.0	0.0
II. Total financing sources	**42.3**	**10.8**	**10.2**	**10.8**	**10.1**	**41.9**	**6.2**	**8.2**	**5.1**	**8.4**	**28.0**	**29.1**
II.A. Foreign direct investment, net	2.2	0.4	1.0	0.1	1.1	2.6	0.4	0.6	0.6	1.0	2.6	2.8
II.B. Capital account inflows	1.9	0.3	0.6	1.2	1.1	3.2	0.3	0.5	0.5	0.6	1.9	1.9
II.C. Short-term debt	23.3	4.9	5.6	4.7	5.7	20.9	2.8	4.3	2.7	4.3	14.1	14.1
Public sector	6.7	1.9	1.8	1.7	1.8	7.3	0.8	0.6	0.6	0.6	2.7	2.7
Banks	12.1	1.9	2.7	1.8	2.7	9.0	0.9	2.5	0.8	2.5	6.8	6.7
Corporates	4.5	1.1	1.1	1.2	1.2	4.6	1.1	1.1	1.2	1.2	4.6	4.6
II.D. Medium- and long-term debt	14.9	5.2	3.0	4.8	2.2	15.2	2.7	2.8	1.2	2.5	9.3	10.4
Public sector	6.7	3.7	1.4	2.9	0.8	8.8	1.5	1.0	0.1	0.1	2.8	3.0
Banks	5.1	0.9	0.9	1.1	0.7	3.7	0.5	0.9	0.4	0.6	2.5	3.0
Corporates	3.1	0.6	0.6	0.8	0.7	2.7	0.7	0.9	0.7	1.8	4.1	4.3
Errors and omissions	0.8	-0.3	-0.1	1.1	0.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0
III. Increase in gross international reserves	-1.5	1.0	0.4	1.0	-0.3	2.1	-2.0	-0.6	-1.0	-0.2	-3.8	-1.6
IV. Financing gap	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-0.7**	**-3.9**	**-1.4**	**-1.0**	**-0.9**	**-0.3**	**-3.6**	**-2.4**
V. Program financing	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-0.7**	**-3.9**	**-1.4**	**-1.0**	**-0.9**	**-0.3**	**-3.6**	**-2.4**
IMF	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-1.4	-1.5	-0.9	-0.6	-4.4	-1.4
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-1.4	-1.5	-0.9	-0.6	-4.4	-1.4
European Commission	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5
Others	1.0	...	...	...	0.7	0.7	0.0	0.5	0.0	0.3	0.8	0.5
World Bank	0.0	...	...	...	0.7	0.7	0.0	0.5	0.0	0.3	0.8	0.5
EIB/EBRD/IFC	1.0	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:												
Rollover rates for amortizing debt ST (in percent)												
Public sector	90	97	101	77	92	91	100	100	100	100	100	100
Banks	85	73	132	85	115	100	50	95	95	100	86	100
Corporates	107	115	118	108	103	110	100	100	100	100	100	100
Rollover rates for amortizing debt MLT (in percent)												
Public sector	240	940	176	283	57	240	245	118	23	22	108	80
Banks	104	60	47	74	55	58	70	70	80	80	74	93
Corporates	71	68	56	77	59	65	75	80	85	85	82	100
Rollover rates for total amortizing debt (in percent)												
Public sector	131	236	124	141	77	138	164	110	66	63	104	89
Banks	90	68	90	81	93	83	56	87	89	95	83	98
Corporates	89	92	85	93	81	88	89	90	94	90	91	100
Gross international reserves 2/	35.4	36.4	35.4	36.4	35.4	35.4	...	...	...	...	31.6	30.0
Coverage of gross international reserves												
- Months of imports of GFNS (next year)	7.0	7.1	6.9	7.1	6.9	6.9	...	...	...	...	5.9	5.2
- Short-term external debt (in percent)	93.1	97.0	87.9	95.3	94.7	94.7	...	...	...	...	97.0	105.1

Sources: Romanian authorities; and IMF staff estimates and projections.
1/ Includes portfolio equity, financial derivatives and other investments.
2/ Operational definition.

Table 7a. Romania: General Government Operations, 2009–15 9/
(In percent of GDP)

	2009	2010	2011	2012	2013		2014	2015
					Prog.	Proj.	Proj.	Proj.
Revenue	31.2	32.2	32.6	32.9	33.4	31.7	32.6	32.7
Taxes	27.2	26.5	27.9	28.2	28.2	27.5	27.6	27.5
Corporate income tax	2.7	2.1	2.0	2.0	1.9	1.9	1.9	1.9
Personal income tax	3.7	3.4	3.5	3.6	3.7	3.6	3.6	3.6
VAT	6.8	7.5	8.6	8.6	8.5	8.2	8.2	8.2
Excises	3.1	3.3	3.4	3.5	3.5	3.3	3.5	3.5
Customs duties	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	9.5	8.7	9.1	8.8	8.7	8.6	8.7	8.6
Other taxes	1.2	1.3	1.2	1.7	1.8	1.7	1.5	1.5
Nontax revenue	2.9	3.8	3.3	3.1	3.0	2.7	2.6	2.6
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants, including EU disbursements	1.0	1.8	1.2	1.4	2.0	1.4	2.2	2.4
Expenditure	38.5	38.6	36.8	35.4	35.8	34.2	34.8	34.0
Current expenditure	34.6	35.0	32.8	32.3	32.9	31.5	32.1	32.6
Compensation of employees	9.3	8.2	6.9	7.0	7.4	7.3	7.2	7.1
Goods and services	5.6	5.6	5.7	5.9	6.3	6.1	5.9	5.9
Interest	1.2	1.4	1.6	1.8	1.8	1.7	1.7	1.7
Subsidies	1.4	1.3	1.1	1.0	0.8	0.8	0.9	0.8
Transfers	16.6	18.2	17.1	16.3	16.4	15.4	16.3	16.8
Pensions	8.0	8.0	8.5	8.2	7.9	7.8	7.7	7.7
Other social transfers	4.8	5.1	3.7	3.2	3.2	3.0	3.0	3.0
Other transfers 1/	3.4	4.5	4.3	4.4	4.8	4.1	5.0	5.7
Other spending	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Projects with external credits	0.4	0.3	0.4	0.3	0.2	0.1	0.2	0.2
Capital expenditure 2/	4.4	3.7	4.1	3.3	2.8	2.8	2.6	1.4
Reserve fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and expense refunds	-0.5	-0.1	-0.1	-0.1	0.0	-0.2	0.0	0.0
Fiscal balance 3/	-7.3	-6.4	-4.3	-2.5	-2.3	-2.5	-2.2	-1.4
Primary balance	-6.2	-5.1	-2.8	-0.7	-0.5	-0.8	-0.6	0.3
Idem including EU receivables	…	…	…	-3.0	…	…	…	…
Financing	7.3	6.4	4.3	2.5	2.3	2.5	2.2	1.4
External borrowing (net)	2.6	2.8	2.7	3.3	1.1	2.1	1.3	0.6
Domestic borrowing (net)	5.8	4.0	2.2	0.9	1.3	1.4	1.1	0.8
Use of deposits	-1.2	-0.4	-0.7	-1.7	0.0	-1.1	-0.2	0.0
Privatization proceeds	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities								
Gross general government debt 4/	23.8	31.1	34.3	38.2	38.1	39.3	39.7	39.0
Gross general government debt excl. guarantees	21.7	28.1	32.2	35.8	35.9	36.9	37.5	36.9
External	10.0	12.9	15.3	17.3	17.3	18.2	18.6	18.2
Domestic	11.7	15.2	16.9	18.5	18.6	18.7	18.9	18.7
Memorandum items:								
Total capital spending (excluding PNDI)	5.2	7.2	7.7	6.5	6.2	5.7	6.2	5.5
Fiscal balance (ESA95 basis) 5/	-9.0	-6.8	-5.6	-3.0	-2.4	-2.6	-2.2	-1.4
Structural balance (ESA95 basis) 5/	-9.7	-6.1	-3.9	-2.5	-2.1	-2.1	-1.8	-1.0
Gross general government debt (ESA95 basis)	23.6	30.5	34.7	37.8	38.6	38.6	38.5	38.5
Output gap 6/	1.5	-1.5	-1.2	-2.4	-2.3	-1.2	-1.2	-1.2
Cyclically adjusted balance	-7.9	-5.8	-3.8	-1.7	-1.5	-2.1	-1.8	-0.9
Structural fiscal balance	-7.9	-5.8	-3.5	-1.8	-1.2	-1.8	-1.3	-0.5
Gross general government debt (authorities definition) 8/	29.4	37.1	40.1	41.0	…	42.3	…	…
Nominal GDP (in billions of lei)	501.1	523.7	557.3	586.7	626.2	631.1	663.9	699.5

Sources: Ministry of Public Finance; Eurostat; and IMF staff estimates and projections.

1/ Includes EU-financed capital projects.

2/ Does not include all capital spending.

3/ Includes in 2011-12, the National Program for Infrastructure Projects (PNDI), which was cancelled thereafter.

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

5/ European Commission estimate.

6/ Percentage deviation of actual from potential GDP.

7/ Recalculation of otential GDP growth and output gap since program approval resulted in a narrowing of the output gap in 2013 and prior years.

8/ Includes guarantees and intra-governmental debt.

9/ Unless otherwise noted, the table is on a cash basis following GFSM 86. The general government is composed of the central government, local governments, social security funds, and the road fund company.

Table 7b. Romania: General Government Operations, 2009–15 (concluded)
(In millions of lei)

	2009	2010	2011	2012	2013 Prog.	2013 Proj	2014 Proj	2015 Proj
Revenue	156,373	168,635	181,567	193,148	209,406	200,038	216,159	228,597
Taxes	136,350	138,667	155,710	165,702	176,896	173,489	183,290	192,574
Corporate income tax	13,466	10,969	11,030	11,826	12,135	12,191	12,711	13,393
Personal income tax	18,551	17,957	19,461	20,956	23,159	22,736	24,017	25,306
VAT	34,322	39,246	47,917	50,516	53,175	51,827	54,626	57,557
Excises	15,646	17,312	19,105	20,260	21,843	21,106	23,434	24,692
Customs duties	656	574	674	707	742	620	623	656
Social security contributions	47,829	45,704	50,637	51,658	54,428	54,379	57,784	60,336
Other taxes	5,879	6,905	6,885	9,778	11,413	10,630	10,093	10,635
Nontax revenue	14,487	19,796	18,217	18,328	19,039	17,153	17,392	18,325
Interest Revenue	864	595	718	279	182	182	316	333
Capital revenue	546	685	766	653	687	650	621	654
Grants	5,057	9,494	6,874	8,422	12,785	9,112	14,856	17,044
o/w EU pre-accession funds	2,959	4,054	765	443	631	201	15	176
Financial operations and other	-67	-6	0	43	0	-365	0	0
Expenditure	192,782	202,256	205,277	207,921	224,106	215,810	230,861	238,127
Current expenditure	173,445	183,243	182,709	189,274	206,166	198,957	213,403	228,330
Compensation of employees	46,676	42,839	38,496	40,799	46,153	46,299	47,792	49,938
Goods and services	28,028	29,541	31,643	34,444	39,744	38,580	39,372	41,485
Interest	6,063	7,275	8,883	10,710	11,373	10,749	11,224	11,999
Subsidies	7,215	6,735	6,407	6,122	5,230	5,150	5,754	5,931
Transfers	83,407	95,060	95,172	95,585	102,583	97,310	108,162	117,818
Pensions	39,851	42,107	47,469	48,051	49,511	49,374	51,368	53,965
Other social transfers	24,101	26,505	20,539	18,997	19,865	19,005	20,144	20,766
Other transfers 1/	16,931	23,514	24,049	25,569	30,341	25,712	33,516	39,785
Other spending	2,523	2,933	3,115	2,968	2,866	3,219	3,134	3,302
Projects with external credits	2,056	1,794	2,108	1,614	1,083	869	1,100	1,159
Capital expenditure 2/	21,828	19,441	23,056	19,305	17,734	17,855	17,264	9,690
Reserve fund	0	0	0	0	207	0	194	107
Net lending and expense refunds	-2,490	-428	-488	-657	0	-1,002	0	0
Fiscal balance 3/	-36,409	-33,621	-23,710	-14,774	-14,700	-15,772	-14,702	-9,529
Primary balance	-31,210	-26,941	-15,545	-4,343	-3,509	-5,206	-3,794	2,136
Idem including EU receivables		...	...	-17,431	...	...	...	...
Financing	36,409	33,621	23,710	14,774	14,700	15,772	14,702	9,529
External borrowing (net)	13,144	14,807	15,250	19,271	6,674	13,351	8,490	3,857
Domestic borrowing (net)	29,129	20,841	12,377	5,305	7,976	8,972	7,274	5,622
Use of deposits	-6,129	-2,161	-3,827	-9,916	0	-6,630	-1,113	0
Privatization proceeds	291	289	0	5	50	25	50	50
Discrepancy	-26	-155	-91	109	0	54	0	0
Financial liabilities								
Gross general government debt 4/	119,195	163,022	191,423	224,040	238,690	247,797	263,561	273,040
Gross general government debt excl. guarantees	108,528	147,261	179,639	210,254	224,904	233,063	248,828	258,307
External	49,993	67,717	85,382	101,476	108,149	115,131	123,621	127,478
Domestic	58,535	79,544	94,257	108,778	116,755	117,932	125,207	130,829
Memorandum item:								
Gross general government debt (authorities definition) !	147,329	194,459	223,268	240,843	...	267,250	...	...

Sources: Ministry of Public Finance; Eurostat; and IMF staff estimates and projections.
1/ Includes EU-financed capital projects.
2/ Does not include all capital spending.
3/ Includes in 2011-12, the National Program for Infrastructure Projects (PNDI), which was cancelled thereafter.
4/ Total consolidated public debt, including government debt, local government debt, and guarantees.
5/ Includes guarantees and intra-governmental debt.

Table 8. Romania: Monetary Survey, 2009–15

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

	2009	2010	2011	2012	2013	2014 Proj.				2015
					Prelim.	Mar.	Jun.	Sep.	Dec.	Proj.
					I. Banking System					
Net foreign assets	**17,684**	**19,086**	**15,740**	**30,203**	**60,613**	**63,498**	**66,382**	**69,267**	**72,152**	**72,396**
In millions of euros	4,182	4,454	3,644	6,820	13,516	14,026	15,400	15,394	16,016	16,017
o/w commercial banks	-19,708	-21,086	-21,846	-18,594	-15,963	-14,855	-14,348	-14,192	-14,029	-13,801
Net domestic assets	**171,946**	**183,687**	**200,468**	**191,815**	**180,937**	**178,718**	**178,466**	**179,617**	**185,099**	**200,290**
General government credit, net	26,748	43,140	52,596	49,599	44,769	46,587	48,406	50,225	52,043	57,665
Private sector credit	199,887	209,294	223,037	225,836	218,465	213,927	214,356	215,189	221,353	232,922
Other	-54,688	-68,747	-75,165	-83,621	-82,297	-81,797	-84,297	-85,797	-88,297	-90,297
Broad Money (M3)	**189,630**	**202,773**	**216,208**	**222,018**	**241,550**	**242,216**	**244,848**	**248,884**	**257,251**	**272,686**
Money market instruments	1,617	3,201	4,149	188	296	221	218	281	315	334
Intermediate money (M2)	188,013	199,572	212,059	221,830	241,254	241,994	244,631	248,603	256,936	272,352
Narrow money (M1)	79,361	81,592	85,834	89,020	100,314	101,851	109,669	109,324	104,803	102,132
Currency in circulation	23,968	26,794	30,610	31,477	34,786	36,356	37,206	36,714	35,967	36,218
Overnight deposits	55,394	54,799	55,224	57,543	65,528	65,495	72,463	72,610	68,836	65,914
					II. National Bank of Romania					
Net foreign assets	**101,015**	**109,433**	**110,106**	**112,552**	**132,202**	**129,669**	**133,714**	**133,134**	**135,352**	**134,777**
In millions of euros	23,891	25,540	25,489	25,414	29,479	28,881	29,748	29,586	30,045	29,818
Net domestic assets	**-49,354**	**-54,330**	**-48,541**	**-55,244**	**-63,537**	**-65,137**	**-68,479**	**-66,840**	**-67,738**	**-66,689**
General government credit, net	-13,626	-12,795	-13,564	-24,973	-31,204	-33,509	-34,780	-33,144	-33,811	-36,594
Credit to banks, net	-23,848	-26,148	-19,529	-14,443	-23,266	-22,164	-24,763	-22,774	-23,540	-23,152
Other	-11,880	-15,387	-15,448	-15,828	-9,067	-9,464	-8,936	-10,921	-10,387	-6,942
Reserve money	**51,662**	**55,103**	**61,565**	**57,308**	**68,666**	**64,532**	**65,235**	**66,294**	**67,615**	**68,088**
					(Annual percent change)					
Broad money (M3)	9.0	6.9	6.6	2.7	8.8	7.5	7.5	7.5	6.5	6.0
NFA contribution	2.6	0.7	-1.7	6.7	13.7	9.0	9.4	4.8	4.8	0.1
NDA contribution	6.4	6.2	8.3	-4.0	-4.9	-1.5	-1.9	2.7	1.7	5.9
Reserve money	2.4	6.7	11.7	-6.9	19.8	14.7	17.7	13.7	-1.5	0.7
NFA contribution	-18.4	16.3	1.2	4.0	34.3	20.5	25.3	4.1	4.6	-0.9
NDA contribution	20.8	-9.6	10.5	-10.9	-14.5	-5.7	-7.5	9.6	-6.1	1.6
Domestic credit, real	5.6	3.2	5.9	-4.8	-5.9	-2.7	-1.5	0.6	0.3	3.1
Private sector, real	-3.7	-3.0	3.3	-3.5	-4.8	-5.4	-5.9	-6.4	-2.1	2.1
Public sector, real	268.8	49.4	18.2	-10.2	-11.1	12.1	24.2	48.0	12.3	7.5
Broad money (M3), in real terms	4.0	-1.0	3.4	-2.2	7.1	6.4	5.8	4.3	2.9	2.8
Private credit, nominal	0.9	4.7	6.6	1.3	-3.3	-4.5	-4.4	-3.5	1.3	5.2
Memorandum items:										
CPI inflation, eop	4.8	8.0	3.1	5.0	1.6	1.0	1.6	3.0	3.5	3.1
NBR inflation target band	2.5 - 4.5	2.5 - 4.5	2.0 - 4.0	2.0 - 4.0	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5
Interest rates (percent) 2/										
Policy interest rate	8.0	6.25	6.0	5.25	4.0	3.5	...	...	...	...
Interbank offer rate, 1 week	10.7	3.6	6.0	5.9	1.5	4.0	...	...		
Corporate loans 1/	15.4	9.4	9.7	9.8	...	...	...	...	...	...
Household time deposits 1/	9.9	7.6	6.6	5.6	...	...	...	...	...	...
Share of foreign currency private deposits 2/	39.29	36.13	33.55	36.71	34.5	...	...	...	...	...
Share of foreign currency private loans 2/	60.12	63.04	63.39	62.48	60.9	...	...	...	...	...
M2 velocity	2.67	2.62	2.63	2.65	2.61	2.63	2.64	2.64	2.58	2.57
Money multiplier (M3/reserve money)	3.67	3.68	3.51	3.87	3.52	3.75	3.75	3.75	3.80	4.0
NIR (in billion Euro, at program exchange rates	...	...	...	16.3	23.7	23.2	23.7	23.9	24.2	...

Sources: National Bank of Romania; and IMF staff estimates and projections.
1/ Rates for new local currency denominated transactions.
2/ For interest rates and shares of foreign currency loans and deposits, latest available data.

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

(In percent)

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Mar.	2013 Jun.	2013 Sept.	2013 Dec. Prov.
Core indicators									
Capital adequacy									
Capital to risk-weighted assets	13.8	14.7	15.0	14.9	14.9	15.0	14.7	13.9	15.0
Tier 1 capital to risk-weighted assets (1/)	11.8	13.4	14.2	13.9	13.8	13.9	13.6	13.0	13.7
Asset quality									
Nonperforming loans (2/) to total gross loans	2.7	7.9	11.9	14.3	18.2	19.1	20.3	21.6	21.9
Earnings and profitability									
Return on assets	1.6	0.2	-0.2	-0.2	-0.6	0.5	0.7	0.6	0.1
Return on equity(3/)	17.0	2.9	-1.7	-2.6	-5.9	5.1	6.0	5.0	1.3
Net interest income to operating income	44.8	44.1	60.6	62.0	62.3	58.0	59.2	59.1	58.5
Noninterest expense to operating income (cost to income)	55.7	63.9	64.9	67.8	58.7	55.4	57.3	56.3	56.7
Personnel expense to operating income	23.4	20.3	21.0	21.9	26.0	25.8	26.6	25.8	25.5
Liquidity									
Liquid assets (4/)to total assets	47.1	57.4	60.0	58.7	57.6	58.7	58.3	57.9	56.3
Liquid assets (4/) to short-term liabilities (5/)	230.5	132.0	142.2	151.8	147.7	153.3	155.2	154.8	156.4
Liquid assets (4/) to total attracted and borrowed sources	116.2	79.4	80.9	75.8	76.4	78.2	77.2	77.5	73.5
Foreign exchange risk									
Net open position in foreign exchange, in percent of capital	1.6	2.3	-1.4	-4.7	-1.8	-1.0	-1.1	2.4	2.5
Lending in foreign exchange, in percent of non-gov. credit	57.8	60.1	63.0	63.4	62.5	62.4	62.4	62.1	60.9
Foreign currency liabilities, in percent of total attracted and borrowed sources	43.7	42.8	43.5	44.8	46.3	46.9	47.5	47.6	45.2
Deposits in foreign exchange, in percent of non-gov. dom. deposits	34.8	38.8	36.0	33.5	36.4	36.5	36.2	36.0	34.1
Encouraged indicators									
Deposit-taking institutions									
Leverage ratio (6/)	8.1	7.6	8.1	8.1	8.0	8.2	8.0	7.5	7.7
Personnel expenses to noninterest expenses	41.9	31.8	32.3	32.3	44.3	46.8	46.4	45.8	44.9
Customer deposits to total (non-interbank) loans	81.9	88.7	84.8	84.0	87.3	89.7	90.2	92.1	98.7
Loan to Deposit (LTD) Ratio	122.0	112.8	117.9	119.1	114.5	111.5	110.9	108.6	101.3

Structural indicators (December 2013):

Number of banks : 40; Number of foreign-owned subsidiaries/branches: 25/9; Share of deposits/loans of 5 largest banks: 54.3 percent/52.9 percent

Source: National Bank of Romania.

1/ For 2008-2010, market and operational risk are not used in compiling risk weighted assets.

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

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

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

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

6/ Tier 1 capital to average assets.

Table 10. Romania: Schedule of Reviews and Purchases

Date 1/	Amount of Purchase: Millions of SDRs	Amount of Purchase: Percent of Quota	Conditions
September 27, 2013	194.70	18.9	Approval of arrangement
March 26, 2014	389.40	37.8	First and second reviews and end-December 2013 performance criteria
June 25, 2014	194.70	18.9	Third review and end-March 2014 performance criteria
September 28, 2014	194.70	18.9	Fourth review and end-June 2014 performance criteria
December 17, 2014	194.70	18.9	Fifth review and end-September 2014 performance criteria
March 25, 2015	194.70	18.9	End-December 2014 performance criteria
June 24, 2015	194.70	18.9	Sixth review and end-March 2015 performance criteria
September 21, 2015	193.74	18.8	End-June 2015 performance criteria
Total	1,751.34	170.0	

Source: IMF staff estimates.

1/ The dates starting with March 26, 2014, are proposed modified availability dates.

Table 11. Romania: Indicators of Fund Credit, 2014–19 1/

(In millions of SDR)

	2014	2015	2016	2017	2018	2019
Existing Fund Credit						
Stock 2/	1,328.9	96.1	0.0	0.0	0.0	0.0
Obligations 3/	3,265.0	1,241.9	97.3	1.0	1.0	1.0
Repurchase	3238.9	1232.8	96.1	0.0	0.0	0.0
Charges	26.1	9.2	1.2	1.0	1.0	1.0
Prospective Fund Credit under Stand-By Arrangement						
Disbursement	1,168.2	583.1	0.0	0.0	0.0	0.0
Stock 2/	1,168.2	1,751.3	1,751.3	1,459.3	729.3	145.7
Obligations 3/	10.7	17.9	19.5	311.1	744.5	589.9
Repurchase	0.0	0.0	0.0	292.1	730.0	583.6
Charges	10.7	17.9	19.5	19.0	14.5	6.3
Stock of existing and prospective Fund credit						
In millions of SDR	2,497	1,847	1,751	1,459	729	146
In percent of quota	242	179	170	142	71	14
In percent of GDP	1.9	1.3	1.2	0.9	0.4	0.1
In percent of exports of goods and services	4.7	3.3	2.9	2.2	1.0	0.2
In percent of gross reserves	8.9	6.9	6.1	4.7	2.3	0.4
Obligations to the Fund from existing and prospective Fund arrangements						
In millions of SDR	3,289	1,260	117	312	746	591
In percent of quota	319.3	122.3	11.3	30.3	72.4	57.4
In percent of GDP	2.5	0.9	0.1	0.2	0.4	0.3
In percent of exports of goods and services	6.1	2.2	0.2	0.5	1.0	0.8
In percent of gross reserves	11.7	4.7	0.4	1.0	2.3	1.8

Source: IMF staff estimates.
1/ Using IMF actual disbursements, SDR interest rate as well as exchange rate of SDR/US$ and US$/€ of February 20, 2014.
2/ End of period.
3/ Repayment schedule based on repurchase obligations.

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

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	51.4	68.7	74.3	75.1	75.7			**67.5**	**61.1**	**56.1**	**53.7**	**50.9**	**47.5**	**-3.8**
Change in external debt	4.4	17.3	5.6	0.7	0.6			-8.2	-6.4	-5.0	-2.3	-2.8	-3.4	
Identified external debt-creating flows (4+8+9)	-0.5	11.0	-0.8	-0.9	2.7			-3.2	-1.8	-1.3	-1.3	-1.4	-1.1	
Current account deficit, excluding interest payments	9.2	1.8	2.0	1.8	1.9			-0.3	0.0	0.6	0.9	1.1	1.4	
Deficit in balance of goods and services	13.1	6.1	5.8	5.4	4.7			0.6	0.9	1.4	1.5	1.5	1.7	
Exports	30.2	30.6	35.4	40.0	40.6			41.9	40.9	40.5	41.0	41.6	42.3	
Imports	43.3	36.6	41.1	45.3	45.4			42.5	41.9	41.9	42.5	43.1	44.0	
Net non-debt creating capital inflows (negative)	-6.6	-3.0	-1.8	-1.4	-1.7			-1.8	-1.8	-1.8	-1.9	-2.0	-2.0	
Automatic debt dynamics 1/	-3.1	12.2	-1.0	-1.3	2.4			-1.1	0.0	-0.1	-0.2	-0.5	-0.5	
Contribution from nominal interest rate	2.3	2.4	2.4	2.7	2.5			1.4	1.5	1.4	1.3	1.2	1.1	
Contribution from real GDP growth	-3.1	4.0	0.8	-1.5	-0.5			-2.4	-1.5	-1.4	-1.5	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	-2.3	5.8	-4.2	-2.5	0.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	4.9	6.3	6.4	1.7	-2.0			-5.0	-4.6	-3.7	-1.0	-1.4	-2.3	
External debt-to-exports ratio (in percent)	170.3	224.7	210.2	187.9	186.4			161.0	149.3	138.4	131.2	122.2	112.3	
Gross external financing need (in billions of Euros) 4/	46.5	35.3	33.2	38.2	44.7			45.1	36.9	35.6	32.1	32.1	34.6	
in percent of GDP	33.0	29.8	26.7	29.1	33.9			31.6	25.0	23.0	19.6	18.5	18.8	
Scenario with key variables at their historical averages 5/								**67.5**	**60.8**	**56.0**	**53.9**	**51.5**	**48.5**	**-7.6**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	7.3	-6.6	-1.1	2.2	0.7	3.5	4.7	3.5	2.2	2.5	2.9	3.4	3.5	
GDP deflator in Euros (change in percent)	5.3	-10.1	6.4	3.5	-0.6	7.3	10.2	4.8	1.1	2.4	2.5	2.6	2.7	
Nominal external interest rate (in percent)	5.5	3.9	3.7	3.9	3.3	4.6	0.8	2.0	2.3	2.3	2.4	2.4	2.4	
Growth of exports (Euro terms, in percent)	16.6	-14.9	21.7	19.5	1.8	12.7	11.7	12.0	1.0	3.8	6.6	7.8	8.0	
Growth of imports (Euro terms, in percent)	13.2	-28.9	18.1	16.5	0.2	13.0	16.8	1.7	1.9	4.9	7.0	7.8	8.4	
Current account balance, excluding interest payments	-9.2	-1.8	-2.0	-1.8	-1.9	-5.5	3.6	0.3	0.0	-0.6	-0.9	-1.1	-1.4	
Net non-debt creating capital inflows	6.6	3.0	1.8	1.4	1.7	4.8	2.8	1.8	1.8	1.8	1.9	2.0	2.0	

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

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

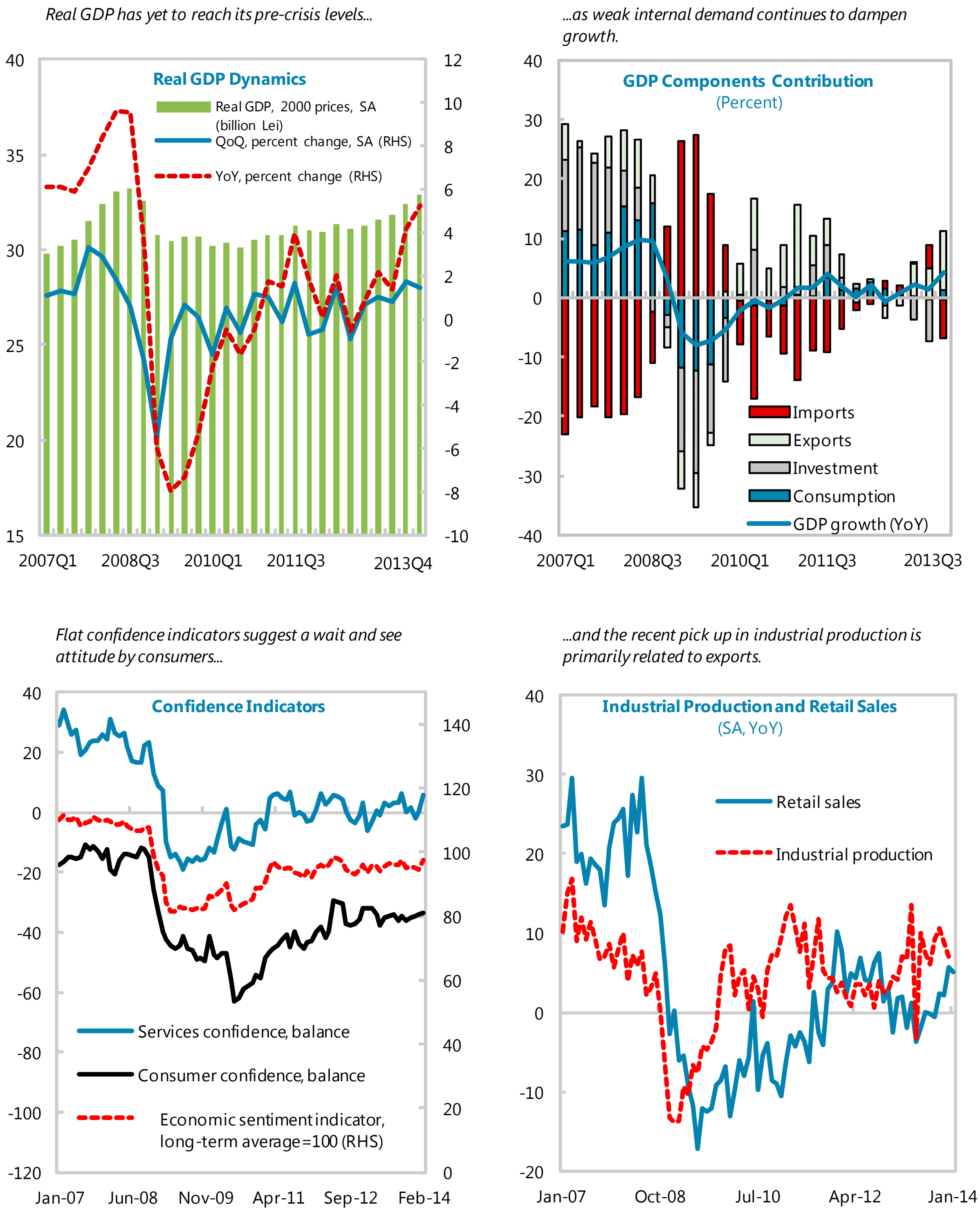
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

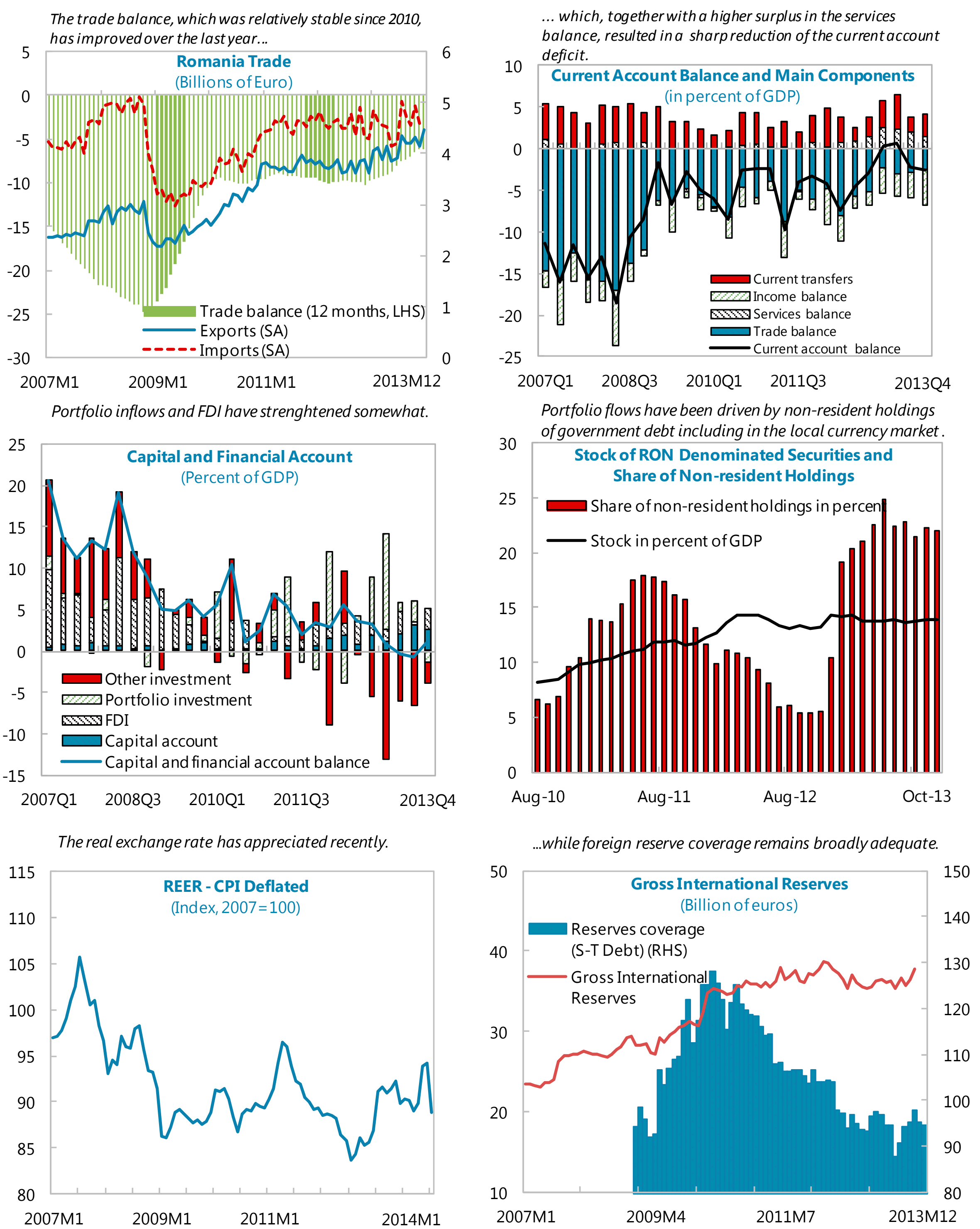
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, Euro deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Romania: Real Sector, 2007–13



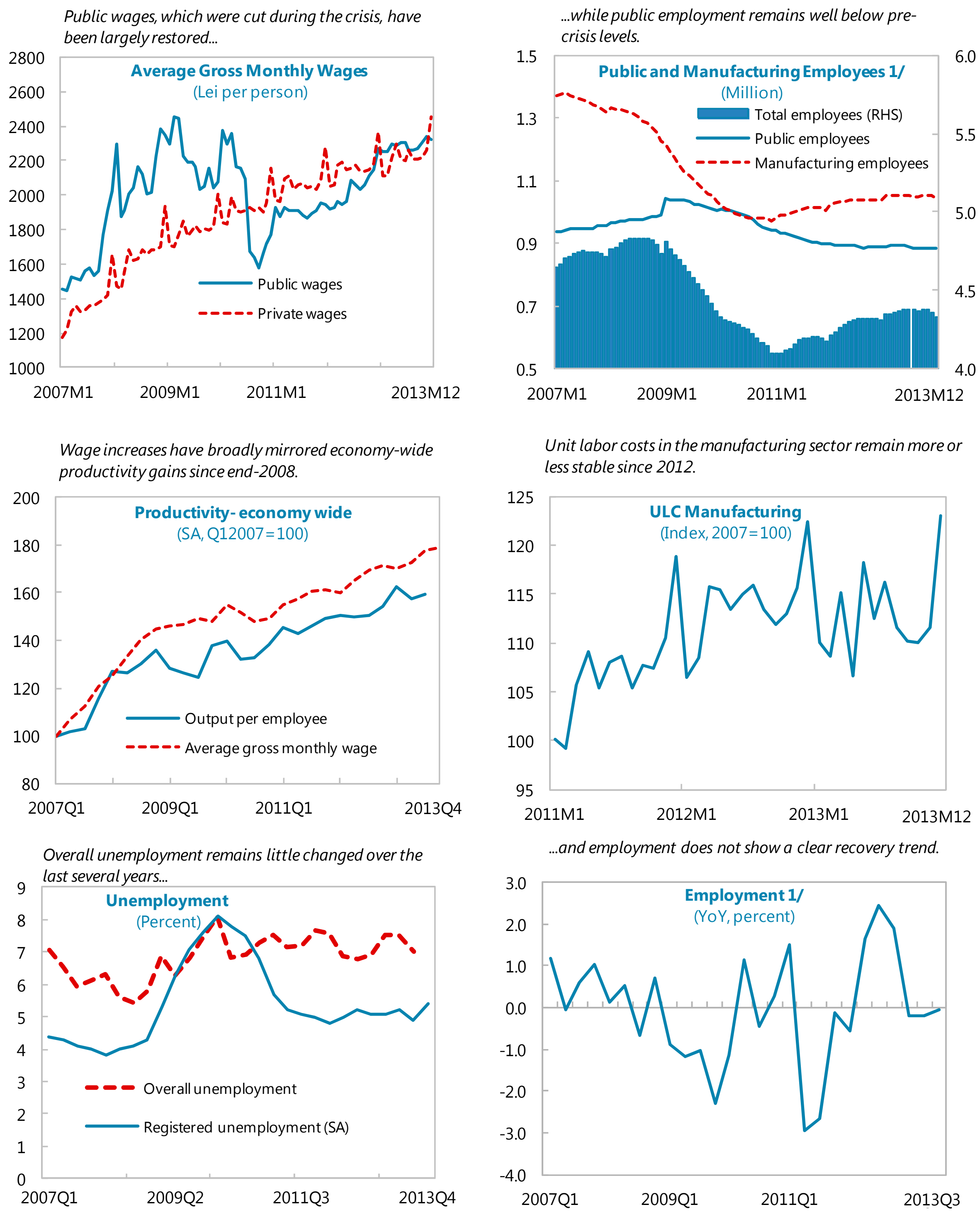
Source: Haver.

Figure 2. Romania: External Sector, 2007–13



Sources: Haver; National Bank of Romania; and IMF staff calculations.

Figure 3. Romania: Labor Market, 2007–13



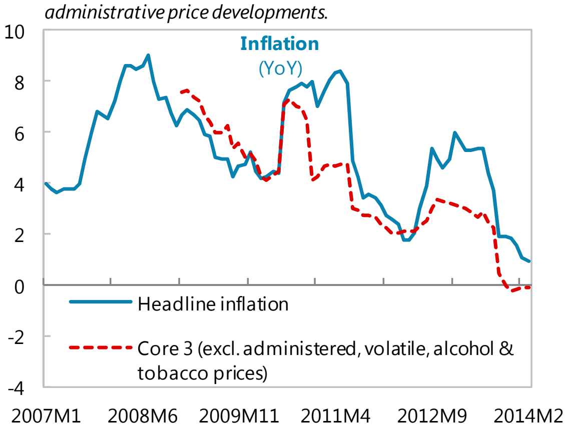
Sources: Eurostat; and Haver.

1/ The indicator "employees" refers to the formal civil sector, while "employment" is a broader concept that also includes the informal market, self-employed and defense.

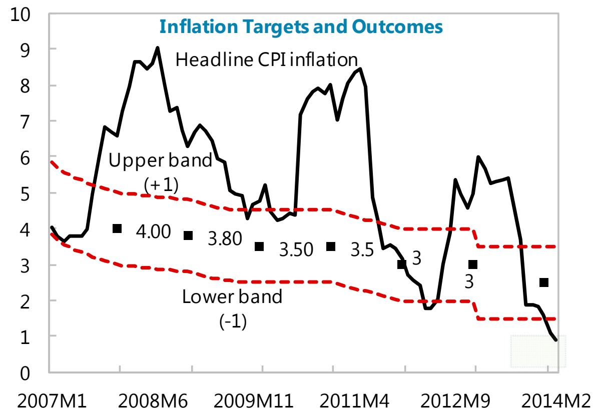
Figure 4. Romania: Monetary Sector, 2007–14

(Percent)

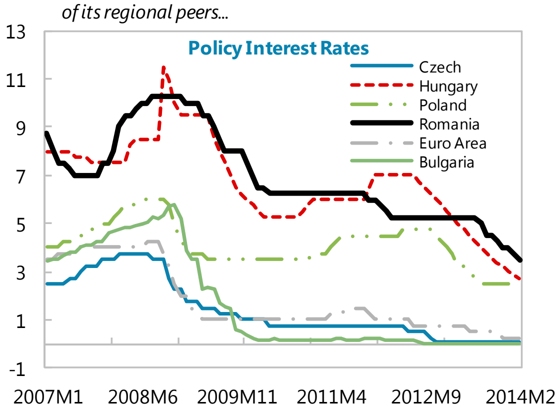
Inflation has started falling largely reflecting food and administrative price developments.



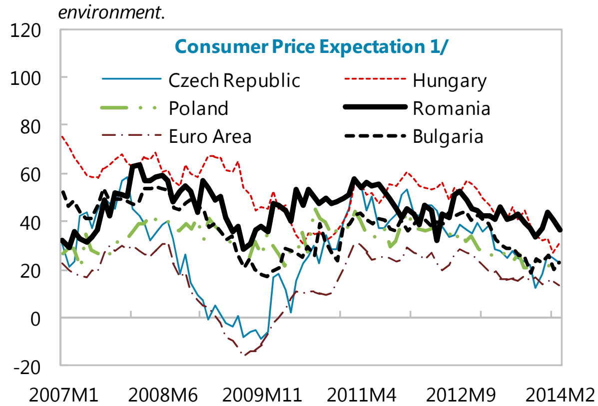
... and headline CPI inflation is now below the target band.



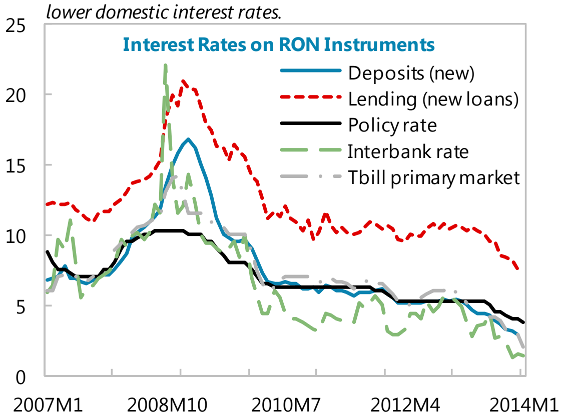
The NBR has resumed the easing cycle later than most of its regional peers...



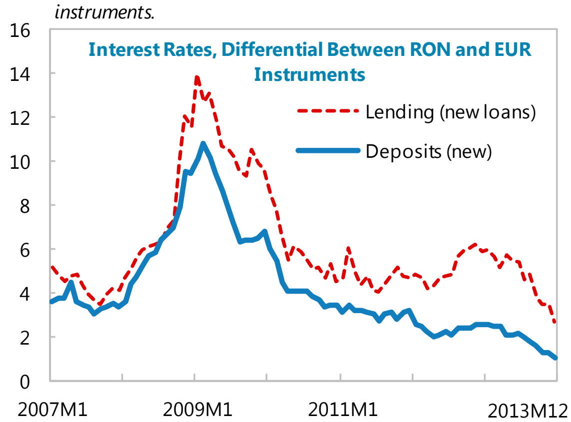
...in an effort to stabilize inflation expectations in a difficult environment.



The recent reduction in the policy rate has translated into lower domestic interest rates.



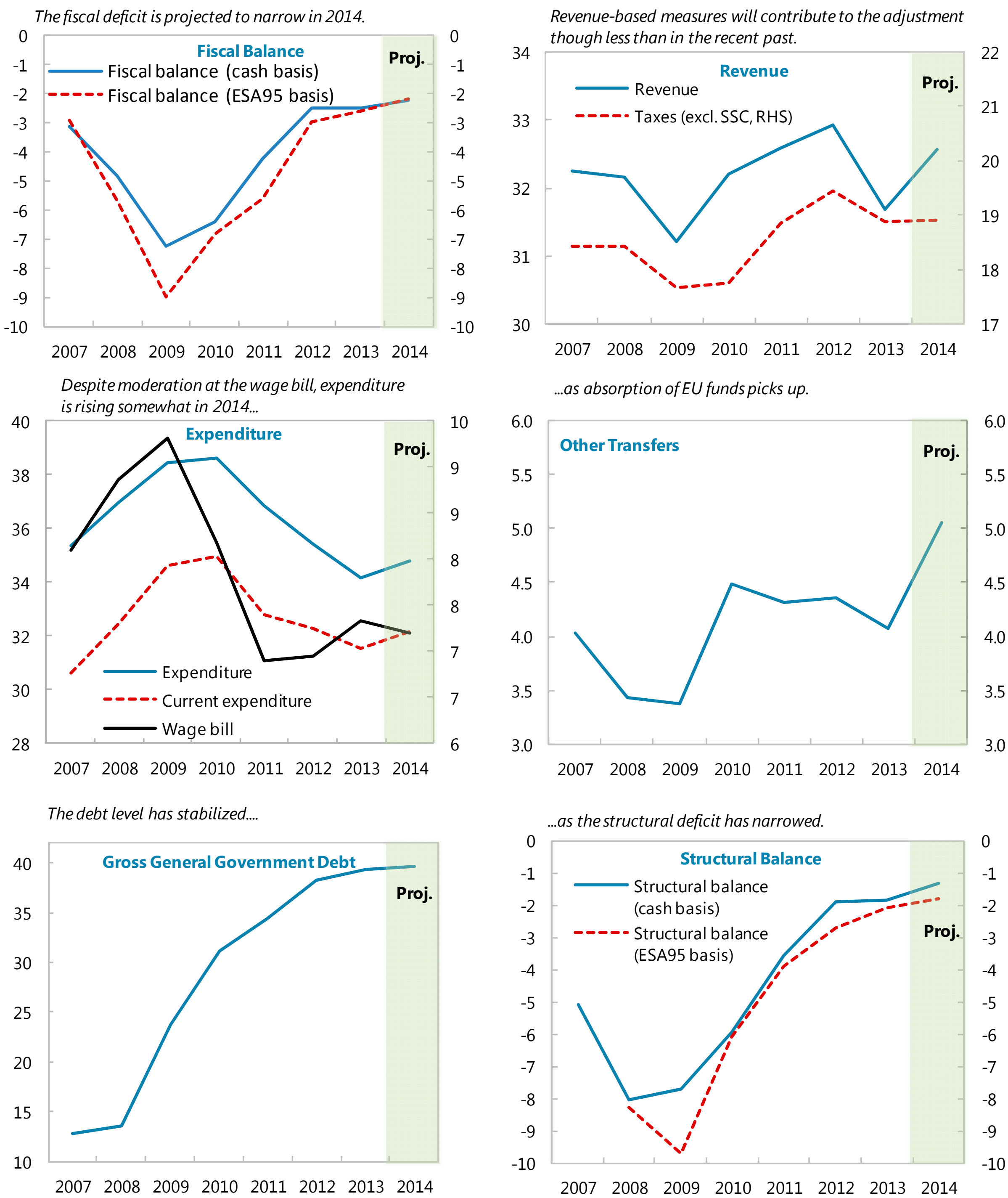
....bringing them closer to the rates on Euro-denominated instruments.



Sources: Haver; National Bank of Romania; Consensus Forecast; and IMF staff estimates.
1/ Value equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease.

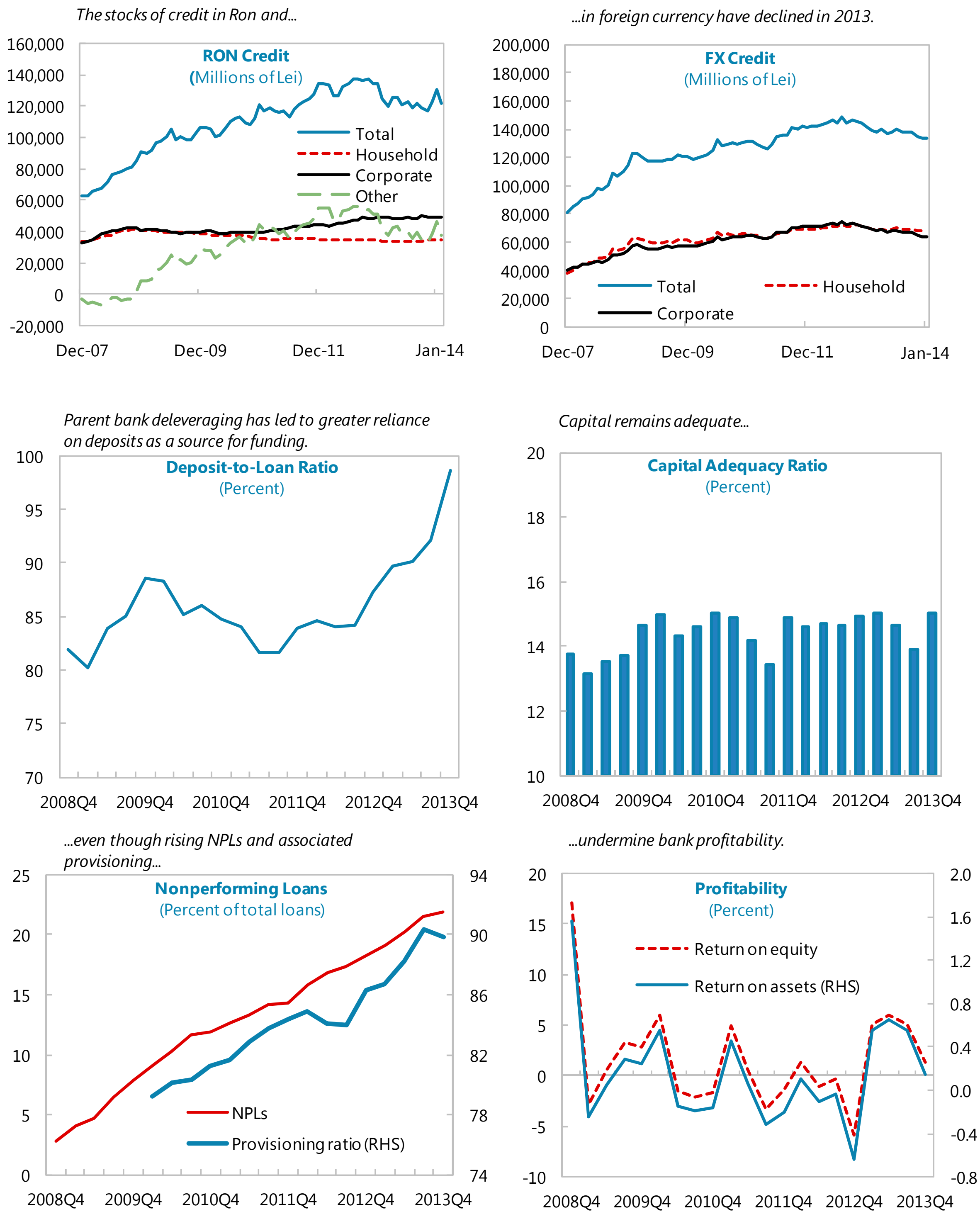
Figure 5. Romania: Fiscal Operations, 2007–14

(Percent of GDP)



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

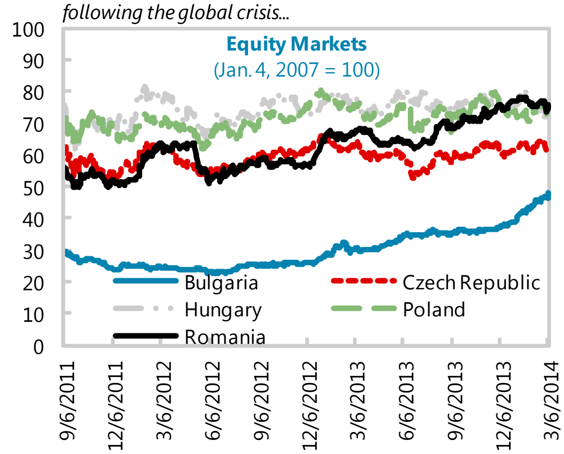
Figure 6. Romania: Financial Sector, 2007–13



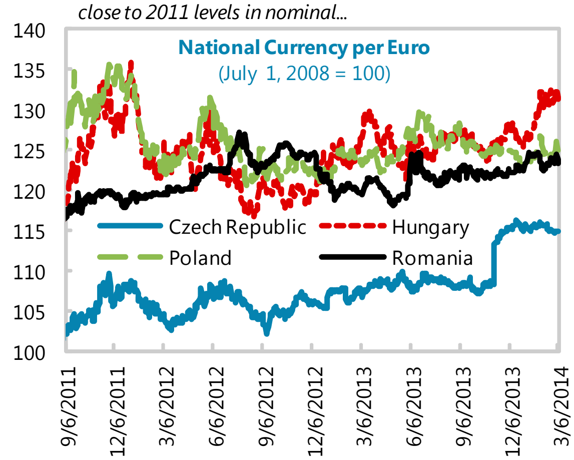
Sources: Dxtime; and National Bank of Romania.

Figure 7. Romania: Financial Developments, 2011–14

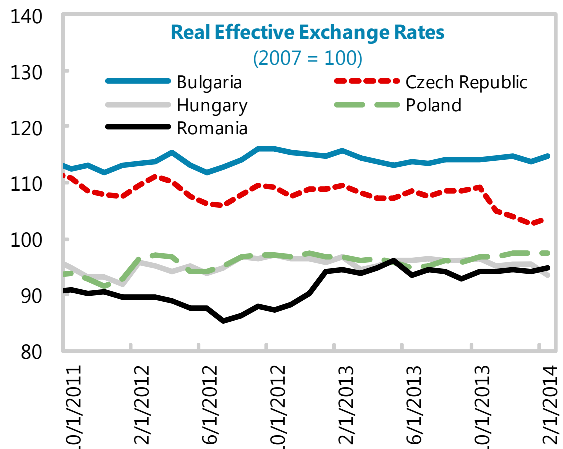
Romania's equity market bounced back somewhat following the global crisis...



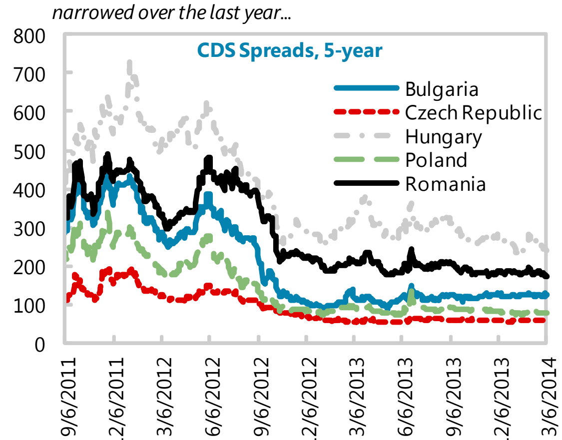
...and the leu appreciation has returned the currency close to 2011 levels in nominal...



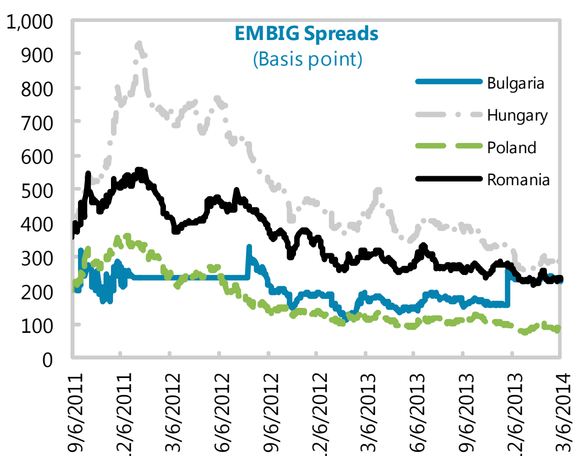
...and real terms.



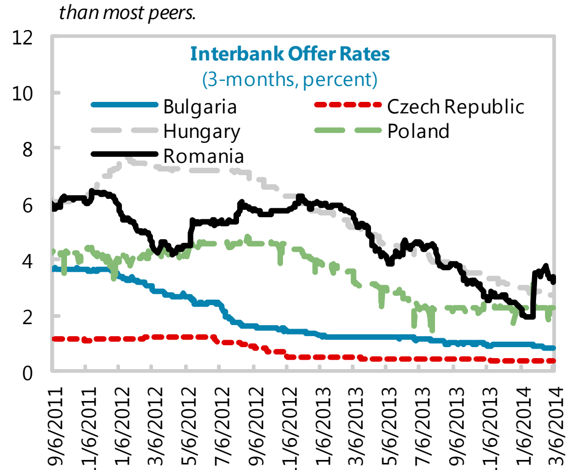
In line with regional trends, Romania's CDS spread has narrowed over the last year...



...together with its EMBIG spread.



Interbank rates have jumped recently and remain higher than most peers.



Sources: Bloomberg; and Haver.

Annex I. Public and External Debt Sustainability Analysis

Romania's public debt is sustainable. The main vulnerability is a projected gross financing need of over 9.5 percent of GDP. The main risks arise from underperformance of GDP growth and a banking sector contingent liability, which could push the public debt ratio to nearly 50 percent of GDP in the DSA scenario. Exchange rate volatility and exposure to international capital outflows are also risks. Risks from contingent liabilities are contained, however, since all outstanding guarantees are already included in public debt and banks are well capitalized with limited exposure to short-term external debt. External vulnerabilities persist due to relatively high external debt and rollover needs, but the projected current account deficits are sustainable.

The macroeconomic and fiscal assumptions underpinning the DSA are those of the medium-term baseline scenario. The output gap is expected to close by 2018 and real GDP growth to reach 3½ percent, more than 3 percentage points below the pre-crisis boom period average. Analysis of real GDP forecasts errors indicates that the size of the output slump during the crisis and the slow recovery were underestimated, an experience shared with many crisis countries. Growth projections proved optimistic in part because domestic demand growth was lower than anticipated. However, should the pace of structural reforms and EU funds absorption accelerate substantially, staff sees upside potential for medium-term growth. Fiscal policy assumes that the authorities reach a cash deficit target of 1.4 percent of GDP in 2015 (-1.0 percent of GDP in ESA terms and equivalent to the medium-term budgetary objective) and maintain it thereafter (primary surplus between 0.1 and 0.3 percent of GDP). This path is in line with the new fiscal rules under the Fiscal Compact, but underlying measures remain to be identified. Considering the risks of adjustment fatigue, a zero primary balance rather than a small surplus is included as a possible scenario in assessing the distribution of debt dynamics in the fan chart.

Public debt is low but relatively high gross financing needs are a vulnerability. Public debt, including guarantees, is estimated at 39.2 percent of GDP for end-2013 and will likely peak in 2014 after another ¾ percentage point increase. Due to relatively low average maturity of 4¾ years, projected gross financing needs in 2014 are about 9.5 percent of GDP. Most of longer-term debt is official financing (about 28 percent of total public debt) while the average maturity of securities is about 2½ years. The authorities have been addressing rollover risks under their debt management strategy with a view to issuing longer-term securities as well as lengthening the yield curve. With external debt accounting for about 49 percent of public debt and about 3 percent of GDP of domestic securities denominated in foreign currency, public debt is also exposed to exchange rate risk. Moreover, due to strong portfolio investment by non-residents over the past 12 months their share in domestic debt securities holdings has surged to more than 20 percent, raising the exposure to shifts in international capital flows.

Overall, public debt is sustainable. The stress test scenarios indicate that the main risk arises from weaker GDP growth, which could push the debt ratio to nearly 50 percent of GDP but still below the 60 percent threshold under the Stability and Growth Pact. The scenario assumes that real output growth rates in 2014–15 are lower by 1 standard deviation which leads to worsening of the fiscal position and debt levels. In the baseline scenario, continued fiscal adjustment would ensure debt sustainability. Barring unexpected events, potential contingent liabilities of the government would also be limited. SOE debt stands at 6.3 percent of GDP (including SOEs under insolvency procedures or in liquidation). The 2010 pension reform has also helped mitigate the impact of demographic pressures on fiscal sustainability. A banking sector contingent liability shock involving a one-time bailout that increases non-interest expenditure by 10 percent of banking sector assets would increase debt to 45.5 percent of GDP in 2014, which would also be the peak under this shock. Despite remaining vulnerabilities of the banking system, including due to a large share of foreign currency denominated loans and high rollover needs, downside risks are contained as banks are generally well capitalized and their short-term external liabilities are below 4 percent of GDP.

The external debt sustainability analysis indicates that the projected current account deficits are sustainable. Gross external debt was around 68 percent of GDP at end-2013, about one-third of which was public debt. Around one-fifth of external debt is at short-term maturities, mainly of the non-bank private sector. The projected medium-term current account deficit of 3 percent of GDP is in line with a declining external debt-to-GDP ratio. Bound tests indicate that 30 percent depreciation would substantially increase the external debt-to-GDP ratio over the medium term, while other standard shocks would only lead to a slower decline in the external debt-to-GDP ratio.

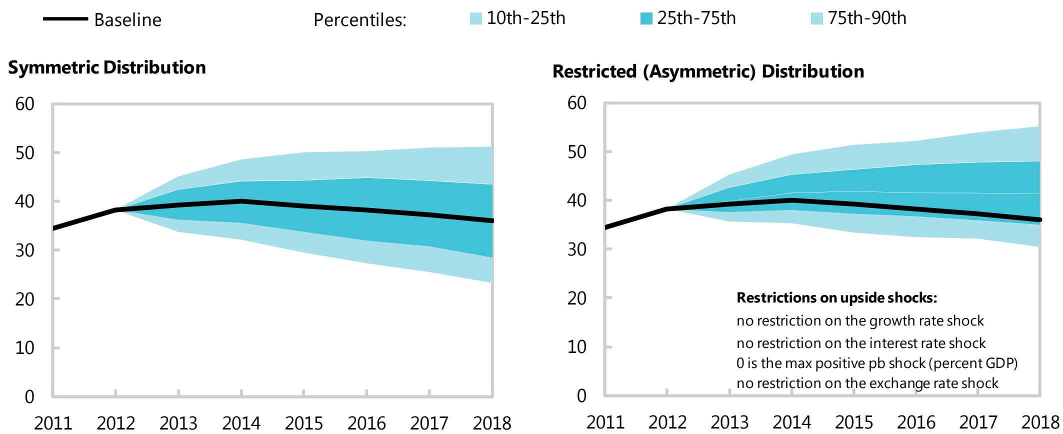
Romania Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

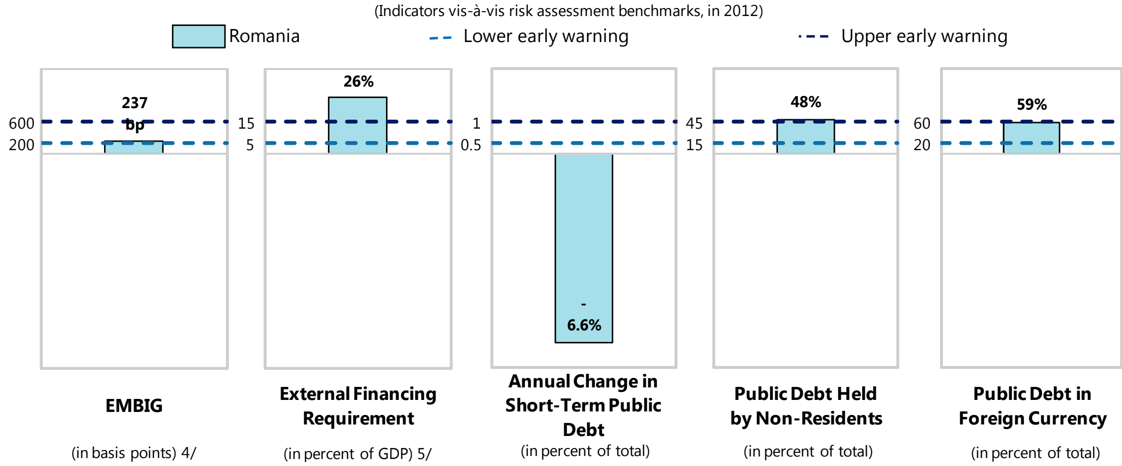
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2012)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

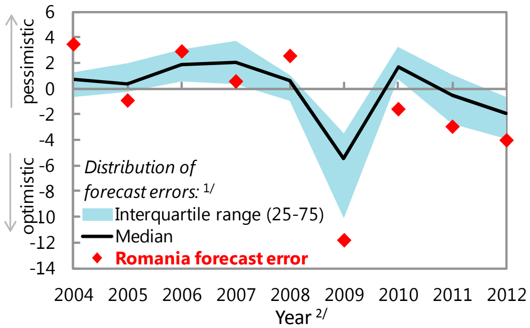
4/ EMBIG, an average over the last 3 months, 04-Dec-13 through 04-Mar-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

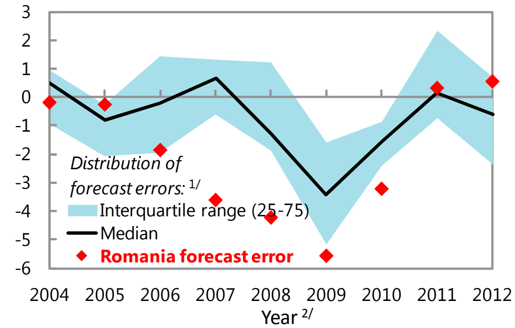
Romania Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus program countries

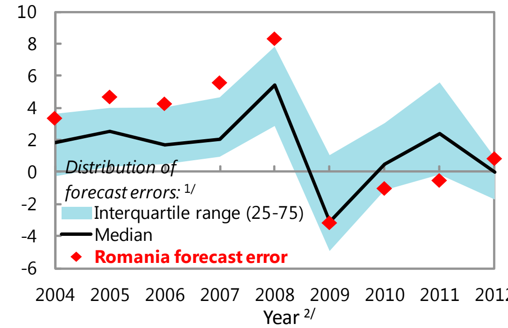
Real GDP Growth
(in percent, actual-projection)
Romania median forecast error, 2004-2012: **-0.93**
Has a percentile rank of: **18%**



Primary Balance
(in percent of GDP, actual-projection)
Romania median forecast error, 2004-2012: **-1.86**
Has a percentile rank of: **14%**

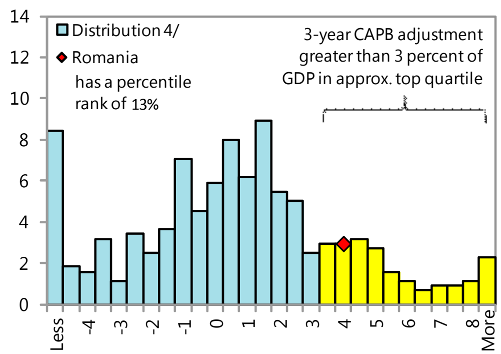


Inflation (Deflator)
(in percent, actual-projection)
Romania median forecast error, 2004-2012: **3.35**
Has a percentile rank of: **73%**

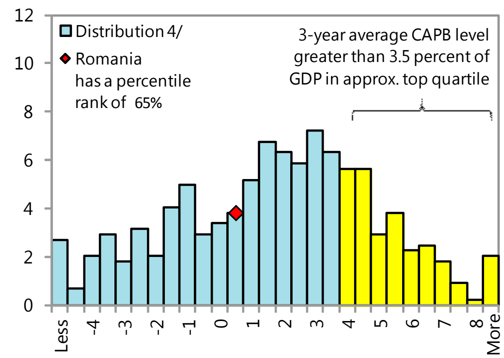


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

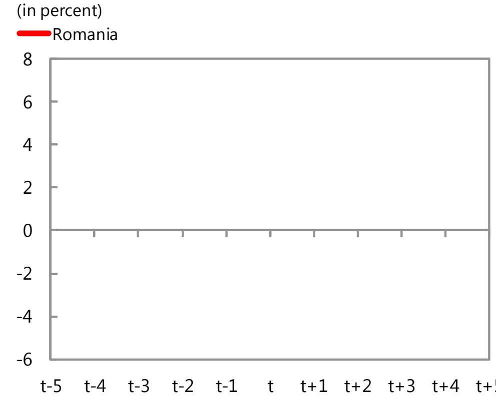


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Romania.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Romania Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

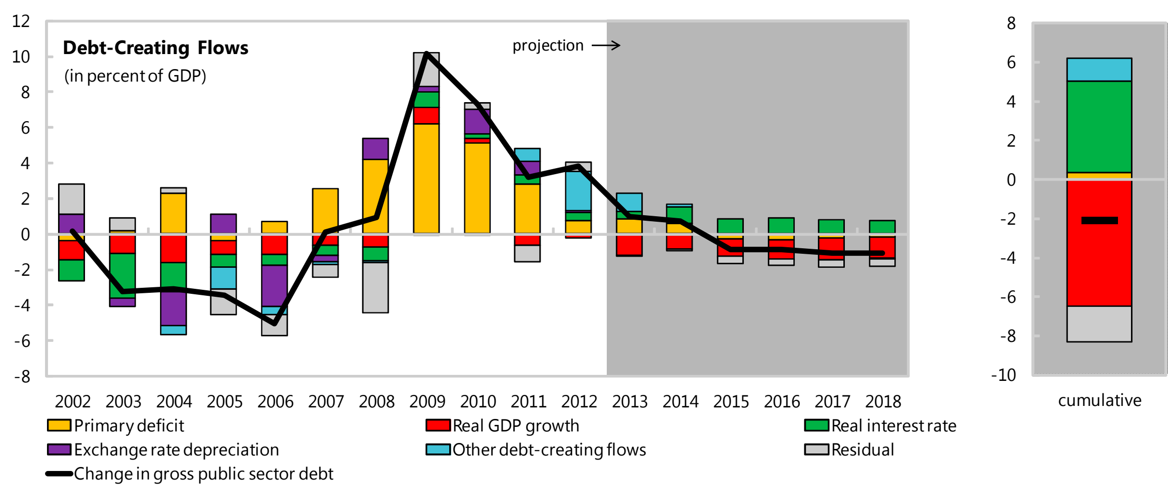
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	20.5	34.3	38.2	39.2	40.0	39.1	38.2	37.2	36.1
Of which: guarantees	3.7	2.1	2.3	2.2	2.1	2.0	1.9	1.8	1.7
Public gross financing needs	10.3	13.0	11.6	11.8	9.4	8.6	7.9	6.7	7.3
Real GDP growth (in percent)	4.1	2.2	0.7	3.5	2.2	2.5	2.9	3.4	3.5
Inflation (GDP deflator, in percent)	13.7	4.2	4.5	4.0	2.9	2.8	2.8	2.6	2.5
Nominal GDP growth (in percent)	18.5	6.4	5.3	7.6	5.2	5.4	5.7	6.1	6.0
Effective interest rate (in percent) [4/]	10.0	6.0	6.0	5.2	5.5	5.1	5.3	5.0	4.7

As of March 04, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		240
5Y CDS (bp)		172
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BB+	BB+
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.4	3.2	3.8	1.0	0.8	-0.8	-0.9	-1.1	-1.1	-2.1	
Identified debt-creating flows	0.6	4.2	3.3	1.0	0.9	-0.4	-0.5	-0.6	-0.6	-0.3	
Primary deficit	2.3	2.8	0.7	0.8	0.6	-0.3	-0.3	-0.2	-0.2	0.3	-0.5
Primary (noninterest) revenue and grants	31.0	32.4	32.9	31.7	32.5	32.6	32.6	32.4	32.1	193.9	
Primary (noninterest) expenditure	33.2	35.2	33.6	32.5	33.1	32.3	32.3	32.1	32.0	194.2	
Automatic debt dynamics [5/]	-1.4	0.7	0.3	-0.8	0.1	-0.1	-0.2	-0.4	-0.5	-1.8	
Interest rate/growth differential [6/]	-1.4	-0.1	0.2	-0.8	0.1	-0.1	-0.2	-0.4	-0.5	-1.8	
Of which: real interest rate	-0.8	0.5	0.5	0.4	1.0	0.8	0.9	0.8	0.8	4.7	
Of which: real GDP growth	-0.7	-0.6	-0.2	-1.2	-0.8	-0.9	-1.1	-1.2	-1.2	-6.5	
Exchange rate depreciation [7/]	0.0	0.8	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.3	0.7	2.2	1.0	0.2	0.0	0.0	0.0	0.0	1.2	
Privatization receipts (negative)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Increase in deposits	0.0	0.7	2.2	1.1	0.2	0.0	0.0	0.0	0.0	1.2	
Residual, including asset changes [8/]	-0.1	-1.0	0.5	0.0	-0.1	-0.4	-0.4	-0.4	-0.4	-1.8	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as .

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

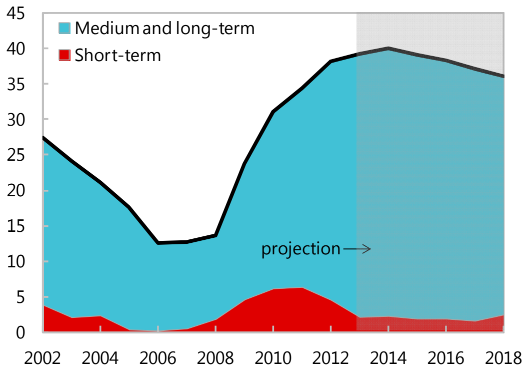
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Romania Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

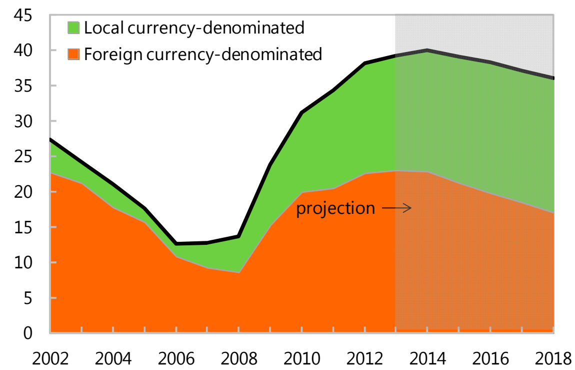
By Maturity

(in percent of GDP)



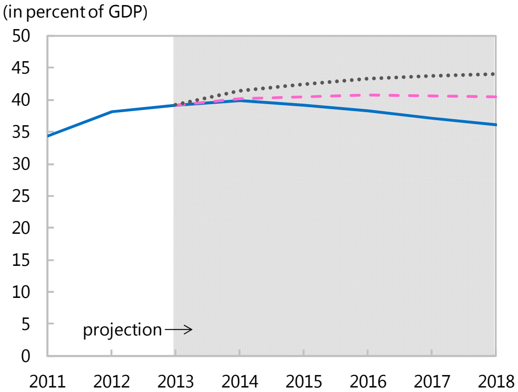
By Currency

(in percent of GDP)



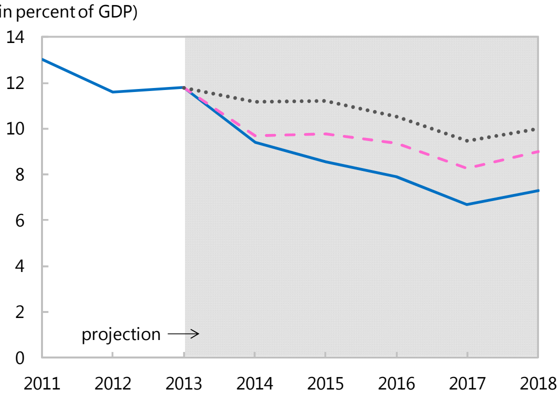
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary Balance	-0.8	-0.6	0.3	0.3	0.2	0.2
Effective interest rate	5.2	5.5	5.1	5.3	5.0	4.7
Constant Primary Balance Scenario						
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary Balance	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	5.2	5.5	5.1	5.2	4.9	4.7

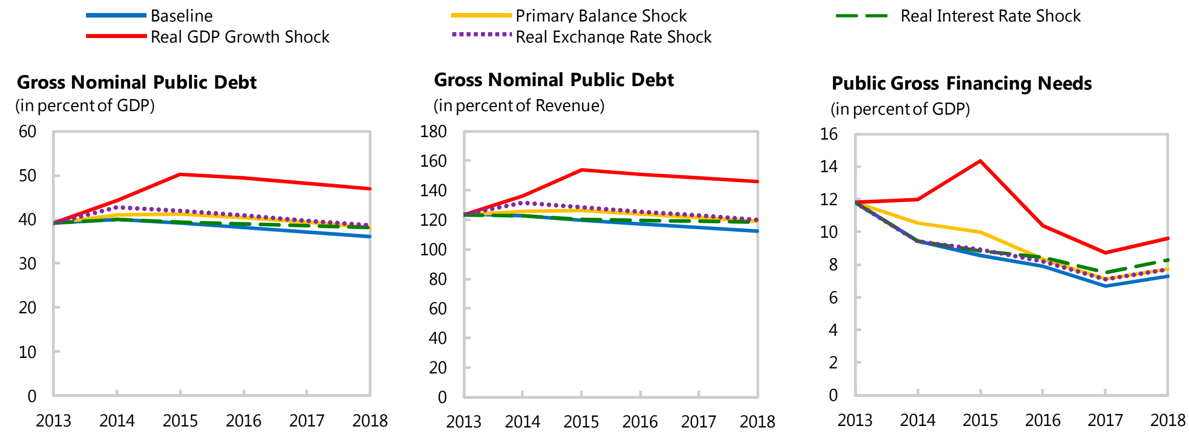
Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	3.5	3.5	3.5	3.5	3.5	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary Balance	-0.8	-2.4	-2.4	-2.4	-2.4	-2.4
Effective interest rate 1/	5.2	5.5	3.9	3.3	2.3	1.8

1/ Declining effective interest rate reflects negative historical real interest rates in Romania during the reference period.

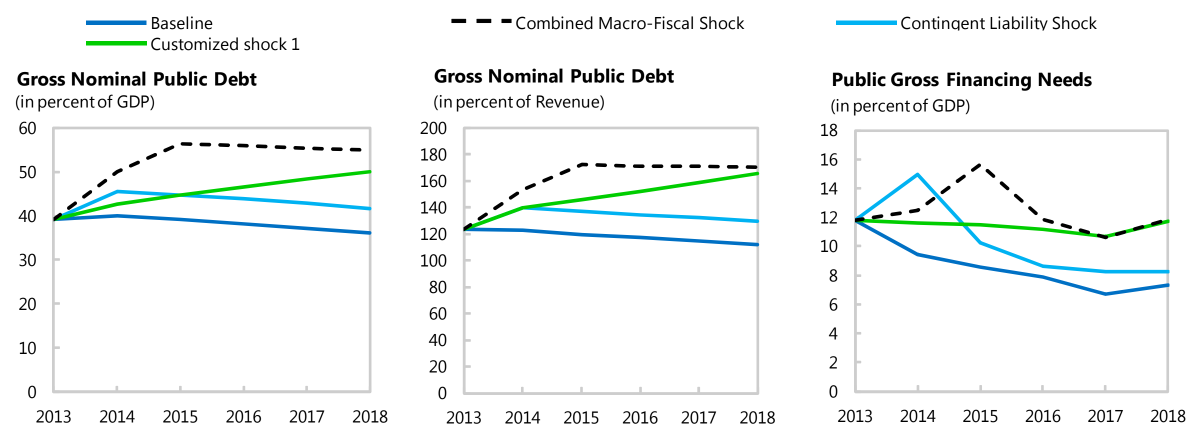
Source: IMF staff.

Romania Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

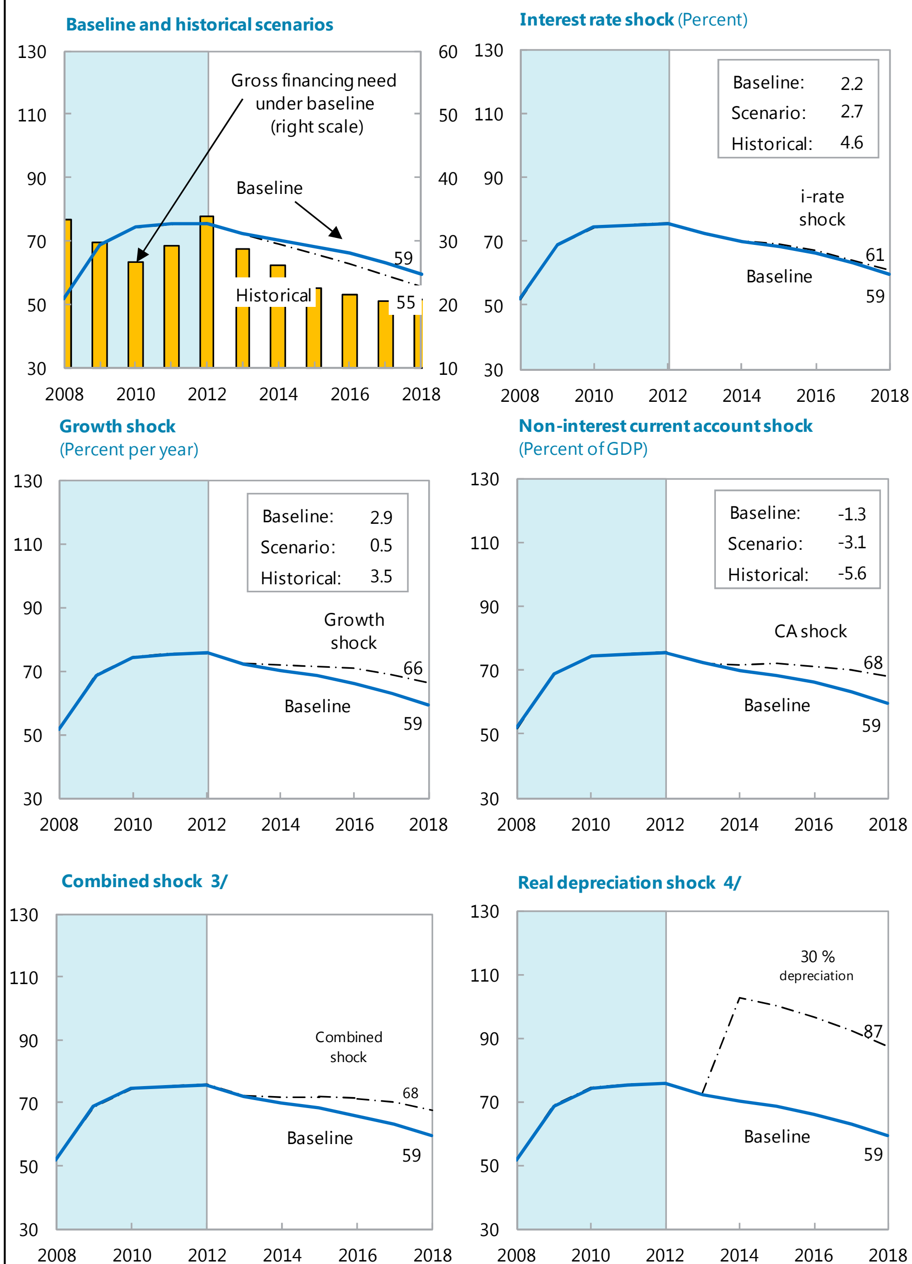
(in percent)

	2013	2014	2015	2016	2017	2018
Primary Balance Shock						
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary balance	-0.8	-1.7	-0.8	0.3	0.2	0.2
Effective interest rate	5.2	5.5	5.1	5.3	5.0	4.8
Real Interest Rate Shock						
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary balance	-0.8	-0.6	0.3	0.3	0.2	0.2
Effective interest rate	5.2	5.5	5.8	6.6	6.8	6.8
Combined Shock						
Real GDP growth	3.5	-2.5	-2.3	2.9	3.4	3.5
Inflation	4.0	1.7	1.6	2.8	2.6	2.5
Primary balance	-0.8	-2.6	-3.8	0.3	0.2	0.2
Effective interest rate	5.2	6.1	5.7	6.5	6.7	6.7

	2013	2014	2015	2016	2017	2018
Real GDP Growth Shock						
Real GDP growth	3.5	-2.5	-2.3	2.9	3.4	3.5
Inflation	4.0	1.7	1.6	2.8	2.6	2.5
Primary balance	-0.8	-2.6	-3.8	0.3	0.2	0.2
Effective interest rate	5.2	5.5	5.1	5.5	5.2	4.9
Real Exchange Rate Shock						
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	8.7	2.8	2.8	2.6	2.5
Primary balance	-0.8	-0.6	0.3	0.3	0.2	0.2
Effective interest rate	5.2	6.1	4.9	5.2	4.9	4.7
Contingent Liability Shock						
Real GDP growth	3.5	2.2	2.5	2.9	3.4	3.5
Inflation	4.0	2.9	2.8	2.8	2.6	2.5
Primary balance	-0.8	-5.8	0.3	0.3	0.2	0.2
Effective interest rate	5.2	6.3	5.3	5.5	5.2	4.9

Source: IMF staff.

Romania: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013.

Appendix I. Romania: Letter of Intent

Bucharest, March 5, 2014

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

Dear Mme. Lagarde:

1. 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). We met four out of five quantitative performance criteria and made good progress on structural reforms. In particular, we launched initial public offerings (IPOs) of shares in two state-owned energy companies, Romgaz and Nuclearelectrica, and the energy regulator implemented the next steps of the energy price liberalization roadmaps as planned. We accelerated our absorption of EU funds, which is particularly important since domestic demand has been weaker than expected. For 2014, we remain committed to gradually reduce the fiscal deficit but slightly moderate the adjustment path to facilitate greater absorption of EU funds with a view to enhancing the economy's growth potential.

2. Our performance on the quantitative targets and the structural reform agenda for the first and second reviews has been good (Tables 1 and 2).

- *Quantitative performance criteria and indicative targets*. Four of the five end-December 2013 quantitative performance criteria and four out of five indicative targets were observed. The performance criterion on the general government overall balance, set at the time of program approval, was missed by a small margin, largely due to higher spending on EU co-financing. We have adopted a budget for 2014 that provides for a continued gradual consolidation. The indicative target on outstanding payments past due of all central-government owned SOEs, however, was missed by a substantial margin. Corrective actions are being taken to achieve the arrears objective of the program, as described in the attached Memorandum of Economic and Financial Policies (MEFP). Inflation fell below the inner band of the inflation consultation mechanism and discussions were held with IMF staff, as required under the program.

- *Structural benchmarks*. We have made good progress on achieving the program's structural benchmarks. We successfully launched an IPO of 15 percent of the government's shares in Romgaz. We started to publish monthly arrears reports by the central and local governments, by administrative unit. We also prepared medium-term financial projections that properly identify the fiscal implications of EU-funded projects, including co-financing needs, financial corrections and non-eligible spending. We approved, by government memorandum, a list of significant priority projects, based on the prioritization criteria, to help prepare for the 2014 budget. The structural benchmark on appointing a professional board in Hidroelectrica in accordance with the provisions of Ordinance 109/2011 was met. We finalized the design and costing of our basic health care package, delineating the options for private sector involvement. The new commitment control system was made available to three pilot entities in January 2014; by end-April 2014, it is expected to cover all expenditures in those entities and produce the required reports. We propose to reset the structural benchmark accordingly. We have drafted a new covered bonds law and will submit it to parliament, later than originally expected, for consideration through the emergency procedure; we propose to reset the structural benchmark to end-March 2014. We have amended the accounting rules applied to the sale of NPLs to domestic debt management companies so that no tax liability is being created, in line with the outcome of the EC infringement case.

3. In the attached MEFP, we set out our plans to further advance towards meeting the objectives of our macroeconomic program. 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 National Bank of Romania (NBR) request a waiver of nonobservance on the missed performance criterion and completion of the first and second reviews. We intend to continue to treat the arrangement as precautionary.

4. The program will continue to be monitored through quantitative performance criteria and indicative targets, structural benchmarks and consultation clauses, during quarterly reviews in 2014 and semi-annual reviews afterwards. We propose the establishment of quantitative performance criteria for March 31, 2014 and June 30, 2014 (MEFP, Table 1). We propose to modify the structural benchmark on launching an IPO for Hidroelectrica (end-June 2014) by increasing the amount from 10 to 15 percent of the government's shares, and dropping the reference to the planned capital increase. Additionally, we propose to modify the structural benchmark on the commitment control system for operation in all general government entities to facilitate monitoring. We also propose to modify the structural benchmark on the covered bond legislation so as to specify submission to

parliament as the required action. As detailed in the MEFP and TMU, we propose five new structural benchmarks, one prior action, and one new indicative target against which to measure progress under the program (MEFP, Table 2). The Technical Memorandum of Understanding (TMU) explains how program targets are measured. We request a rephasing of the availability dates for the purchase associated with this review and the following reviews. The third review of the program will take place on or after June 25, 2014, and the fourth review on or after September 28, 2014.

5. We believe that the policies set forth in the letter of September 12, 2013 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.

6. We authorize the IMF and the EC to publish the Letter of Intent and its attachments, and the related staff report. This letter is being copied to Mr. Olli Rehn.

Sincerely,

/s/	/s/
Victor Ponta	Mugur Isărescu
Prime Minister	Governor of the
	National Bank of Romania

Attachment I. Romania: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Economic growth picked up in the first three quarters of 2013 with real GDP growing 2.7 percent, supported by strong export performance, while domestic demand remained subdued. Economic activity was driven mostly by robust industrial output and the abundant harvest. We expect annual growth of around 3.5 percent for 2013. Higher exports were mainly driven by sales of machinery and transportation equipment, against the background of greater external demand including from non-EU countries. At the same time, low domestic demand for energy including because of improved efficiency, contributed to a slowdown in imports. As a result, the current account deficit is expected to have narrowed significantly in 2013 to around 1–1¼ percent of GDP from 4.4 percent of GDP in 2012, mainly reflecting improvements in the trade and services balance. CPI inflation started to decline as expected in the second half of the year and dropped to 1.6 percent in December 2013 and further to 1.1 percent in January 2014, due to a good harvest, a favorable base effect, a reduction in VAT on flour and bakery products, as well as a persistent negative output gap and improved inflation expectations. Annual core inflation has also fallen from 2.9 percent in June to -0.1 percent in December and January of the current year. The unemployment rate reached 7.1 percent in December, down from 7.3 percent in July through November.

2. For 2014, real GDP is projected to advance by 2.2 to 2.5 percent. Better absorption of EU funds is set to support a pick-up in investment. At the same time, some firming in private consumption is expected on the back of a general improvement in confidence and an increase over time in real disposable income. CPI inflation is projected to decline further in the first half of 2014 before returning to the upper part of the central bank's target band in the second half of 2014, largely due to base effects and the impact of excise taxes. The current account deficit is expected to stay between 1 and 1½ percent of GDP in 2014. Risks to the economic outlook are broadly balanced: while final data on the agricultural and industrial output in 2013 could still surprise on the upside, credit growth appears constrained by both supply and demand factors, which could hinder the recovery in domestic demand. On the external side, Romania remains vulnerable to adverse developments in international financial markets and subdued growth in the euro area. Prudent policy implementation, which has contributed to a substantial narrowing of spreads, will be crucial in maintaining confidence and safeguarding policy buffers going forward. Standard & Poor's raised the outlook on its ratings of Romanian debt to positive from stable in November 2013.

Fiscal Policy

3. In 2013, the preliminary fiscal deficit was 2.5 percent of GDP (in cash terms), which implies a reduction in the ESA-based structural deficit by at least 0.4 percent of GDP in line with the EU's Stability and Growth Pact (SGP) rules. However, the cash deficit target under the program, set at the time of the program approval, was missed by a small margin, primarily due to higher EU cofinancing. At the same time, revenues underperformed reflecting lower personal income and goods and

services taxes due to a less-tax rich recovery and weakened collections around mid-year following a restructuring of the tax administration. Non-tax revenues also fell on lower dividend payments from public institutions. The revenue shortfalls were largely offset by lower than expected social transfers, spending on goods and services, and lower interest payments. While reimbursable spending on EU funded projects was below target, spending on national cofinancing exceeded projections. Arrears declined at both the central- and local- government level, meeting the program targets.

4. For 2014, we will continue the gradual adjustment process and have approved a budget consistent with a headline deficit target of 2.2 percent of GDP in cash terms. Given our recent success in accelerating the absorption of EU funds, the deficit ceiling is 0.2 percent of GDP higher compared to the deficit target envisaged in the September MEFP. This is to create room for more cofinancing of EU funds (in the form of an adjuster described in the TMU) and will support growth-enhancing investment while staying on track to reduce fiscal vulnerabilities. The budget envelope implies a minimum structural effort of 0.3 percent of GDP in 2014 (cumulative 0.7 percent of GDP in 2013–14, ESA based).

5. The budget envisages a RON 1.5 billion increase in the wage bill, less than projected nominal GDP growth. The minimum wage increased from RON 800/month to RON 850/month in January 2014, with a further increase to RON 900/month planned in July 2014. The cost of raising the minimum wage is embedded in the public sector wage bill. The Government will continue to adjust the size of the public sector, through attrition and by identifying redundancies to ensure a faster pace of implementation towards the wage grid. An additional allocation following a court ruling of 0.3 percent of GDP is included in the wage bill. Public pensions will be increased by 3.75 percent in line with the pension law. Final payments towards implementation of the Payments Directive are also budgeted. Starting January 1, 2014, the second step of the planned increase of the Guaranteed Minimum Income was implemented. To support growth-enhancing projects, we will increase the allocation for reimbursable funds.

6. To reach the deficit target, we implemented additional measures. Starting with 2014, we introduced a formula to index excise taxes to inflation. The base on property taxes for companies was expanded to include special structures. Royalties on mineral resources other than oil and gas were increased by 25 percent. The increase in the minimum wage will also generate additional revenues. To ensure that sufficient financial resources are available and hence minimize risks for arrears and deficits, we will align property taxes accruing to local governments with the increased devolution of spending assignments to the local governments currently being envisaged (see paragraph 14). As already provided for in the Fiscal Code, property tax rates for individuals can be increased by 20 percent at the discretion of local governments. To address local government arrears, the Fiscal Code already includes provisions.

7. On the expenditure side, to safeguard against revenue collection uncertainties, we have deferred the commitment of investment and subsidy spending of about 0.1 percent of GDP until the second half of the year. We will also not release the budget's 10 percent buffer, which applies to certain expenditure categories (about RON 2.3 billion, 0.3 percent of GDP) before the second budget

rectification in 2014. Moreover, an unallocated amount of RON 220 million will be used to facilitate the reduction of state-owned railway company arrears.

8. **Tax policy:** From September 2013, we reduced on a temporary basis the VAT on flour and bakery products to 9 percent and identified countervailing measures in excises to offset the budgetary impact. We initiated an analysis of the impact of this measure and will provide the requested data on VAT payments, including the number of registered VAT payers in this sector to evaluate the progress in compliance. During 2014, we will assess the efficiency of this measure and decide whether it will be applied on a permanent basis. We will prepare a strategy for reforming property taxes and the valuation system, which will introduce the principle of use but be based on owner as the primary taxpayer. An inter-ministerial working group is preparing a strategy for a new oil and gas taxation regime. We will establish a new regime that takes effect from 2015 through 2024, discussed with all stakeholders. Following recent IMF technical assistance, we have requested additional support to help us develop an action plan for the implementation of these taxes. In this context, we will ensure that the mineral agency (ANMR) provides all necessary resource data to relevant parties consistent with national security concerns. We will seek amendments, including lowering the threshold, to the draft lump sum tax law before Parliament takes a vote on the law.

9. The Ministry of Public Finance and the Ministry of Labor, Family, and Social Protection will undertake a comprehensive analysis to assess the performance of the second pillar of the pension system and its implications for the sustainability and adequacy of the pension system and on the development of the Romanian capital market. We are also assessing options to reduce the tax burden in a budget neutral way.

10. In order to stimulate the business environment and reduce the labor tax wedge, a main goal of the Government is a reduction in the social security contribution rate. To this effect, we will seek to implement in the second half of 2014 a significant reduction in the rate. Any such rate reduction will be conducted in a budget neutral manner, with an emphasis on base broadening measures. The reduction will safeguard the stability of the social security system, the soundness of public finances, and promote program objectives. Towards this goal, we will conduct a feasibility study that will be discussed with all stakeholders. The conclusions of the study will be agreed with the EC, IMF, and World Bank.

11. We will implement measures for the 2015 budget based on the tax expenditure report, which is currently being drafted. We will consult with the IMF and EC staff before undertaking any further changes of the tax system.

12. In order to lock in the benefits of the previous fiscal adjustment efforts, we will undertake efforts to strengthen fiscal institutions. Key areas of reforms will include:

13. **Fiscal Compact and medium-term budget:** In compliance with the EU fiscal governance requirements, we have amended the Fiscal Responsibility Law to integrate structural fiscal targets and corrective actions in case of deviations. We will seek to target an average structural effort of ½ percent of GDP until a medium-term budgetary objective (MTO) of 1 percent of GDP deficit is

reached. Under this path, we expect to reach the MTO by 2015. We will also seek to shift to a medium-term budgetary framework.

14. **Fiscal decentralization:** We plan to implement a public administration reform that will decentralize some of the tasks from the central government to the local governments, ensuring the financial resources needed for these tasks in a budget neutral way and safeguarding the integrity of payments and controls. Before enacting any legal changes, we will present the new decentralization law, in accordance with the decision of the Constitutional Court, accompanied by a substantiation note in which we will clarify the responsibilities of the local governments, the costs related to these responsibilities, the financial resources needed, and the timetable for implementation. The draft legislation will be presented and discussed with relevant stakeholders. Clear guidelines on assigning wages will be prepared. Resources will be allocated commensurate with these responsibilities. The draft legislation will thus identify local government financing mechanisms to cover the costs of the increased responsibilities. These measures are necessary to safeguard public finances against higher deficits or arrears in the future. We will also monitor closely that local governments adhere to the deficit and debt limits set in legislation and we will apply the insolvency procedures if needed, as spelled out in Emergency Ordinance 46 (2013).

15. **Public financial management:** We will seek to advance the reforms currently underway with the goal of improving the commitment control and fiscal reporting systems, preventing arrears, and better managing fiscal risks.

- To help bring arrears under control, especially at the local government level, we have started publishing, on a monthly basis from end-September 2013, arrears reports, by territorial administrative unit. We will maintain arrears for the central and local governments at a low level consistent with the targets under the program. The Court of Accounts conducted audits of the disputed invoices presented to the local governments (360 million lei) in early 2013 and prepared a report based on the audits findings. The report noted that the arrears in dispute resulted from contracting for and receiving goods and services without proper budget authority and the under-reporting of the related invoices. The disputed amounts are therefore the obligation of the contracting local officials, which are contesting the findings of the Court of Accounts. We made central government transfers to local government units to cover the unpaid bills that represent valid liabilities of the government as verified by the Treasury, which in turn were used to cover the suppliers' payable taxes. We will ask the local governments to provide an update of the amount of local-government arrears in dispute by end-March 2014. The central government will ensure stricter control of the local government unit's total spending, consistent with Emergency Ordinance 46 (2013).

- We have made progress in the implementation of the commitment control system. We have approved a government emergency ordinance to provide standard definitions of commitments in September 2013. We developed a commitment control application, which supplements a new data warehouse and the existing treasury application to form the commitment control system. By end-January 2014, all users in the identified three pilot entities (Ministry of Public Finance, Ministry of Communication, and District 6 of the City of

Bucharest) were connected and are starting to use the new commitment control system. By end-April 2014, the system will produce for all pilot institutions reports showing, at the minimum, approved budget, committed amounts, and paid amounts (reset structural benchmark). We intend to make the system available for operation (connected, tested, trained, and all functionalities in place) in all general government entities, as a pilot, by end-June 2014 (structural benchmark). In preparation of this transition, we started pilot testing on several public units in early December 2013.

- We continue working on the consolidated fiscal reporting system; capacity constraints hamper achieving rapid progress. The Government plans to request additional technical assistance from the IFIs on this project. We will define the standard reporting forms, including financial statements and reports of key fiscal aggregates (derived from the cash balance), and roll out the new system to all government entities by June 2014 (i.e., sending the trial balance using the system) (structural benchmark). We will run in parallel with the existing system until the end of 2014. Consolidated general government accrual based financial statements and ESA95 based reports will be prepared from the system and published from June 2015 (the first sets of reports will be for the year ended December 31, 2014), be reconciled with each other and with cash-based budget execution reports (structural benchmark).

- To improve fiscal transparency and ensure more consistency with ESA, we have requested that the IMF undertake a fiscal transparency assessment. A mission related to the assessment will take place in February 2014.

- The budget report contains a discussion on fiscal risks. This commenced with the 2014 budget. Future reports will be more comprehensive and extend the discussion on risks to include all legal requirements and will elaborate further on and quantify risks related to forecast expenditure and revenue, contingent liabilities, the debt composition, the banking system, all PPPs, all state-owned enterprises (SOEs), and natural disasters.

16. **EU funds absorption and public investment planning:** A key priority of the Government is to improve budgetary planning and project prioritization. This will also help to increase absorption of EU funds with a view to creating fiscal space and supporting economic growth. We have already made good progress in the agricultural, structural, and cohesion funds absorption as the cumulative absorption rate reached 33.5 percent for structural and cohesion funds and 67 percent for agricultural funds at end-2013 (from an average of 20.2 percent at end-2012). Further efforts are required to reduce decommitment risk in 2015, as the EUR 2.8 billion of funding subject to decommitment risk in 2014 is less than anticipated expenditures in 2014.

- We will better prioritize capital projects. We have staffed the Public Investment Evaluation and Monitoring Unit at the Ministry of Finance. This office will help strengthen quality control in the preparation, prioritization, appraisal and management of new significant public investment projects financed by the central government. In September 2013, we approved a government emergency ordinance defining a prioritization criteria framework for significant public investment projects. We will adopt norms to guide the application of the framework by end-March 2014, including comprehensive reporting requirements. In October 2013, we approved, by government memorandum, a list of prioritized projects, based on the prioritization criteria, to help prepare for the 2014 budget (structural benchmark). All new significant public investment projects financed by the central government will be subject to the prioritization criteria and vetting by the Public Investment Evaluation and Monitoring Unit.

- We will reappraise the significant projects according to the approved investment prioritization norms. Based on this exercise, we will identify a list of projects to be cancelled in time for preparation of the 2015 budget. The list of the local government projects that will no longer be cofinanced by the central government in 2014 will also be approved and published. We will introduce a process of consultation with local governments to review and prioritize local government projects with a view to cancelling the non-performing projects. These are necessary steps to ensure sufficient resources for the Government's high priority projects.

- We will seek to maximize the EU funding for projects that need cofinancing of local governments. To this end, the Ministry of Regional Development will update and improve the database of prioritized local government investment projects and publish the list of projects included in the budget on the website together with their rolling three year budgetary projections by end-March 2014.

- We established an inter-ministerial committee to make an initial assessment about pursuing potential PPPs earlier in the project life cycle. We will strengthen MOPF capacity to (1) provide inputs to the PM/Line ministries unit to develop a methodology for identifying and evaluating fiscal commitment to PPPs; (2) assess the affordability of PPP fiscal commitment as an input to approval of any initiative; and (3) develop guidelines for incorporating PPP projects in decision-making at the level of MOPF at various stages of the PPP project life cycle (identification, preparation, bidding, implementation).

- We consider the Comarnic-Brasov highway project a priority project of the Government. We are committed to carry it out at least cost and in a fiscally affordable way. We have made a budgetary allocation to cover the potential risks to the budget from this project. For 2014 and 2015, this will amount to RON 400 million and RON 1,200 million respectively. If we reach financial closure of the PPP and Eurostat does not decide in 2014 that this is an off-budget project, the allocation will be used to reduce the cash deficit. This is provided for in the budget law. We understand that multilateral financiers, such as EIB, IFC and EBRD, will get involved in the project only if the structure of the concession agreement and the proposed project implementation arrangements meet their requirements. This will enable the multilateral financiers to engage, with the sponsors and the awarding authority, in a due diligence process with the view to seeking approvals from their respective governing bodies. The due diligence will aim to confirm that the project is economically, technically, environmentally, financially and procurement-wise sound and viable and that it meets the standards of the multilateral financiers and the provisions of all relevant EU Directives.

- We will prepare by end-March 2014 an implementation mechanism for EU funding as part of our medium-term budget planning, in compliance with our sectoral strategies. This does not replace the already established mechanism for assessing the eligibility under the EU co-funded programs. In addition, capital projects financed from EU funds are already closely monitored to ensure the achievement of monthly payment targets.

- We are committed to submit a new partnership agreement by end-April 2014. We have prepared medium-term financial projections that properly identify the fiscal implications of EU funded projects (structural benchmark) and allow proper monitoring of the spending on EU funded projects by the managing authorities. We will identify by end-March 2014 the implications for the budget due to the amounts related to the 2007–13 programming period at risk of not being operational at end 2015. We will seek to expedite the adoption of the transport master plan and the administrative reform strategy, documents critical for the programming and implementation of EU funds in the 2014-20 programming period.

- To allow greater flexibility in financing of EU funded projects given lags in reimbursement, net lending of EU projects will be provided within a ceiling on net lending of RON4 billion for 2014 (set as an indicative target).

- In 2014, we will ensure that non-eligible spending for EU co-financed projects is limited to RON1 billion.

17. **Unified Wage Law:** We will ensure the sustainability of the public wage bill and will establish a more efficient and equitable public sector. Towards this objective, we will seek to implement the Unified Public Wage Law within the available budgetary envelope. We commit not to introduce a stimulente regime in any government agency and we will amend the government ordinance to remove the stimulente in ANAF. The MOPF will develop staffing plans based on ongoing modernization efforts in the Treasury and ANAF. A methodology for determining staffing levels in subnational governments will be developed while balancing local responsibilities with fiscal prudence. This will be done in accordance with decentralized responsibilities and after cost standards are developed by the responsible line ministries. In the meantime, the Government will continue to adjust the size of the public sector, through attrition and by identifying redundancies to ensure a faster pace of implementation towards the wage grid. We will consult with the IFIs before making changes in the public employment policy and the Unified Wage Law.

18. **Tax administration:** With a view to raising revenue collection and efficiency, and address recent revenue underperformance, we will, with immediate effect, intensify our efforts to monitor all aspects of tax collection while continuing with our comprehensive reforms of the tax administration (ANAF):

- We set up a high-level task force in October 2013 to better understand the low revenue collection in the third and fourth quarters of 2013. We found that it was to a limited extent reflecting the ongoing reorganization of ANAF. We are allocating additional resources to monitor more closely new business registrations, filing activity—especially for large tax payers—payments, stock and flow of arrears, number of audits conducted, and number and value of installment agreements signed. The task force will also be responsible for ensuring that on-going revenue collection activities will not be affected by the restructuring. We also set up regional task forces charged with meeting revenue collection targets.

- To facilitate monitoring and public communication of the efforts underway, starting end-December 2013, we provided an initial quarterly progress report on the number of completed audits in the large taxpayers unit and high net wealth individuals unit, and number of installment agreements signed for large taxpayers and medium-size taxpayers to clear tax arrears as well as collection targets based on these actions. Based on the agreed targets for 2014, we will provide subsequent progress reports commencing with the report as of end-March 2014 (structural benchmark). No government guarantees will be used for the tax installment agreements.

- As part of ANAF restructuring and modernization, we created eight regional directorates in September 2013 and will set up 47 local offices by 2015. We reallocated around 1,700 staff to prevention and control activities, and we will increase resources in the Bucharest Region to combat fraud. The positions in the ANAF's new anti-fraud department will be filled following strict selection procedures. We will provide additional professional training to all staff involved in combating tax evasion.

- We are committed to accelerate progress on our High Net-Wealth Individual (HNWI) taxpayers initiative. The Fiscal Verification Unit (FVU) will continue the initial phase of its first application of indirect audit techniques; from the 30 pre-verifications started in 2013, 24 were completed by end-December 2013 and the remaining will be completed by end-March 2014. The FVU will commerce phase two by initiating verifications on individuals resulting from the original grouping that meet the un-sourced income requirements designated in the Fiscal Tax Code within 60 days of such determination.

- Voluntary compliance, i.e. the ratio of return submitted on time to expected return, is improving. We have improved the quality of our personal income tax audits more generally. We will strengthen our auditing further using the indirect proofs method, expanding the definition of un-sourced income and clarifying the taxability of dividend payments, which are currently often disguised as non-taxable loan repayments to businesses. To help us achieve these goals, we have undertaken training programs with the assistance of partner-country tax administration specialists and IMF technical assistance.

- We will conduct a pilot structural compliance project targeted at undocumented labor and tax evasion, in line with the EU version of the Compliance Risk Management Model. The design of the project will be finalized by end-February 2014. The process will be launched with a press release explaining the project to the public by end-May 2014 (structural benchmark). Audits, jointly organized with the Labor Inspectorate, will be conducted during the second half of 2014. This pilot program is expected to increase voluntary compliance and reduce tax evasion for labor and raise awareness nationwide on the related issues.

- We also aim to develop taxpayer services, for example, offered through ANAF's portal by end-June 2014 and by ensuring that the interpretation of the tax law is unambiguous. To this end we will issue a common procedure with the MOFP and set up a single channel dealing with all enquiries on tax law interpretation by end-December 2014. Moreover, we will streamline the VAT reimbursement procedures based on a risk analysis, in order to significantly diminish the burden on tax audit in this field and for decreasing the time needed for solving refund cases by June 2014. 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. This will be an important source of information for taxpayers and should also raise compliance by end-December 2014. Finally, we will make all efforts to ensure SMEs in distress are granted payments terms in installments to clear tax arrears.

19. **Health care:** We are preparing a comprehensive reform of the healthcare system, which should contribute to make the system financially sustainable, raise the efficiency of healthcare spending and improve health outcomes. The reforms consist of four pillars: (i) a minimum health package, (ii) a basic health package, (iii) revision to the list of reimbursable medicines, and (iv) revision to existing and introduction of new national health programs. The new minimum health package aims at providing prevention services (assessment of health risks) and treatments to the uninsured population, in addition to emergency services that they are currently entitled to. The basic health package, for the insured population, is based on streamlining hospital services by reducing the redundant capacity for inpatient services in line with the national health strategy and shifting the delivery of health services away from hospitals to primary health care providers and medical ambulatory services; developing institutional capacity in Health Technology Assessments and evidence-based protocols (Agency for Evaluation and Quality in Health); and allocating more resources towards primary and secondary preventive care. Moreover, under the new basic package, some services are excluded from the current benefits of the insured population (which might be covered by private insurance companies), while more critical services are added.

20. The new services to be started in 2014 under the health care reforms will be limited to the available budget allocation. The design and costing of the basic package was completed in January 2014 within the existing budget envelope, delineating the options for private sector involvement (structural benchmark from end-September 2013). The process involved discussions with various stakeholders, including public consultation on the website of the Ministry of Health. The modalities of private sector financing will be defined by end-September 2014. The updated package of the National Health Programs will be implemented by August 2014 within existing budget allocation, while the implementation of the minimum health package will begin in January 2015. The additional cost of the new list of reimbursable medicines will be financed through a revised claw-

back tax on pharmaceutical expenditures and achieved savings from revised pharmaceutical policies as well as an update of the list, for instance in line with the NICE study. Quarterly audits will be conducted regarding the prescription of expensive medicines to prevent over-prescription and ensure the sustainability of the claw back tax system. The new claw-back system has already been discussed with the stakeholders in the pharmaceutical industry. The revised claw-back tax will provide a lower tax rate for generics and will be budget-neutral compared to the current tax. The Government will adopt the reforms by May 2014, including the revised services to be started in 2014.

21. As part of the comprehensive health strategy, we will implement the following measures to address health sector financial imbalances and modernize its operations:

- To increase the share of spending on primary and ambulatory services in total health spending, we revised in December 2013 the list of services, which can be contracted with primary care providers as part of the 2014 health care framework agreement. We will ensure that expenditures on continuous admissions to hospitals will be reduced and the risk of future arrears eliminated.

- We will establish an adequate institutional framework and allocate necessary resources to properly run the central acquisition system. The system is already operational, covering currently four out of ten main groups of medicines, medical devices and medical supplies. The Ministry will seek to expand coverage to all ten groups. The Ministry of Health will prepare an action plan with a view to reaching government level agreement on defining an expedited timeline on the centralized procurement process. The related savings per unit cost are expected to be higher than the savings obtained by running the local tender procedure while decreasing the variability through standardization will impact the quality of care. By end-February 2014, the NHIH paid off any remaining outstanding payments to the pharmaceutical sector, thereby completing the implementation of the EU Late Payment Directive.

- We will continue to monitor public hospital budgets to ensure that they are consistent with the expenditure programmed in the general government budget and continue to publish online up-to-date financial statements of all public hospitals. We will collect and analyze the cost of service provision across hospitals with the aim of developing benchmarks in the future.

- The National Printing Office produced 4½ million patient cards by end-2013 and will produce the remainder (10½ million) for the eligible population by September 2014.We will accelerate the distribution of these cards. To promote awareness and encourage the increased use of generic drugs, we will print from March 2014 the patient's co-payment required to receive the benchmark priced medicinal product (zero or lowest co-payment) and the patient rights with respect to pharmacists’ obligation to provide full information on available drugs on the printed prescription.

- We will continue to implement the hospital rationalization strategy, including through streamlining hospital services, shifting the delivery of health services to outpatient services, building physical and functional integrated referral networks (including regional hospitals) and the referral system that surrounds them from the primary health care to post-hospital care as well as patient pathways in the health system in order to consolidate and reduce redundant capacity. For this we will seek financial support from the EC and World Bank over the period 2014–2020.

22. **Debt management:** In line with our debt management strategy, we will continue to work towards improving our risk management, in particular towards lengthening the average remaining maturity of our debt. For example, we issued 30-year U.S. dollar denominated Eurobonds for the first time ever, at favorable financing conditions in January 2014. We will update our Debt Management Strategy for 2014-16 consistently with the annual Borrowing Plan published at the end of 2013. We have consolidated the fiscal buffers, to achieve our objective of covering four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on these buffers represents a necessary cost for insurance against shocks. We will expand the share of issuances on the domestic market in order to develop the domestic bond market. At the same time, we intend to smooth volatility in the treasury account by issuing shorter maturity treasury bills. We are making good progress on electronic trading platform. We are continuing our efforts to create the necessary framework for liability management operations as well as widen the investor base and improve outreach efforts. We are receiving technical assistance financed with EU funds and implemented with support of the World Bank to strengthen the debt management department. We will ensure that increases in guarantees issued remain prudent.

Monetary and Exchange Rate Policy

23. Annual headline inflation decelerated sharply since July 2013. At 1.9 percent in September, it fell within our medium-term target band of 2.5±1 percentage point and declined further to 1.6 percent in December and 1.1 percent in January 2014. The deceleration was mainly on account of the reversal of base effects for food prices, the abundant harvest in 2013, and the cut in the VAT rate for flour and bakery products, as well as the improvement in inflation expectations against the background of slack in the economy. We currently project annual headline inflation to decline temporarily to levels below the target band, then gradually return into the band, and move into its upper part in the second half of 2014. We also continue to closely monitor annual core inflation, which has been below zero since October and is expected to remain around similar levels through mid-2014.

24. We further lowered the policy rate during September 2013-January 2014 by a cumulative 100 basis points to 3.50 percent as headline inflation was seen to continue its declining trend, in the context of persistent negative output gaps. Reflecting these cuts, average interest rates on new loans reached historical lows in December at 7.6 percent; a less pronounced development took place in deposit yields. In addition, in January we reduced the high minimum reserve requirements (MRRs) by three and two percentage points for leu- and foreign exchange denominated liabilities,

respectively, with a view to gradually bring the MRRs closer to levels practiced by the ECB and prevailing in most other EU countries. We discussed the policy outlook with IMF and EC staff as part of the inflation consultation mechanism. We agreed that anchoring inflation expectations and dealing with volatile international capital flows continues to require a prudent monetary policy stance supported by the consistent implementation of the macroeconomic policy mix. There is little room left for further monetary easing including interest rate cuts. We will closely monitor inflation developments following the recent easing steps to ascertain that inflation expectations remain firmly anchored, and market conditions remain favorable.

25. Base money creation has increasingly reflected treasury operations related to growing disbursements of EU funds. The resulting buildup of excess liquidity, which in the meantime has been mopped up, explained the divergence between interbank rates and the policy rate, which has complicated monetary operations. We will ensure adequate liquidity conditions in the banking system, while underpinning the good functioning of money markets and reducing the divergence between interbank rates and the policy rate in order to strengthen the transmission of monetary policy signals. To this end, we are considering a further narrowing of the interest rate corridor and a gradual reintroduction of liquidity absorbing operations. Going forward, the NBR will preserve the wedge between minimum reserve requirement ratios for foreign and domestic currency liabilities in order to discourage foreign-currency lending. Moreover, any further changes with respect to minimum reserve requirements would be implemented gradually, after evaluating the effect of previous steps, and taking into account the impact on inflation expectations.

Financial Sector

26. The Romanian banking sector maintains appropriate capital buffers, enhanced liquidity, and provisioning, but is still faced with pressures on asset quality, and from foreign bank deleveraging, while also remaining vulnerable to external shocks. Annual credit growth in real terms to both corporates and households remains negative year-on-year with -6.5 and -2.7 percent, respectively, at end-2013. Non-performing loans (NPLs) closed the year at 21.9 percent of total loans, the same level as in November, (compared to 18.2 percent at end-2012), reflecting the difficult economic environment, stagnant credit growth, and slow removal of fully provisioned NPLs from bank balance sheets. Total provisions for NPLs (IFRS plus the total prudential filter) cover 89.8 percent of NPLs while the IFRS provisioning ratio (without prudential filters) increased to 67.6 percent at end-2013 (61 percent at end-2012). In line with EU regulatory requirements, the prudential filter started its scheduled phase-out period at end-January 2014. It was reduced by one fifth, and will be gradually eliminated until 2018. This measure will have a positive impact over the level of own funds that are taken into account for determining the level of the capital adequacy ratio due to the gradual decrease of the amount of prudential filters previously used as deductions from own funds; the phase-out will lead to a gradual transition of the total provisioning for NPLs towards its IFRS value. In accounting terms capital will not be affected and it is expected that it will facilitate the resumption of credit growth over time. The provisioning requirements along with slow lending activity and relatively high cost base led banks to obtain a positive financial result in 2013 (RON 498 million or 0.1 percent ROA based on preliminary data).

27. The capitalization of the banking sector remained strong at 15 percent at end-December 2013 albeit with some differences between banks. The level of system-wide provisions significantly increased in the second half of 2013 mainly as a consequence of the interim audit of the banks June financial statements followed by the on-site inspections performed by NBR to the first 20 large banks on IT adequacy and loans restructuring practices. A new NBR-mandated collateral audit in the last quarter of 2013 led to identify a system-wide provisioning gap of RON 800 million, which was closed by year-end. While the liquidity position has been less restrictive than in previous years for the banking system as a whole, funding conditions are still uneven among some banks. The pace of foreign-owned bank deleveraging has accelerated in line with the rest of the region but remains orderly, with a parent funding decline of 30 percent since end-2011 (19 percent in 2013 alone up to December). As a result, reliance on local funding has increased, especially deposits, prompting a significant fall of the system-wide loan-to-deposit ratio to 105 percent at end-2013, from 117 percent the previous year. The risks from continuing parent funding retrenchment remain significant, especially if credit demand recovers, though they are mitigated by the lower prudential filter and minimum reserve requirements.

28. The NBR will continue to closely monitor and supervise the banking system and take any necessary measures to ensure that banks maintain sufficient capital and liquidity, in light of the uncertain economic environment which could pose further challenges with respect to asset quality, profitability and parent funding retrenchment for most banks. In that regard and in close coordination with the IMF and EC, the NBR will continue to regularly conduct top-down and bottom-up solvency stress tests as well as liquidity stress tests of the banking industry. A recent top-down stress test performed by the NBR for the 2013 Financial Stability Report illustrated that under an adverse scenario with a prolonged recession and 20 percent depreciation, the aggregate solvency ratio would decline by 4 percentage points to 10.8 percent (above the prudential NBR threshold), on the basis of the June 2013 CAR, with the overall banking system remaining resilient but also revealing that a few non-systemic credit institutions would need to raise additional capital.

29. The NBR and Deposit Guarantee Fund (DGF) will continue to coordinate the implementation of operational preparedness plans and the arrangements for the acquired bank resolution powers according to their competencies. An amendment to the Government Emergency Ordinance no. 99/2006 has provided the NBR with more flexibility and powers to stabilize the financial system to protect depositors and maintain public confidence in the banking sector. The bank resolution directive will be transposed ahead of the implementation deadline as a law adopted by the end of September 2014. The law will also clarify the role of DGF in financing bank resolution measures in line with the principles envisaged by the incoming EU Directive for deposit guarantee schemes. Based on the amended legal framework, the NBR will also amend the internal procedures for bridge-banks by end-September 2014. The details of the updated NBR contingency planning framework will be agreed with the IMF and EC staff. The NBR is preparing detailed contingency plans on an ongoing basis.

30. To avoid any perceived conflict of interest of its senior management, the DGF corporate governance principles will adhere to good international practices.

31. Consistent with ESRB and IMF recommendations, a macroprudential policy committee is being established, in which the NBR's leading role is reflected in the committee's voting structure.

32. 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 and are properly supported by IT systems. The on-site inspections of banks' IT adequacy and loan restructuring practices for a sample of 20 banks finalized at end-2013 will be followed up by a similar inspection for the rest of banking institutions. The asset quality report will be updated with any new information coming from such assessment. In consultation with the IMF and EC, an NPL resolution action plan will be prepared by end-May 2014 (structural benchmark) and implemented by end-June 2014. The plan will establish the role of the NBR in the process, set out the responsibilities of supervised entities, and foresee changes to prudential regulations so as to avoid moral hazard and provide appropriate incentives for a timely balance sheet clean-up from unrecoverable loans.

33. The NBR will collect periodic and detailed supervisory data on restructured loans, including to SOEs, on a quarterly frequency. To ensure transparency, the NBR will publish aggregate data.

34. To foster the development of a viable distressed debt market, we have amended the accounting rules applied to the sale of NPLs to domestic debt management companies in such a way that a tax liability has ceased to be created; this treatment is in line with the outcome of the EC infringement case (structural benchmark met by end-December 2013).

35. To enable much needed longer-term bank funding instruments, we will approve the covered bond legislation by end-March 2014 as a law presented to Parliament for consideration through the emergency procedure (structural benchmark). Outstanding differences on the covered bond legislation with the Banking Association will be addressed so as to ensure a proper registration of the property claims. The MOPF recently passed an order on the new guarantee scheme for bank lending to SMEs that is more effective and operational as well as contributing to the de-euroization of banks' portfolios. It replaces the existing scheme.

36. The FSA should swiftly complete the integration of the former three supervisory authorities. Based on the assessment of the selected independent consultancy company on staff levels and the staff *per se*, an action plan will be elaborated within two months (from the date of the assessment made by the consultancy company) in order to rationalize the FSA. Following the assessment of the consultant, the FSA will perform a business optimization exercise. In addition, the FSA will also enhance transparency and public disclosure of all fees and commissions charged to the supervised entities. The FSA is performing a comprehensive fee structure comparison with other European countries, after which the very high fee structure, in certain areas, will be brought in line with best international practices.

37. Because preserving credit discipline among debtors contributes significantly towards enhancing financial stability, we will take all efforts to avoid the adoption of legislative initiatives

dealing with personal insolvency that create a moral hazard and are open to widespread abuse by debtors as this would undermine credit discipline. Furthermore, in order to avoid threats to financial stability from the new provisions on abusive clauses in the law for the application of the civil procedure code (that took effect October 1, 2013), we will ensure that the new specialized court is swiftly set-up (including the necessary budget allocations for the headquarters and the supplementary personnel: judges and clerks) and will take all necessary measures to ensure a harmonized application of these provisions, such as training of judges. If the new institutional arrangement of this specialized court does not succeed in avoiding financial stability threats, we will consult extensively with all relevant stakeholders as well as with the IMF and EC to come up with alternative solutions. Given the substantial NPL overhang, the authorities will remove, where possible, impediments to corporate and household out-of-court debt restructuring and NPL resolution.

Energy and Transportation Sector Reforms

38. Reforms that foster investment and better service delivery in the energy and transportation sectors are central to our efforts to stimulate growth in Romania. To this end, we are implementing a three-pronged approach to decisively improve the financial position, operating efficiency, and overall transparency of SOEs and the pricing framework in the energy and transportation sectors.

39. Measures to reduce existing arrears and prevent the accumulation of new arrears in state-owned enterprises comprise the first prong of the approach. We missed the December indicative target on the cumulative arrears of all central-government owned enterprises (SOE arrears). As a corrective measure, the Government will take a number of actions to reduce arrears in the first quarter of 2014 by more than the reduction implied by the original target path in order to meet the target for end-March. Three electricity service companies with arrears have already entered into voluntary liquidation procedures and payments from the budget will be made to partially clear arrears of state-owned railway companies to electricity suppliers as well as the arrears of the National Road Company. We will provide a report to the IMF that specifies the actions we took to significantly reduce the SOE arrears and achieve the end-March 2014 indicative target (prior action). We will also provide this report to the European Commission. Also, all line ministries with oversight of state-owned enterprises with arrears will submit to the MOPF action plans by end-March in order to reduce arrears in those companies by end-December 2014. In addition, we will strengthen the monitoring of the arrears situation inter alia through regular status reports to the MOPF and to the cabinet, improve the oversight function of the SOE monitoring unit (with World Bank support), and move to monthly data collection. Moreover, we will review and update the plans later in 2014 with the aim of reducing arrears to a de minimis level by September 2015. The plans will consider a wide range of options for arrears reduction, including placement of companies into insolvency or liquidation process. The MOPF will ensure that the ministries' plans are consistent with the overall arrears reduction path established under the program and prepare a summary report that clearly identifies the companies and the actions that will be taken to adhere to the overall path. This summary report will be provided to the IMF by end-April 2014 (structural benchmark).

40. Steps to improve the governance, transparency, and monitoring of SOEs form the second part of our approach. We have appointed the board of the state-owned hydroelectric power producer (Hidroelectrica by end-November 2013 in accordance with Government Emergency Ordinance 109/2011 on SOE corporate governance (end-November 2013 structural benchmark). We are also working with the World Bank to hire an independent consultant to conduct an assessment of the implementation of the Government Emergency Ordinance (109/2011). When completed, the assessment will be published, and we intend to use the findings to improve emergency ordinance 109, by, among others, improving the SOE oversight function of the Ministry of Public Finance. Following the assessment, we will develop guidelines for its implementation across all ministries. Moreover, with a view to improve the management and performance of SOEs we will clarify and improve, with World Bank support, the roles and responsibilities of the various agencies that act as owners of SOEs on behalf of the state (e.g., line ministries, the MOPF, and other state agencies). In contrast, the SOE corporate governance law was not passed by the Parliament by end-September 2013. We now plan to wait for the conclusion of the independent assessment before obtaining the Parliamentary approval of the law. Among other provisions, the law would tighten the professional criteria of Board and management appointees and give legal responsibility to the MOPF to supervise its proper implementation.

41. We remain committed to enhancing the transparency of SOE operations to help ensure that all SOE transactions are consistent with creating value for the benefit of all Romanians. In particular, all new bilateral contracts of electricity producers will continue to be made transparently and non-discriminatorily at market prices through the OPCOM power exchange. We made significant progress in 2013 and the share of trading at OPCOM in Romania's electricity supply increased from 35 percent in 2012 to 73 percent in 2013. Annual reports on SOE performance will be published in accordance with provisions of the SOE corporate governance Government Emergency Ordinance. We will also make best efforts to address audit qualifications on the SOE's annual financial statements. While the 2014 budgets of SOEs were to be submitted to the MOPF one month after the approval of the state budget, there were some delays, particularly with the budgets of CFR S.A. and CFR Calatori S.A. We will have these budgets approved by mid-March 2014, the latest.

42. The third prong includes measures to improve the pricing framework and efficiency of the energy and transportation sectors. We will continue to implement the electricity and gas price road maps and the pass-through mechanism for electricity and gas purchases by the supply companies will continue to be applied. For electricity, complete deregulation of electricity prices for non-residential consumers was achieved by January 1, 2014, and for households it will be achieved by December 31, 2017. For natural gas, we increased regulated prices in October and January as called for in the gas price liberalization road map. We intend to implement the remainder of the road map to deregulate gas prices as planned to achieve complete price deregulation for non-residential consumers at the latest by December 31, 2015, and for residential consumers by December 31, 2018. We are considering completing deregulation of gas prices for non-residential consumers earlier than scheduled based on a risk assessment study. If necessary, such deregulation would be accompanied by a requirement for producers to sell a certain percentage of their gas production available for the competitive market and for wholesale suppliers to trade a certain percentage of their estimated

sales by using the centralized gas trading platforms licensed by ANRE. ANRE will conduct a risk analysis, based on which it will decide on the early deregulation for wholesale suppliers. We will also continue to take steps to strengthen OPCOM as an electricity and gas trading platform, including through ownership diversification. Moreover, the Government will prepare a new energy strategy to help ensure Romania's energy security and the realization of potential of the energy sector as an engine of economic growth through investment and exports.

43. We have made significant progress in implementing our privatization agenda. Through initial public offerings (IPOs), we sold 10 percent of the shares in the nuclear energy company (Nuclearelectrica) prior to October 2013 and 15 percent of the shares in the state-controlled natural gas producer (Romgaz) in November. Both IPOs were oversubscribed and generated about €450 million in gross proceeds. Of particular note, the Romgaz transaction was completed at the upper end of the price range. Also, the Romgaz IPO was the first time we issued Global Depository Receipts (GDRs) in conjunction with a public offering on the Bucharest stock exchange. We will apply the experience gained through the Nuclearelectrica and Romgaz transactions to the preparation of IPOs in other energy companies. In particular, we intend to issue GDRs or undertake a dual listing in conjunction with the IPOs of state-owned electricity supply and distribution company (Electrica) and Hidroelectrica. Except as provided for in the reorganization plan of Hidroelectrica as well as below for Electrica and Oltenia, we will not break up and/or merge the companies or the assets of the companies slated for IPOs. Other steps taken or to be taken to prepare for the upcoming IPOs, all of which are structural benchmarks under the program, include:

- **Electrica:** We hired a transaction advisor for the IPO in mid-September 2013. Work is currently underway to separate through liquidation three loss making regional service companies from Electrica and to take out Electrica's minority shareholdings in already privatized distribution companies prior to the IPO. We have also hired an international legal advisor to promote the offer abroad. Moreover, we will address the issue of nonpayment by CFR Infrastructura for its electricity purchases from Electrica ahead of the IPO.

- **Hidroelectrica:** We secured the repeal of our appeal of the ruling against the initial government decision to sell shares in Hidroelectrica before September 30. In December, we issued a new government decision for the sale of 15 percent of Hidroelectrica's shares and have selected a transaction advisor. In February, an Appeals Court placed Hidroelectrica back into insolvency until the legal claims of energy traders against the company are resolved. We remain committed to launch an IPO of Hidroelectrica, in line with the existing structural benchmark, as soon as possible after it exits insolvency.

- **Oltenia:** The transaction advisor has completed its financial, legal, and environmental due diligence work. We have initiated the selection procedure for hiring a consultant to conduct a coal reserve assessment. However, a significant number of material qualifications from the 2012 financial audit of the company need to be addressed. We will strongly encourage Oltenia's management to work closely with the transaction advisor to overcome these obstacles and prepare the company for the IPO, including the possible measures of restructuring or divesting the mine of Berbești, in order to diminish the company's arrears and make it more attractive to potential buyers.

44. Despite our efforts, the majority privatization of the state-owned freight railway company (Marfa) was not concluded before the expiration of the deadline set in the government decision approving the transaction. While the privatization was not concluded, the Romanian Competition Council has confirmed that a debt-equity swap conducted to lower arrears will not be considered state aid as long as there is a credible intention to privatize Marfa. In 2013, Marfa incurred an operating loss, which was within the overall operating balance target. To ensure the viability of Marfa, we intend to aggressively restructure the company and continue the privatization process. We approved Marfa's 2014 budget which is based on a list of specific restructuring measures, including a reduction in personnel costs, the sale of obsolete freight cars for scrap, and halting delivery to customers with arrears to Marfa, that will generate an operating surplus in 2014 and a positive cash flow. Marfa's management has already taken steps in this direction by recently securing new freight service contracts and starting discussions with the labor union on reducing personnel cost as provided for in the budget to start taking effect from end-March 2014. The Ministry of Transportation commits to fully support Marfa management as it implements these measures. Marfa's operating performance will continue to be monitored through the existing quarterly indicative target on the operating performance of the three main railway companies. We have also established a new quarterly indicative target on the accumulation of Marfa's arrears. The target is set at zero, excluding interest and penalties on arrears, for the remainder of the program and will provide an early indication of the success of the restructuring. The restructuring of Marfa is critical and reaching the indicative targets is a priority under the program. In the event that the restructuring does not yield the desired results, which will be reflected in missing the arrears target on Marfa, we will consider other options for moving the restructuring process forward including those noted in paragraph 39. In December we approved a government decision to continue with Marfa's privatization through a strategic investor, which is expected to occur in May 2015.

45. We met the December indicative target on the aggregate operating balance of the three largest railway companies and their subsidiaries. We will continue to work closely with the World Bank and European Bank for Reconstruction and Development (EBRD) to reform the rail sector with the goal of improving the financial and operational performance of railway SOEs and the quality of rail service. A key element of the reform process will be stopping the accumulation of arrears from Marfa and the state-owned passenger rail company (Calatori) to the state-owned railway infrastructure company (CFR Infrastructura) and the accumulation of arrears by the three railway companies with the central government and electricity providers. Based on 2014 budget subsidies we will approve budgets for CFR S.A. and CFR Calatori S.A. consistent with our commitments under the program. The budgets will provide for full financing of the above obligations. In addition, the 2014 subsidy payments, which will be made on a monthly basis, will be applied first to cover access and electricity charges and obligations to the central government with the remainder available for other expenses. This will likely require further restructuring of Calatori and Infrastructura. Measures to improve the operating and financial performance of these companies could include:

- **CFR Infrastructura:** We have agreed with the EBRD on a roadmap to address deficiencies in meeting the covenants and other terms of the EBRD loan agreement signed in 2012 and secure the disbursement of the second tranche of the loan based on progress in implementing the roadmap. We will also work with the EBRD on terms of reference to hire a consultant to develop a restructuring action plan. Moreover, we will approve a government decision to lease or close over 700 km of rail line. We intend to follow this measure with leasing or closure of another 900 km of rail line during the course of 2014. We estimate that these steps will generate annual savings of RON 70 million. We will continue to fill management and board positions in Infrastructura following the letter and spirit of the procedures specified in the SOE Corporate Governance ordinance (109/2011).

- **CFR Calatori:** Calatori's management has taken a number of steps to improve the company's operations including raising ticket prices by up to 10 percent in September and putting in place better controls over ticket revenue, reducing fuel consumption by 20 percent and the wage bill by 5 percent through attrition and reduction in working days, and stopping services on five unprofitable rail sections. By mid-March 2014 we will further amend the formula for calculation of the PSO to give more weight to passenger-train kilometers travelled.

46. We will continue the regulatory reform of the railway sector as well. Performance schemes related to delays have been elaborated and discussed among the relevant parties. The rail operators and infrastructure manager are planning to introduce them in their respective access contracts for 2014. A system of incentives for the infrastructure manager to reduce unit costs and charges has been elaborated in cooperation with the World Bank. We will introduce it in the 2014 addendum to the activity contract of CFR Infrastructura.

Labor Markets

47. The Labor Code continued to improve the functioning of the labor market, as the share of fixed term contracts picked up slightly from 8.2 percent of total active contracts in 2012 to 8.4 percent in 2013. We will continue to monitor the implementation of the Social Dialogue Law and ensure that any amendment will be undertaken in consultation with all stakeholders through the normal legislative process. Proposals on possible amendments from social partners received last December, if considered appropriate, will be submitted for discussion in Parliament. We will continue our cooperation with the International Labor Organization (ILO) to ensure that the current legislation respects core ILO Conventions.

48. In view of the high youth unemployment in Romania, we are implementing the National Job Plan adopted in April 2013 and developing indicators to monitor progress by April 2014. In addition, we plan to introduce further measures to improve the transition of young Romanians to the labor market. The Youth Guarantee Implementation Plan 2014-2015, approved by the Government in December 2013, which includes measures that qualify for support under the Youth Employment Initiative, was submitted for review to the European Commission. Pilot projects started under this initiative are expected to provide better information on career development and training to a

targeted group of youth nationwide. The secondary legislation for the Apprenticeship Law that introduces a dual apprenticeship model and a law facilitating professional training stages for higher education graduates were adopted last December. The new work-based professional school and vocational training scheme, now in its second year, is expected to attract a growing number of students and partner companies following the changes to the National Education Law introduced in December, which extended its duration by one year.

Legislative Initiatives

49. The Romanian constitutional court found the manner of promulgation of the insolvency code as an emergency ordinance and part of its contents to be unconstitutional. Therefore a new adoption procedure has started, whereby the insolvency code was approved as draft law by the Government and has been submitted to Parliament for adoption. We will continue our consultation with all relevant stakeholders in order to propose to Parliament, on occasion of the debates of the draft code, amendments aimed at better supporting the early rescue of viable firms and speedy exit of non-viable ones. These proposals will be prepared in consultation with IMF staff, at a minimum on: pre-insolvency procedures, creditor voting, priority financing, automatic stay, ranking of claims, notice requirements, means for preventing associates/administrators abuses which may lead to failure of the reorganization plan, increased transparency of the insolvency procedure, including ensuring public access to information related to associates/significant shareholders and administrators of insolvent company (through the Trade Register) (structural benchmark end-April 2014).

50. We will seek amendments to the draft Holding Laws, currently in the Parliament, in line with good international practices.

Table 1. Romania: Quantitative Program Targets

	2012	2013					2014					
	Dec	June	Sept	Sept	Dec		March		June		Sept	Dec
	Actual	Actual	Prog.	Actual	Prog.	Actual	Indicative	Prog.	Indicative	Prog.	Indicative	Indicative
I. Quantitative Performance Criteria												
1. Floor on the change in net international reserves (mln euros) 1/ 2/	16,344	3,922	3,922	6,326	4,622	7,343	250	-500	0	0	200	500
2. Floor on the general government overall balance (mln lei) 3/	-17,430	-6,629	-9,340	-8,143	-15,300	-15,771	-4,000	-4,539	-6,200	-8,230	-7,209	-14,712
3. Ceiling on the stock of central government and social security arrears (bn lei)	0.027	0.04	0.020	0.018	0.02	0.01995	0.02	0.02	0.02	0.02	0.0175	0.015
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	9.8	10.9	16.0	11.45	16.0	12.1	18.0	18.0	18.0	18.0	18.0	18.0
II. Continuous Performance Criterion												
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation												
6. 12-month rate of inflation in consumer prices												
Outer band (upper limit)	...	...	5.1	...	5.3	...	4.6	3.0	5.0	3.6	5.0	5.5
Inner band (upper limit)	...	...	4.1	...	4.3	...	3.6	2.0	4.0	2.6	4.0	4.5
Actual/Center point	5.0	5.4	3.1	1.9	3.3	1.6	2.6	1.0	3.0	1.6	3.0	3.5
Inner band (lower limit)	...	...	2.1	...	2.3	...	1.6	0.0	2.0	0.6	2.0	2.5
Outer band (lower limit)	...	...	1.1	...	1.3	...	0.6	-1.0	1.0	-0.4	1.0	1.5
IV. Indicative Target												
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei) 3/	134,330	70,412	106,300	105,570	147,509	144,560	36,700	36,500	74,400	73,000	109,000	150,500
8. Floor on operating balance (earnings before interest and tax, net of subsidies and one-off adjustments to income due to financial or accounting operations) of key SOEs (as defined in paragraph 22 of the TMU (bn. lei)) 3/	-3.1	-1.0	-1.6	-1.3	-2.3	-2.2	-0.5	-0.7	-0.8	-0.9	-1.2	-2.1
9. Ceiling on outstanding payments past due of all central-government owned enterprises (as defined in TMU, bn lei) 4/	12.7	8.3	7.5	7.0	5.6	7.2	4.7	5.4	3.7	4.6	3.9	3.4
10. Ceiling on stock of local government arrears (bn lei)	0.84	0.14	0.30	0.24	0.30	0.20	0.30	0.30	0.30	0.25	0.20	0.20
11. Ceiling on stock of net Treasury loans for EU-funded projects (mln lei) 3/	...	1,546	3,000	2,004	3,000	1,852	3,000	4,000	3,000	4,000	4,000	4,000
12. Ceiling on outstanding payments past due of CFR Marfa (as defined in TMU, mln lei)	...	...	...	...	...		...	99.2	...	99.2	99.2	99.2
Memorandum items:												
Central government hospital arrears (bn lei)	...	...	...	0.011	...	0.014	...	...	...	...	...	...
Local government hospital arrears (bn lei)	...	...	...	0.045	...	0.053	...	...	...	...	...	...

1/ The end-December 2012 figure is a stock. Reported at program exchange rates and gold price.
2/ The December 2013 target is adjusted upward by EUR 700 million to reflect the higher than projected program financing due to the drawings under the World Bank DPL-DDO.
3/ Cumulative figure during calendar year (e.g. September 2013 figure is cumulative from January 1, 2013). The September 2013 target is adjusted downward by RON 159 million for higher than programmed spending on national cofinancing of EU funded projects. The December 2013 target is adjusted downward by RON 600 million for higher than programmed spending on national cofinancing of EU funded projects.
4/ Starting end-March 2014, outstanding payments past due accumulated and reported by companies while they are under insolvency procedures are excluded from the target. These past due payments amounted to RON 438 million for end-December 2013.

Table 2. Romania: Performance for First and Second Reviews

	Measure	Target Date	Comments
Prior action			
1.	Provide a report to the IMF on the completion of the actions specified in Section L of the TMU to significantly reduce SOE arrears		
Quantitative performance criteria			
1.	Floor on net international reserves	December 31, 2013	Met
2.	Floor on general government overall balance	December 31, 2013	Not met
3.	Ceiling on central government and social security domestic arrears	December 31, 2013	Met
4.	Ceiling on general government guarantees	December 31, 2013	Met
5.	Non-accumulation of external debt arrears	December 31, 2013	Met
Quantitative Indicative Target			
1.	Ceiling on general government current primary spending	December 31, 2013	Met
2.	Floor on operating balance of key SOEs	December 31, 2013	Met
3.	Ceiling on outstanding payments past due of all central-government owned SOEs	December 31, 2013	Not met
4.	Ceiling on stock of local government arrears	December 31, 2013	Met
5.	Ceiling on stock of net Treasury loans for EU-funded projects	December 31, 2013	Met
Inflation consultation band			
	Inner band	December 31, 2013	Crossed
	Outer band	December 31, 2013	Met
Structural benchmarks			
1.	Start publishing monthly arrears reports and corrective measures being taken by the central and local governments, by unit, on a quarterly basis.	End-September 2013	Met
2.	Prepare the basic health package within the existing spending envelope which will also define the scope of the private sector in the health care system in the future.	End-September 2013	Met with delay
3.	Prepare medium-term financial projections that properly identify the fiscal implications of EU-funded projects, including co-financing needs, financial corrections and non-eligible spending.	Mid-October 2013	Met
4.	Approve, by government memorandum, a list of significant priority projects, based on the prioritization criteria, to help prepare for the 2014 budget.	Mid-October 2013	Met
5.	Launch an initial public offering of 15 percent of the government's shares in Romgaz.	Mid-November 2013	Met
6.	Appoint a professional board in Hidroelectrica in accordance with the provisions of Ordinance 109/2011.	End-November 2013	Met
7.	Approve Covered Bond legislation. 1/	End-December 2013	Not met; propose to reset to end-March
8.	Fully operationalize the commitment control system, supported by necessary legal and procedural changes and cover expenditures of the MoPF and at least one additional unit at both the central and local government levels.	End-January 2014	Not met; propose to reset to end-April
9.	Launch an initial public offering of a majority of the government's shares in Electrica, after the planned capital increase.	End-May 2014	
10.	Make the commitment control system available for operation in all general government entities as a pilot. 2/	End-June 2014	
11.	Launch an initial public offering of 15 percent of the government's shares in Oltenia, prior to the planned capital increase.	End-June 2014	
12.	Launch an initial public offering of 15 percent of shares in Hidroelectrica. 3/	End-June 2014	
13.	Roll out the consolidated fiscal reporting system to all government entities.	End-June 2014	
14.	Resolve possible discrepancies in the fiscal code and IFRS accounting rules on the treatment of NPLs sold to domestic debt management companies in line with the outcome of the pending EC infringement case.	End-December 2014	Met
15.	Prepare and publish consolidated general government accrual based financial statements and ESA95 based reports from the system (the first sets of reports will be for the year ending 2014), and reconcile with each other and with cash-based budget execution reports.	End-June 2015	
New structural benchmarks			
1.	Provide quarterly progress reports on the number of completed audits in the large taxpayers unit and high net wealth individuals unit, and number of installment agreements signed for large taxpayers and medium-size taxpayers to clear tax arrears as well as collection targets based on these actions (see TMU, paragraph 28).	End-March 2014	
2.	Submit to parliament an insolvency code aimed at better supporting early rescue of viable firms and speedy exit of non-viable firms, prepared in consultation with IMF staff, at a minimum on: pre-insolvency procedures, creditor voting, priority financing, automatic stay, ranking of claims, and notice requirements.	End-April 2014	
3.	Prepare a strategy for the reduction of fully provisioned uncollectible NPLs on commercial banks' balance sheets	End-May 2014	
4.	Prepare a plan that clearly identifies the companies and the actions that will be taken to adhere to the overall path of arrears reduction established under the program.	End-April 2014	
5.	Issue a press release announcing the pilot structural compliance project targeted at undocumented labor and tax evasion.	End-May 2014	

1/ A modification of this benchmark is proposed to specify that the required action is submission of draft legislation to parliament.
2/ A modification of this benchmark is proposed to facilitate monitoring by specifying the required actions.
3/ The content of this benchmark has been modified: the size of the IPO was increased from 10 to 15 percent and the reference to the planned capital increase dropped.

Attachment II. Romania: Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, the methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2013 and 2014 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 4.4588 = €1, to the U.S. dollar at RON 3.4151 = $1, to the Japanese yen at RON 3.4480 = ¥100, and to the pound sterling at RON 5.2077 = £1, and *the gold price* is set at RON 132.1562 per gram as shown on the National Bank of Romania's (NBR's) website as of June 30, 2013. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of June 30, 2013.

3. For the purposes of the program, the *general government* includes the entities *as defined in the 2013 and 2014 budgets*. These are: the central government (state budget, 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.

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

A. Floor on the Change in Net International Reserves

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

5. NIR of the NBR are defined as the euro value of gross foreign assets of 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 and gold price.

6. Gross foreign assets of the NBR are defined to include the NBR's holdings of monetary gold, 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) precious metals other than monetary gold; (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), banks' foreign currency deposits against reserve requirements, and all credit outstanding from the IMF, but excluding government foreign currency deposits at the NBR.

Floor on Cumulative Change in NIR from the Beginning of 2013 and 2014 (in million euros)[1]

	2012	2013	2013			2014			
	Dec. stock	June stock	June actual	Sept. actual	Dec. actual	March PC	June PC	Sept. ind.	Dec. ind.
Cumulative change in NIR	16,344	20,266	3,922	6,326	7,343	-500	0	200	500
Memorandum Item: Gross Foreign Assets	34,152	35,381	1,229	2,226	2,003	-1,911	-2,932	-3,625	-3,970

[1]PC = performance criterion; data for end-month. Flows are cumulative from the beginning of the same calendar year (e.g., June 2013 figure is cumulative from January 1, 2013). Current year stocks are obtained by adding the flows to the previous end-year stock.

8. The NIR targets will be adjusted (i) upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection (Program disbursements are defined as external disbursements from official creditors (WB and the EC) that are usable for the financing of the overall central government budget); and (ii) downward by the full amount of the shortfall relative to the baseline of external bond placement by the MOPF.

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

	2013			2014			
	June actual	Sept.	Dec.	March	June	Sept.	Dec.
Cumulative change under external program	0	0	0	0	500	500	800
Cumulative change in external MOPF bond placement	1,122	1,122	2,322	1,532	2,532	2,532	2,532

[1]Flows are cumulative from the beginning of the same calendar year (e.g., June 2013 figure is cumulative from January 1, 2013).

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

9. The quarterly consultation bands around the 12-month projected 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

	2013			2014			
	June actual	Sept. actual	Dec. actual	March target	June target	Sept. ind.	Dec. ind.
Outer band (upper limit)				3.0	3.6	5.0	5.5
Inner band (upper limit)				2.0	2.6	4.0	4.5
Actual / *Center point*	5.4	1.9	1.6	*1.0*	*1.6*	*3.0*	*3.5*
Inner band (lower limit)				0	0.6	2.0	2.5
Outer band (lower limit)				-1.0	-0.4	1.0	1.5

C. Performance Criterion on General Government Balance

10. The budget deficit for 2013 and 2014 will be monitored through the cash balance of the general government in GFS 1986 classification. Consistent with the national methodology,

revenues and spending for EU funds will be treated on an accrual basis. Any privatization receipts will be treated as a below the line item. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.

Cumulative Floor on General Government Balance[1]

	(In millions of lei)
End-June 2013 (actual)	-6,621
End-September 2013 (actual)	-8,143
End-December 2013 (actual)	-15,711
End-March 2014 (performance criterion)	-4,539
End-June 2014 (performance criterion)	-8,230
End-September 2014 (indicative)	-7,209
End-December 2014 (indicative)	-14,712

[1] Cumulative figure during calendar year (e.g., June 2013 figure is cumulative from January 1, 2013).

11. The cumulative floor on the general government balance will be adjusted upward by the shortfall in spending on national cofinancing of EU funded projects (excluding cofinancing from the top-up funds). For end-March 2014, the general government balance will be adjusted upward by the shortfall in quarterly spending on national cofinancing of EU funded projects (excluding cofinancing from the top-up funds) relative to a baseline of 3,223 million RON, up to a limit of 650 million RON. For end-June 2014, the general government balance will be adjusted upward by the shortfall in quarterly spending on national cofinancing of EU funded projects (excluding cofinancing from the top-up funds) relative to a baseline of 3,223 million RON, up to a limit of 650 million RON.

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

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

The data on the beginning and ending balance of the Treasury account will also be provided.

13. If the difference between the general government deficit measured from above the line and from below the line is larger than lei 200 million each quarter during 2014, the MOPF will consult with IMF staff. The first quarter deficit target includes a treasury loan to Calatori to provide for arrears clearance which at the first budget revision will be recorded as budget expenditure. The overall deficit for the year includes RON 220 million for this purpose.

D. Indicative Target on the Stock of Net Treasury Loans for EU-Funded Projects

14. The Ministry of Public Finance may provide net loans from the Treasury for EU funded projects, defined as the temporary financing for EU structural and cohesion fund projects minus the reimbursements from EU for the EU structural and cohesion fund projects. The net stock outstanding at end-March and end-June 2014 cannot exceed 4 billion RON (indicative targets).

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

15. The issuance of general government guarantees to the nonfinancial private sector and public enterprises will be limited during the program period. The ceilings are specified in the table below.

Ceiling on New General Government Guarantees Issued from end 2008 Until:	(In billions of lei)
End-June 2013 (actual)	10.9
End-September 2013 (actual)	11.45
End-December 2013 (actual)	12.1
End-March 2014 (performance criterion)	18
End-June 2014 (performance criterion)	18
End-September 2014 (indicative)	18
End-December 2014 (indicative)	18

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

16. 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). The authorities will consult with IMF staff if new arrears are disputed following an audit by the Central Harmonization Unit for Financial Management and Control Systems. As a memorandum item, arrears of central government hospitals will be reported separately.

Stock of Central Government and Social Security Arrears	(In billions of lei)
End-June 2013 (actual)	.035
End-September 2013 (actual)	.018
End-December 2013 (actual)	.01995
End-March 2014 (performance criterion)	.02
End-June 2014 (performance criterion)	.02
End-September 2014 (indicative)	.0175
End-December 2014 (indicative)	.015

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

17. 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.

H. Indicative Target on General Government Current Primary Spending

18. 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 and spending funded through the clawback tax.

Cumulative Change in General Government Current Primary Expenditures[1]	(In millions of lei)
End-June 2013 (actual)	70,412
End-September 2013 (actual)	105,570
End-December 2013 (actual)	144,560
End-March 2014 (target)	36,500
End-June 2014 (target)	73,000
End-September 2014 (indicative)	109,000
End-December 2014 (indicative)	150,500

[1] Cumulative figure during calendar year (e.g., June 2013 figure is cumulative from January 1, 2013).

I. Indicative Target on Local Government Arrears

19. 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). As a memorandum item, arrears of local government hospitals will be reported separately on a quarterly basis.

Stock in Local Government Arrears	(In billions of lei)
End-June 2013 (actual)	.143
End-September 2013 (actual)	.238
End-December 2013 (actual)	.196
End-March 2014 (target)	.300
End-June 2014 (target)	.250
End-September 2014 (indicative)	.200
End-December 2014 (indicative)	.200

J. Absorption of EU Funds

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

K. Monitoring of Public Enterprises

21. Public enterprises are defined as all companies including research institutes, incorporated under Law 31/1990 (as amended) and *regii autonome,* organized under Law 15/1990 (as amended), with a cumulative public capital share of 50 percent or more, held directly or indirectly by the central or local governments.

22. Quarterly indicative targets for the first and second quarters of 2014 are set on the aggregate operating balance net of subsidies and the effects of one-off financial or accounting operations, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A. and five of its subsidiaries (S.C. Interventii Feroviare S.A., Informaticã Feroviarã S.A., S.C. Sere şi Pepiniere S.A., S.C. Electrificare CFR S.A., and S.C. Întreţinere Mecanizata S.A.) S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A. and its subsidiary (S.C. Întreţinere şi Reparaţii Locomotive şi Utilaje S.A.), and S.N. Transport Feroviar de Călători "CFR Călători" S.A. and its subsidiary (S.C. de reparaţii locomotive C.F.R. SCRL Braşov 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-December 2012 (actual)	-3.1
End-June 2013 (actual)	-1.0
End-September 2013 (preliminary)	-1.3
End-December 2013 (preliminary)	-2.2
End-March 2014 (target)	-0.7
End-June 2014 (target)	-0.9
End-September 2014 (indicative)	-1.2
End-December 2014 (indicative)	-2.1

[1] Cumulative figure during calendar year (e.g., June 2013 figure is cumulative from January 1, 2013).

23. In case one of these enterprises is placed into insolvency or liquidation procedures, which occurs when it is recorded in the trade registry that the enterprise was placed into insolvency or liquidation procedures, or its majority share is privatized, which occurs when payment is received from an entity, in which the government does not have a controlling interest, in exchange for the majority shares of the enterprise, the aggregate target listed above will not 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.

24. Quarterly indicative targets for the first and second quarters of 2014 are set on the stock of outstanding payments of public enterprises owned by the central government that were not made by the due date. The stock excludes outstanding payments past due of those public enterprises owned by the central government that are already under insolvency or liquidation procedures. The beginning date for measuring the stock is December 31, 2012. The data shall be reported at the firm level. The targets will be as follows:

Ceiling on Outstanding Payments Past Due[1]	(In billions of lei)
End-December 2012 (actual)	12.7
End-June 2013 (actual)	8.3
End-September 2013 (preliminary)	7.0
End-December 2013 (preliminary)	7.2
End-March 2014 (target)	5.4
End-June 2014 (target)	4.6
End-September 2014 (indicative)	3.9
End-December 2014 (indicative)	3.4

[1] Starting end-March 2014, outstanding payments past due accumulated and reported by companies while they are under insolvency procedures are excluded from the target.

In case one of these enterprises is placed into insolvency or liquidation procedures, which occurs when it is recorded in the trade registry that the enterprise was placed into insolvency or liquidation procedures, or its majority share is privatized, which occurs when payment is received from an entity, in which the government does not have a controlling interest, in exchange for the majority shares of the enterprise, the aggregate target listed above will not be adjusted by the outstanding payments past due 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.

25. Quarterly indicative targets for the first and second quarters of 2014 are set on the stock of outstanding past due principal payments of S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A. and its subsidiary (S.C. Întreţinere şi Reparaţii Locomotive şi Utilaje S.A.). The beginning date for measuring the principal stock is December 31, 2013. The target excludes existing and future interest and penalties incurred on the stock of outstanding past due payments as of December 31, 2013. The targets will be as follows:

Ceiling on Outstanding Payments Past Due	(In millions of lei)
End-December 2013 (preliminary)	99.2
End-March 2014 (target)	99.2
End-June 2014 (target)	99.2
End-September 2014 (indicative)	99.2
End-December 2014 (indicative)	99.2

L. Reporting Requirements for the Prior Action

26. Completion of the prior action related to the reporting of actions taken to reduce SOE arrears requires receipt by the IMF of:

- for the three public enterprises SC Interventii Feroviare S.A., SC Servicii Energetice Oltenia SA Filiala Electrica, and "S.C. Tipografica Filaret S.A." placed into insolvency or liquidation procedures – the general shareholders meetings' decisions on placing the enterprises into insolvency or liquidation procedures;

- for the payment from the budget in the amount of at least RON 220 million to partially clear arrears of state-owned railway companies for electricity supplies – government emergency ordinance and approved withdrawal request;

- for the payment from the budget to clear the arrears of the National Road Company as of December 31, 2013 - the credit opening document;

- for the lease or closure of over 700 km of rail line - an approved government decision, published in the Official Gazette.

M. Reporting Requirements on Tax Administration

27. ANAF will provide quarterly data (within 25 days) on the performance of audit and installment agreements relative to the targets as specified in the following table:

Romania: Audit and Installment Agreements

	2011	2012	2013	2014				
			Total	Total	Q1	Q2	Q3	Q4
Audits								
Large Taxpayers								
No. of closed audits	282	243	242	305	58	95	82	70
Supplementary amounts discovered (mill. lei)	2445.5	944	2,559.10	1447.2	275.2	450.8	389.1	332.2
Fiscal Verifications								
High Net Wealth Unit								
Closed preliminary verifications	-	-	24	6	6	-	-	-
Fiscal verifications	-	-	-	10	-	-	-	10
Income tax amounts declared by HNWI group population (mill lei) 1/	238.3	252.2	267.3	283.4	-	-	-	-
Installment Arrangements to Clear Tax Arrears 2/								
Large taxpayers								
Number of installments granted	15	42	57	87	74	80	83	87
Value of installments granted ('000 lei)	379	553	939.24	1479	1184	1280	1245	1479
Medium-sized taxpayers								
Number of installments granted	232	550	775	1154	933	1018	1096	1154
Value of installments granted ('000 lei)	174	396	395.21	669.3	606.5	692.2	602.8	669.3

1/ The income tax declared during the current year refers to the income received during the previous year.

2/ Refers to the evolution of the stock (new entries minus payments done or cancelations) of installment agreements and the corresponding amounts.

N. Reporting Requirements

28. 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 Public Finance	
Preliminary monthly data on general government accounts, including on GFSM 2001 basis	Monthly, on the 25th day of the following month
Quarterly final data on net lending from the Treasury for EU funded projects	Quarterly, on the 5th day past the test date
Preliminary monthly data providing a breakdown of general government expenditures on post-accession EU projects (co-financing, non-eligible spending, corrections, reimbursable funds, and EU top-ups)	Monthly, on the 25th day of the following month
Preliminary monthly data on EU funds with breakdown on each operation program, including inflows.	Monthly, on the last day of the following month
Quarterly final data on general government accounts, including public enterprises as defined by ESA95 and breakdown of general government spending on EU projects	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, including details of the domestic and external issuances and repayments (by currency)	Quarterly, no later than 45 days past the test date
Total accounts payable and arrears of the general government, including local governments and central and local government hospitals	Preliminary monthly, within the next month. Quarterly, within 55 days

Progress report on the status of the audit of the stock of the disputed local arrears.	Quarterly, no later than 45 days past the end of each quarter
Data on payment delays and arears with respect to drug reimbursement by the National Health Insurance House (pharmacies and wholesale), with a particular view on the implementation of directive 7	Monthly, at the end of each month
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
Time lines showing the expected completion dates for key steps leading to the launching of the initial public offerings of the energy state-owned companies	Quarterly, within 10 days of the end of each quarter
Preliminary data on the operating balance, profits, stock of outstanding payments past due, and personnel expenditures for each key public enterprise as defined in ¶22	Monthly, within 25 days
Final data on the operating balance, profits, stock of outstanding payments past due, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, end-May for the previous year and end-August for first half of the current year
Preliminary data on the stock of outstanding principal payments past due for the public enterprises identified in ¶26. The data will show separately the principal, interest, and penalty amounts of the outstanding payments past due.	Monthly, within 25 days

Preliminary data on the stock of outstanding payments past due for each public enterprise as defined in ¶21	Quarterly, within 35 days
Final data on the stock of outstanding payments past due for each public enterprise as defined in ¶21	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
Data on subsidies by ministries	Quarterly, one month after the end of the quarter. Additional reporting one week before review mission
Data on public employment and status of ordinance 77/2013 implementation, in particular numbers of staff reductions at central government ministries and staff increases at local governments	Monthly, at the end of each month

To be provided by the National Bank of Romania	
NIR 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
Detailed bank-by-bank data on restructured loans to households and corporates including SOEs	Quarterly, 45 days after the end of each quarter
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

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

The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million	Immediately, upon occurrence

INTERNATIONAL MONETARY FUND

ROMANIA

March 21, 2014

FIRST AND SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PROGRAM CONDITIONALITY, AND REPHASING OF THE AVAILABILITY DATES OF PURCHASES—SUPPLEMENTARY INFORMATION

Approved By
Poul M. Thomsen and Vivek Arora

Prepared By
The European Department

1. **This supplement updates the staff report issued on March 12, 2014, for recent economic and policy developments**. The additional information does not change the thrust of the staff appraisal.

2. **Annual inflation remained low at 1.1 percent in February in line with staff projections**. Core inflation moved out of the deflationary territory, which it was in for three months, to zero percent. Short-term economic indicators point toward continued economic growth in first quarter of 2014. Industrial output and retail sales advanced 2.3 percent and 2.4 percent, respectively, in January compared to December, on a seasonally adjusted basis.

3. **Recent developments in Ukraine have had a limited impact on asset prices in Romania.** The RON/EUR exchange rate and Romania's CDS and EMBIG spreads are relatively flat over the last two weeks, while the stock market has fallen about 1½ percent.

4. **The government completed the prior action.** The prior action encompassed a number of measures to reduce state-owned enterprise (SOE) arrears. The measures were: (i) approving through general shareholders' meetings the liquidation of one SOE and the placement of two others into insolvency; (ii) approving and publishing a government decision to lease 700 km of non-interoperable railway lines; (iii) providing a budget allocation for the national road company to clear its arrears at December 31, 2013; and (iv) approving and publishing a government decision and approving a withdrawal request to provide budget resources to clear railway arrears to electricity suppliers.

Table 1. Romania: Performance for First and Second Reviews

	Measure	Target Date	Comments
Prior action			
1.	Provide a report to the IMF on the completion of the actions specified in Section L of the TMU to significantly reduce SOE arrears		Met
Quantitative performance criteria			
1.	Floor on net international reserves	December 31, 2013	Met
2.	Floor on general government overall balance	December 31, 2013	Not met
3.	Ceiling on central government and social security domestic arrears	December 31, 2013	Met
4.	Ceiling on general government guarantees	December 31, 2013	Met
5.	Non-accumulation of external debt arrears	December 31, 2013	Met
Quantitative Indicative Target			
1.	Ceiling on general government current primary spending	December 31, 2013	Met
2.	Floor on operating balance of key SOEs	December 31, 2013	Met
3.	Ceiling on outstanding payments past due of all central-government owned SOEs	December 31, 2013	Not met
4.	Ceiling on stock of local government arrears	December 31, 2013	Met
5.	Ceiling on stock of net Treasury loans for EU-funded projects	December 31, 2013	Met
Inflation consultation band			
	Inner band	December 31, 2013	Crossed
	Outer band	December 31, 2013	Met
Structural benchmarks			
1.	Start publishing monthly arrears reports and corrective measures being taken by the central and local governments, by unit, on a quarterly basis.	End-September 2013	Met
2.	Prepare the basic health package within the existing spending envelope which will also define the scope of the private sector in the health care system in the future.	End-September 2013	Met with delay
3.	Prepare medium-term financial projections that properly identify the fiscal implications of EU-funded projects, including co-financing needs, financial corrections and non-eligible spending.	Mid-October 2013	Met
4.	Approve, by government memorandum, a list of significant priority projects, based on the prioritization criteria, to help prepare for the 2014 budget.	Mid-October 2013	Met
5.	Launch an initial public offering of 15 percent of the government's shares in Romgaz.	Mid-November 2013	Met
6.	Appoint a professional board in Hidroelectrica in accordance with the provisions of Ordinance 109/2011.	End-November 2013	Met
7.	Approve Covered Bond legislation. 1/	End-December 2013	Not met; propose to reset to end-March
8.	Fully operationalize the commitment control system, supported by necessary legal and procedural changes and cover expenditures of the MoPF and at least one additional unit at both the central and local government levels.	End-January 2014	Not met; propose to reset to end-April
9.	Launch an initial public offering of a majority of the government's shares in Electrica, after the planned capital increase.	End-May 2014	
10.	Make the commitment control system available for operation in all general government entities as a pilot. 2/	End-June 2014	
11.	Launch an initial public offering of 15 percent of the government's shares in Oltenia, prior to the planned capital increase.	End-June 2014	
12.	Launch an initial public offering of 15 percent of shares in Hidroelectrica. 3/	End-June 2014	
13.	Roll out the consolidated fiscal reporting system to all government entities.	End-June 2014	
14.	Resolve possible discrepancies in the fiscal code and IFRS accounting rules on the treatment of NPLs sold to domestic debt management companies in line with the outcome of the pending EC infringement case.	End-December 2014	Met
15.	Prepare and publish consolidated general government accrual based financial statements and ESA95 based reports from the system (the first sets of reports will be for the year ending 2014), and reconcile with each other and with cash-based budget execution reports.	End-June 2015	
New structural benchmarks			
1.	Provide quarterly progress reports on the number of completed audits in the large taxpayers unit and high net wealth individuals unit, and number of installment agreements signed for large taxpayers and medium-size taxpayers to clear tax arrears as well as collection targets based on these actions (see TMU, paragraph 28).	End-March 2014	
2.	Submit to parliament an insolvency code aimed at better supporting early rescue of viable firms and speedy exit of non-viable firms, prepared in consultation with IMF staff, at a minimum on: pre-insolvency procedures, creditor voting, priority financing, automatic stay, ranking of claims, and notice requirements.	End-April 2014	
3.	Prepare a strategy for the reduction of fully provisioned uncollectible NPLs on commercial banks' balance sheets	End-May 2014	
4.	Prepare a plan that clearly identifies the companies and the actions that will be taken to adhere to the overall path of arrears reduction established under the program.	End-April 2014	
5.	Issue a press release announcing the pilot structural compliance project targeted at undocumented labor and tax evasion.	End-May 2014	

1/ A modification of this benchmark is proposed to specify that the required action is submission of draft legislation to parliament.
2/ A modification of this benchmark is proposed to facilitate monitoring by specifying the required actions.
3/ The content of this benchmark has been modified: the size of the IPO was increased from 10 to 15 percent and the reference to the planned capital increase dropped.

Press Release No.14/130
FOR IMMEDIATE RELEASE
March 26, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First and Second Reviews Under the Stand-By Arrangement and Ex-Post Evaluation of Exceptional Access for Romania

The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews of Romania's performance under its economic program supported by a 24-month Stand-By Arrangement (SBA). The authorities are treating the arrangement as precautionary and do not intend to draw under it. Completion of the reviews makes an additional amount equivalent to SDR 389.4 million (about €436.3 million) available for disbursement, bringing the total resources currently available to Romania under the SBA to an amount equivalent to SDR 584.1 million (about 654.4 million). The SBA with access of SDR 1,751.34 million (about €1.96 billion, 170 percent of quota) was approved on September 27, 2013 (see Press Release No. 13/376).

In completing the reviews, the Executive Board approved a waiver of nonobservance of the performance criterion on the general government overall fiscal balance, which was missed by a small margin, and modifications to program conditionality. The Executive Board also approved the Romanian authorities' request to add a review based on end-June 2014 performance. The additional review would coincide with the planned Article IV consultation and the mid-year budget rectification.

The Executive Board also discussed an ex post evaluation (EPE) of the SBA with Romania approved in March 2011. Romania treated the arrangement as precautionary and completed all the reviews. The EPE finds that the program objectives were largely met, although progress on the structural reform agenda was uneven and vulnerabilities remain.

Following the Executive Board's discussion on Romania, Mr. David Lipton, Deputy Managing Director and Acting Chair, said:

"Romania is making good progress under the precautionary SBA. Economic growth reached a post-crisis high in 2013, the current account narrowed significantly, and inflation has fallen to historic lows. However, the economy and the financial sector remain vulnerable to shocks. Steadfast program implementation is essential to preserve macroeconomic stability and policy buffers in this election year.

"The budget deficit target for 2014 provides for further fiscal adjustment, while also supporting greater absorption of European Union funds. Improved capital spending, better revenue collection, and implementation of an expenditure control system are key priorities. Additional action is required to reform the health care sector and shield vulnerable households from deregulated energy prices.

"Efforts are needed to strengthen monetary policy transmission. The banking system remains well capitalized, but the authorities need to accelerate the resolution of non-performing loans and closely monitor risks from parent bank deleveraging. The non-bank financial regulator needs to be reformed in line with best international practices.

"Structural reforms in the energy and transportation sectors have progressed. Electricity prices for commercial users have been liberalized and initial public offerings were held in two major energy companies. Sustained progress in state-owned enterprise reform, including a restructuring of the freight railway company and a reduction of arrears will continue to be critical components of the program.

"The EPE concluded that the program objectives were largely met, although progress on structural reforms was uneven and vulnerabilities remain. The evaluation draws several lessons for Fund engagement with Romania. First, program conditionality, particularly as regards complex structural reforms, is no substitute for country ownership. Second, addressing financial sector risks requires strong coordination between home and host supervisors, appropriate macro-prudential policies, and data transparency."

Statement by Mr. Menno Snel, Executive Director for Romania, and Mr. Serban Matei, Senior Advisor to the Executive Director March 26, 2014

We thank the staff for their efforts and constructive dialogue. The current economic program, jointly supported by the Fund, the European Commission, and the World Bank, played an important role in stabilizing the Romanian economy, generating concrete results in maintaining growth and fiscal and financial stability. Romania's performance under the current program continues to be strong. Significant adjustments have taken place in essential areas: exports improved, the current account deficit has narrowed, inflation has decelerated, interest rates considerably adjusted, the fiscal consolidation has continued and the financial sector maintains significant buffers.

The Romanian authorities continue their efforts to reach the goals of a broad structural agenda, with a focus on structural reforms in the energy, transport and healthcare sectors, and continue the reform of the state-owned enterprises. Initial public offerings (IPOs) of shares have been launched in two significant state-owned energy companies and the energy regulator implemented the next steps of the energy price liberalization roadmaps as planned. Absorption of EU funds has significantly accelerated, which is particularly important since domestic demand has been weaker than expected. For 2014, the Romanian authorities remain committed to gradually reducing the fiscal deficit, while slightly moderating the adjustment path to facilitate greater absorption of EU funds with a view to enhancing the economy's growth potential. The prior action on SOE arrears has already been met, together with four out of five quantitative performance criteria.

The recent economic developments are encouraging. Despite a challenging environment, Romania's economic recovery continues. Real GDP grew by 3.5 percent in 2013 and is projected at 2.2 percent in 2014, less than in 2013 but with a significant pick-up in non- agricultural growth. The main engine of growth was exports, which offset a sharp fall in domestic demand. For 2013 exports to other EU countries increased by 8 percent while exports to non-EU countries were even stronger, growing at 10 percent. A bountiful harvest and good industry performance further boosted output, with agriculture accounting for almost a third of the annual output increase.

The inflation rate has rapidly fallen below the central bank's target range, from 1.6 percent in the second half of 2013 to 1.1 percent (yoy) in February on account of declining food prices due to the abundant autumn harvest, a reduction in VAT on flour and bakery products, the dissipating effects of administered price increases in 2012, and weak domestic demand.

The external position has been consolidated. The current account deficit narrowed, with 1.1 percent expected for 2013. There are signs that some of the improvement could be permanent, such as the greater value added in exports, larger share of service exports, and lower energy imports. Romania continued and improved its presence on international capital markets, thus generating buffers equal with 9 months of gross financing needs.

The authorities successfully tapped international capital markets several times since September, most recently garnering USD 2 billion from an issuance of 10- and 30-year Eurobonds in January 2014, which followed the 2013 Euro denominated issuances for 1.5 billion in September 2013 and 0.5 billion in October 2013. Sovereign and CDS spreads widened during the recent market turbulence but less than in most other many emerging markets, underpinning that sound macroeconomic policies have shielded Romania from most of the recent volatility. Private sector capital flows were more mixed with FDI picking up from recent lows, while banking sector deleveraging continued. The central bank sustained international reserves at €35 billion as of end-February, while making substantial repayments to the Fund in 2013 (almost 60 percent of the amount).

Despite the progress achieved, the recovery remains vulnerable to adverse developments in international markets, regional unrest, and possibly continued bank deleveraging. The monetary policy tightening in advanced economies could trigger capital outflows as investors reassess portfolio risks and return with further downward pressure on the exchange rate. Capital flows could also come under pressure if confidence wanes as the situation in the region unfolds. Given the large volume of foreign-currency lending, a sharp depreciation in the exchange rate could lead to further deterioration in bank and private sector balance sheets. Possible spillovers to Romania from the Ukrainian situation are marginal, especially in the short run. The authorities will remain vigilant, act proactively, and take the necessary steps to contain these risks. Therefore, continued firm policy implementation and maintenance of fiscal, external, and financial sector buffers to safeguard against risks are essential for the Romanian authorities.

Good progress has been made in the fiscal sector. Since the start of the first program, Romania significantly improved its fiscal position and the authorities remain committed to continue this process. The new government, formed in early March intends to pursue new fiscal measures only provided that they are consistent with the fiscal framework. In 2013, the fiscal deficit remained below 3 percent of GDP, below the threshold of the EU's Excessive Deficit Procedure. Under the new fiscal strategy, implementing further structural adjustments, the 2014 budget targets a cash deficit of 2.2 percent of GDP. Compensating measures to achieve the deficit target have been taken, with excises increased in line with inflation instead of the exchange rate and the base on property taxes has been expanded to include special constructions. The implementation of the disputed 7 euro cent surcharge on diesel and gasoline products will start on April 1st, 2014. Given the recent acceleration in the absorption of EU funds, the deficit ceiling was increased by

0.2 percent of GDP compared to program approval to create room for more co-financing of EU funds (in the form of an adjuster). Specifically, additional EU funds absorption has been incorporated into the baseline deficit target, which will be tightened if actual EU cofinancing is less than projected.

The government considers its measures towards eliminating central and local government arrears crucial. Program arrears targets were met, with central government arrears remaining at a de minimis level, while local government arrears minimally increased, although remaining below the indicative ceiling.

The monetary authorities responded appropriately to economic developments. The National Bank of Romania (NBR) continued the easing cycle during September 2013 to February 2014, lowering the policy rate by a cumulative 100 basis points to 3.5 percent. Reflecting this decline, average interest rates on new loans reached historical lows at the end of 2013 (7.6 percent). In addition, in January 2014 the NBR reduced the high minimum reserve requirements (MRRs) by three percent for Romanian Leu denominated liabilities and two percentage points for the foreign exchange denominated ones, with a view to gradually bringing the MRRs closer to levels maintained by the European Central Bank and prevailing in most other EU countries.

Base money creation has increasingly reflected treasury operations related to growing disbursements of EU funds. The resulting buildup of excess liquidity, which in the meantime has been mopped up, explained the divergence between interbank rates and the policy rate, which has complicated monetary operations. The central bank will ensure adequate liquidity conditions in the banking system, while underpinning the good functioning of money markets and reducing the divergence between interbank rates and the policy rate in order to strengthen the transmission of monetary policy signals. The Romanian monetary authorities are committed to closely monitor inflation developments following the recent easing steps to ascertain that inflation expectations remain firmly anchored, and market conditions remain favorable.

The Romanian financial sector is performing well. It maintains reassuring capital buffers, enhanced liquidity and provisioning, but is still confronted with pressures from foreign bank deleveraging. Total prudential provisions at the end of 2013 were sufficient to cover 89.8 percent of NPLs while the IFRS provisioning ratio increased to 67.6 percent. In line with EU regulatory requirements, the prudential filter started its scheduled phase-out period at end- January 2014. It was reduced by one fifth, and will be gradually eliminated until 2018. This measure will have a positive impact on the level of own funds that are taken into account for determining the level of the capital adequacy ratio, due to the gradual decrease of the number of prudential filters previously used as deductions from own funds. The provisioning requirements, along with low lending activity and a relatively high cost base, led banks to obtain a positive financial result in 2013. The capitalization of the banking sector remained strong at 15 percent. A new collateral audit mandated by the central bank in the last quarter of 2013 led to the identification of a system-wide provisioning gap of RON 800 million, which was closed by year-end. Foreign-owned bank deleveraging has accelerated in line with the rest of the region but remains orderly, with a parent funding decline of 30 percent since end-2011 (19 percent in 2013 alone up to December). As a result, reliance on local funding has increased, especially deposits, prompting a significant fall of the system-wide loan-to-deposit ratio to 105 percent at end-2013, from 117 percent the previous year. The central bank will continue to closely monitor and supervise the banking system and take any necessary measures to ensure that banks maintain sufficient capital and liquidity and, in close coordination with the IMF and EC, the NBR will continue to regularly conduct top-down and bottom-up solvency stress tests as well as liquidity stress tests of the banking industry.

Significant progress has been achieved in the implementation of the structural reform agenda. Since the debut of the current program authorities have launched a landmark IPO of the state-owned natural gas producer (Romgaz), sold 10 percent of the shares in the nuclear energy company (Nuclearelectrica) and the energy regulator raised prices in accordance with the liberalization calendars. Both IPOs were oversubscribed and generated significant million in gross proceeds. Moreover, the Romgaz transaction was completed at the upper end of the price range. The authorities also committed to undertake a major restructuring of the state- owned freight railway operator (CFR Marfa) in the wake of the failed privatization effort. The process has already started with measures in avoiding arrears and will continue with the authorities' intention to re-launch the privatization of this company. On the transport sector, authorities will continue to work closely with the World Bank and EBRD to continue reform of the rail sector with the goal of improving the financial and operational performance of railway SOEs and the quality of rail service.

Healthcare represents another important pillar of the reform. Progress has been made in reforming the healthcare system to ensure financial sustainability, raise efficiency, and improve health services delivery. The authorities have defined and evaluated a basic health package. The reform measures are designed to remain within the existing budget in 2014. Remaining services to be covered by private co-payments and private health insurance will be defined by September 2014. The authorities have already launched discussions with the private sector on various private insurance schemes to cover those remaining services.

In conclusion, my authorities concur that the current precautionary Stand-By Arrangement is crucial in maintaining the reform momentum, providing additional security against unforeseen risks, and building on the considerable progress achieved over the past years. The program set the stage for strong and sustainable economic development while maintaining external and internal stability. The authorities remain committed to the economic program.

*   *   *

With regard to the Ex Post Evaluation of Exceptional Access under the 2011 Stand-By Arrangement the Romanian authorities agree with the main conclusions of the Ex-Post Evaluation report. They concur with the view that the program was well-conceived, and correctly focused on continuing fiscal adjustment, boosting potential growth through structural reforms, and fostering confidence, particularly providing adequate financial support and helping to strengthen the resilience of the financial sector. The authorities consider the previous program was an important tool to signal their reform commitment and keep policy implementation on course.