

MEMORANDUM OF UNDERSTANDING

(Memorandum of Understanding)

BETWEEN

THE EUROPEAN UNION and ROMANIA

MEMORANDUM OF UNDERSTANDING

Between

THE EUROPEAN UNION and ROMANIA

1. On 12 May 2011, the Council of the European Union adopted a decision making available a precautionary medium-term financial assistance of up to EUR 1.4 billion for Romania.¹ The EU assistance for Romania under the Balance of Payments (BoP) facility comes in conjunction with IMF support through a Stand-by Arrangement (SBA) in the amount of SDR 3.090 billion (about EUR 3.5 billion, 300% of Romania's IMF quota), approved on 25 March 2011, which the authorities will also treat as precautionary. The World Bank will continue providing earlier committed support of EUR 400 million under its development loan programme (DPL3) and of EUR 750 million of results based financing for social assistance and health reforms. The EU precautionary assistance will be conditional upon the implementation of a comprehensive economic policy programme, with a particular focus on structural reform measures aiming at improving the functioning of labour and product markets and increasing the resilience and the growth potential of the Romanian economy. In parallel, the programme ensures the continuation of fiscal consolidation, the reform of the tax administration, improvements in public financial management and control as well as external, monetary, financial stability, and financial market reform. In its totality, the programme is geared towards: (i) putting an end to the excessive budget deficit by 2012; (ii) improving the growth potential; and (iii) decreasing the future likelihood of renewed excessive structural imbalances in the Romanian economy.
2. EU financial assistance will be available for activation until 31 March 2013 and will be of a precautionary nature, i.e., the overall loan amount would only be made available, upon a request for activation from Romania, in case of an unforeseen marked deterioration in the economic and/or financial situation due to factors outside the control of the authorities, leading to the opening of an acute financing gap. The availability for activation of the assistance is subject to, amongst others, the entry into force of the present Memorandum of Understanding (MoU) and the corresponding Framework Loan Agreement (FLA). The MoU will be adopted and signed by the European Commission (Commission), following the consultation of the EU's Economic and Financial Committee (EFC). The parties will conclude and sign the FLA, containing the main terms and conditions applicable to all the potential disbursements within the precautionary EU financial assistance programme, but – for the avoidance of doubt - any disbursement would be subject to the activation of the facility. The Commission will decide, after having consulted the EFC, on the activation of the programme and on the amount to be made available within the EUR 1.4 billion ceiling for disbursements in the form of instalments.

¹ OJ L 132, 19.5.2011, p. 15.

3. Precautionary EU financial assistance is made available for activation following the request of Romania for a support programme continuing the previous BoP facility of EUR 5 billion.² Some policy measures foreseen prior to the disbursement of the final instalment under the preceding EU BoP loan have been brought forward, while some policy measures have been carried over to the current assistance and are part of the present economic reform programme.
4. Following the austerity measures implemented in mid-2010, the budget deficit (cash basis) has been brought down to 6.4% of GDP from a deficit of 7.3% of GDP in 2009 in a difficult economic context. HICP inflation spiked to just below 8% at end-2010, on the back of significant hikes in indirect taxation and higher food and energy prices. In the course of 2011, inflation is expected to remain above levels targeted by the National Bank of Romania (Banca Națională a României, NBR), before returning to that interval in 2012.
5. Activation of the precautionary assistance, and the subsequent provision of loan instalments, shall also be conditional on a positive assessment by the Commission of the implementation of the economic reform programme of the Romanian Government at six-monthly intervals. Specific economic policy criteria will be attached to these reviews. A detailed description of those criteria is given in Annex 1 of the MoU. The overall objectives of the programme are the following:

A: Fiscal consolidation

Fiscal consolidation remains a crucial element in the reform programme which foresees a reduction of the fiscal deficit to 4.4% of GDP deficit for 2011 on a cash basis (below 5% of GDP in ESA terms) and to below 3% of GDP deficit for 2012 in ESA terms, thereby putting an end to the excessive deficit. Furthermore, the programme will step up efforts to reduce government payment arrears, both at central government and local government levels. The financial reporting system of those state-owned enterprises (SOEs) that are, or risk being, classified within general government needs to be enhanced in order to allow a monthly monitoring of their financial situation, including the stock of payments arrears, with a view to gradually reduce the latter. The public sector wage bill will remain capped at RON 39 billion (excluding 1574 million RON in social security contributions for the military as a result of the application of the new pension law) in 2011 and will need to respect the relevant limits set in the Medium-Term Fiscal Strategy over the 2012-2014 period.

B: Fiscal governance and structural fiscal reform

Fiscal governance will strongly benefit from the ongoing Technical Assistance provided by the IMF and the World Bank in the area of Public Financial Management and Control. This also includes training of staff and the refurbishing of the entire IT infrastructure in the central government's budget and expenditure management. The economic programme caters for the fact that public investment needs to be better prioritized and the planning, monitoring and evaluation of public investment projects have to be improved. The economic programme contains several measures to this end, including the creation of a project database, increased capital

² Council Decision 2009/459/EC of 6 May 2009, amended by Council Decision 2010/183/EU of 16 March 2010.

investment planning and monitoring capacity at the level of the Prime Minister and in the Ministry of Finance, respectively. Hospital budgets under the subordination of the Ministry of Health will be closely monitored by the Ministry of Finance in order to avoid a re-accumulation of payment arrears. The Romanian authorities will continue to review and update the debt management strategy on an annual basis, i.e. under this programme by end-December 2011 and end-December 2012.

VAT accounts for around 30% of total tax revenue in Romania and there has been a steady decrease of VAT as a percentage of GNP since 2008. A reinforcement of VAT control is therefore necessary in order to safeguard the fiscal balance. In the framework of the Balance of Payments support programme of aid to Romania the Commission services (DG TAXUD) have provided technical assistance to Romania in order to evaluate the deficiencies of the tax administration in terms of VAT control and the problem of non-compliance. Romania has accepted to implement a number recommendations to change legislation and administrative practice with the aim to improve the general level of compliance and to tackle fraud in the field of VAT. Moreover Romania will report every half year to the Commission on the progress made.

Eurostat issued a reservation on the quality of the Romanian EDP data during the April 2011 notification. The authorities will work with Eurostat to resolve the outstanding methodological issues from that notification including: (i) the sector classification of public corporations and compilation of the statistics on net lending/net borrowing for these units; (ii) the accrual recording, compilation and reporting of other accounts receivable and payable; (iii) the clarification of the nature and of the impact of some financial transactions; and (iv) the consolidation of intergovernmental flows. In more general terms, the Romanian authorities will urgently reinforce the existing statistical expertise and give priority to the compilation of government finance statistics within the National Statistical Institute (NSI), including by ensuring the adequate continuity of staff as well as continuous methodological and technical training.

C: Financial sector regulation and supervision

In the financial sector, authorities will ensure that the prudential treatment of debt-for-equity swaps will not lead to a weakening of the financial positions of credit institutions. To prepare the introduction of IFRS as of 2012, authorities will develop proposals for prudential filters aiming at preserving the prudent approach to loan-loss provisioning, solvency and reserves. Preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability. Therefore, the government will continue refraining from adopting legislative initiatives (such as the personal insolvency law) and promoting provisions in the debt collection law, which would undermine credit discipline. Moreover, authorities will make the necessary amendments to correlate the provisions of the law on the bankruptcy of insurance undertakings with the general law on insolvency and the law on insurance business and insurance supervision.

D: Monetary Policy

Monetary policy will remain geared towards price stability and the achievement of the National Bank of Romania's inflation targets (3.0% ± 1 percentage point at end-2011 and end-2012).

E: Structural reforms

The economic programme of the Romanian Government has a strong focus on product and labour market reform with a view to improve the functioning of these markets and thereby make the Romanian economy more resilient when faced with external shocks and to strengthen its long-run growth potential. The structural reform agenda of this programme shall be included in Romania's National Reform Programme and will help Romania achieve its national goals set out in the framework of the Europe 2020 growth strategy.

In the energy sector, the programme foresees the deregulation of the price-setting and the trade with electricity and gas with the aim to increase market access and transport capacity and to contribute to build a fully functioning, integrated and interconnected internal market in electricity and gas as recalled by the European Council of 4 February 2011. The programme foresees the creation of a strong and independent energy regulator, able to fulfil its tasks and responsibilities as defined in the third energy package. The restructuring plan for the coal sector will be notified to the Commission. The programme contains a comprehensive reform of the railway sector aiming at increased efficiency for the provision of passenger transport services and the planning of railway infrastructure, while making the sector more attractive for non-passenger transport (cargo). The reform will be helped by a strong and independent regulatory body for the railway sector.

The Romanian legal framework on public-private partnerships needs to be reviewed in order to ensure full compliance with EU public procurement Directives. Further, a review of the public procurement environment shall be completed. The programme foresees the establishment of an operational Point of Single Contact (PSC), provided for in the Services Directive, to help businesses with all administrative procedures involved for the establishment in Romania or for the cross-border service provision and will remove restrictions for the setting up of retail shops.

The programme continues the reform of the labour market through the amendment of the Labour Code in 2011, and streamlining wage setting institutions. The labour market rigidity shall be addressed through a more adequate employment protection legislation and through the adaptation of the flexicurity principles. The Romanian Government will seek with the relevant stakeholders how to rationalise wage bargaining in the private sector. Finally, the policy programme contains measures to increase labour supply incentives while reducing undeclared labour. The reforms shall be in compliance with EU Directives and core labour standards and shall take due account of the need to have an integrated approach to flexicurity.

Authorities will take measures to strengthen corporate governance of State Owned Enterprises, including in the financial sector.

On the much needed increase in the absorption of EU funds, the programme foresees the implementation of the Government's Action Plan which is currently being finalized by the Romanian authorities in reply to the letter by the President of the Commission of 13 December 2010. The programme sets specific targets for the cumulative aggregate level of certified expenditures until the end of 2012, including the insurance that adequate national resources for co-financing are being secured in the annual budgets in order to avoid the situation where Romania loses a substantial part of the structural funds made available for its economic development.

The ongoing functional review of R&D and Innovation shows that the sector remains in a poor state, with seriously negative implications for the country's longer term competitiveness and growth. Romania's government and private sector are investing too little in R&D and innovation and, as importantly, the efficiency and effectiveness of the investment need to be substantially improved. The consistent structural reforms of the R&D and Innovation sector recently initiated by the Government should be implemented in a timely and comprehensive fashion.

6. In case Romania requests the activation of the EU assistance to cope with the emergence of an acute financing gap, the Romanian Government shall make this request in writing to the Commission. Any such request for activation, as well as any request for disbursement, is to be made no later than 31 March 2013. The European Commission will assess financing needs in close co-operation with the International Monetary Fund (IMF) in case of a joint programme. After the EFC has delivered its opinion, the European Commission shall decide on the amount to be made available for disbursement in the form of instalments.
7. Any appropriate changes in conditionality will be specified in an Addendum to this MoU (Supplemental Memorandum of Understanding), which shall also specify an indicative schedule for the instalments. The funds of the overall programme will be made available in a maximum of 3 instalments.
8. In case a disbursement has taken place, the EFC shall be kept informed by the Commission of possible refinancing of the borrowings or restructuring of the financial conditions.
9. In the case where Romania requests the disbursement of an instalment under the LFA and any disbursement takes place, the European Central Bank shall act as an agent to the Commission and shall transfer the proceeds of the loan to a euro account of the Ministry of Public Finance of Romania (the Treasury), held at the NBR, that will act as an agent for Romania.
10. The updates to the Romanian Convergence Programme and the Romanian National Reform Programme under the EU2020 Strategy shall reflect and be fully in line with the objectives and actions required under the economic reform programme committed by the Romanian Government for the purposes of this EU assistance.
11. The Ministry of Public Finance shall retain a special account with the NBR for the management of the European Union's financial assistance. This special account will be a sub-account of the euro-account of the Ministry of Public Finance within the NBR.

12. During the availability period of the assistance, the Romanian authorities shall make available to the Commission without delay all the relevant information for the monitoring of its economic and financial situation and for the assessment of progress in economic conditions and reform measures as specified in the Annexes to this Memorandum. Prior to the acceptance of the disbursement of any instalment, there will be a compliance report by the Commission, the favourable outcome of which is a precondition for each of the instalments.
13. Investigation and satisfactory treatment of any suspected and actual cases of fraud, corruption or any other illegal activity in relation to the management of the EU financial assistance shall be ensured. All such cases as well as measures related thereto taken by national competent authorities shall be reported to the Commission without delay.
14. Without prejudice to Article 27 of the Statute of the European System of Central Banks and of the European Central Bank, the European Court of Auditors shall have the right to carry out any financial controls or audits in Romania that it considers necessary in relation to the management of this assistance. The Commission, including the European Anti-Fraud Office, shall thus have the right to send its own officials or duly authorised representatives to carry out technical or financial controls or audits that it considers necessary in Romania in relation to the assistance.
15. An independent ex-post evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The Romanian authorities are committed to supply relevant information for the evaluation. The draft evaluation report will be made available to them for comments.
16. The Romanian authorities will ensure, as appropriate, close co-operation with the Commission and the EFC.
17. The Romanian authorities commit to consult the staff of the Commission before adopting new measures that may have implications for the objectives of the programme. In particular, they will consult in a timely manner and provide all necessary information regarding any measures and reforms that may have an impact on fiscal developments.
18. The Annexes form an integral part of this Memorandum of Understanding.

19. All notices in relation with the Memorandum shall validly be given if in writing and sent to:

For the European Union

European Commission
Directorate General for Economic and Financial Affairs
B-1049 Brussels
Fax No.: +32 2 299 35 23

For the Prime Minister

Prime Minister's Office
1, Piața Victoriei
Sector 1, 011791, Bucharest
Fax No.: +40 21 319 15 88

For the Ministry of Public Finance of Romania

Ministry of Public Finance of Romania
Apolodor Street, 17
Sector 5, 050741 Bucharest
Fax No.: +40 21 312 16 30

For the National Bank of Romania

National Bank of Romania
Lipscani Street, 25
Bucharest 030031
Fax No.: +40 21 312 62 60

20. For Romania, the MoU shall become effective after completion of internal procedures required under the Laws of Romania. The MoU may be amended upon mutual agreement of the parties in the form of an Addendum. Any such Addendum will be an integral part of the MoU and become effective according to the same procedures as the MoU.

Done in Brussels on June 29, 2011 and in Bucharest on June 28, 2011 in five originals in the English language.

ROMANIA

Represented by



Emil Boc
The Prime Minister



Gheorghe Ialomițianu
Minister of Public Finance



Mugur Isăreșcu
Governor of the National Bank of Romania

EUROPEAN UNION

Represented by
EUROPEAN COMMISSION



Olli Rehn
Member of the European Commission

ANNEX 1 SPECIFIC ECONOMIC POLICY CRITERIA

A: Fiscal consolidation

- Progress in terms of fiscal consolidation with a view to reaching a 4.4% of GDP deficit for 2011 on a cash basis (below 5% of GDP in ESA terms) and a below 3% of GDP deficit for 2012 in ESA terms.
- Further progress with the reduction in government payment arrears both at central government and local government levels, as specified by the quantitative targets of the program
- Introduction of an enhanced reporting system for the State Owned Enterprises which are already part of the ESA definition of the general government, and also for those which will likely be re-classified into the general government sector by Eurostat in 2011 and 2012. The system should require these companies to report all necessary data for the calculation of the likely impact on the general government deficit. The data should be reported monthly and on a cash basis; and should include, inter alia, a monthly monitoring of arrears, subsidies and transfers, and losses. The reporting of this data should start on 1 September 2011.
- Prevent the further accumulation of arrears and losses for the companies which have been reclassified by Eurostat into the general government sector, and for those which will likely be re-classified in 2011 and 2012.
- Continued monitoring of the public sector wage bill, and necessary action taken in a timely fashion if wage bill is projected by the MOPF or by the Commission staff to exceed this limit, such that it remains capped at 39 billion RON in 2011 (excluding 1574 million RON in social security contributions for the military as a result of the application of the new pension law). The public sector wage bill should remain sustainable over the 2012-2014 period and respect the relevant limits set in the Medium-Term Fiscal Strategy.
- Approval of legislation to introduce a means-tested co-payment system for medical services developed in cooperation with the World Bank.
- In case the Nabucco project starts, which would make it necessary to issue a state guarantee on the part of Romania, the ceiling for the state guarantees defined in the Medium-Term Fiscal Strategy will be temporarily adjusted accordingly. In case these or any other guarantees are called, compensatory measures - to the extent the ESA treatment of the called guarantees requires - will be taken to keep the fiscal deficit within the (ESA) targets defined.

B: Fiscal governance and structural fiscal reform

- The Ministry of Finance should receive the information on hospital budgets from the Health Ministry in a timely fashion. The Ministry of Finance should check that the aggregate figures for hospital budgets are consistent with the expenditure programmed in the general government budget, and if the need arises take the necessary action in

cooperation with the Ministry of Health, in order to avoid a re-accumulation of payment arrears as a result of expenditure commitments based on over-estimated revenue.

- Improvement in capital investment budgeting by establishing a list of priority investment projects for which financing will be available over the next 3-5 years by the working group under the Prime Minister's office. The working group should produce a report by September 2011 on priority projects that would also show the length of time it takes to finish the project on the basis of experience with similar projects over the last two years. It should furthermore be consistent with the updated fiscal strategy 2012-14. The list should be based on detailed feasibility studies, and take account of criteria such as cost benefit analysis, estimated share of completion, how well the project implementation has been managed to date by the ministry, their matching to the strategic priorities of the government, as well as on the analysis produced by the capital monitoring unit of the Ministry of Finance. Improve the monitoring and evaluation of investment projects at the central government level in particular by improving the database relative to capital investment managed by the Ministry of Finance which would also contain information on the status of the projects such as project delays or cost overruns. The development of the database should follow the same timeline as the IMF assisted IT project of integrating the accounting reporting system with the Treasury payment system of the Ministry of Finance. Strengthen the public investment monitoring unit in the Ministry of Finance by September 2011. Going forward, the public investment monitoring unit of the Ministry of Finance will produce quarterly reports to the government on the status of ongoing and planned investment projects. The government will discuss this report and, if necessary, take timely action to eliminate potential fiscal slippages or any other problems related to budget execution.
- Reorient public capital spending so as to obtain a gradual shift from entirely domestically financed investment to EU co-financed investment; ensure that the share (% of GDP) of capital spending on EU co-financed investment including from external loans in 2012 will be around 4.0% of GDP and remains thereafter higher than the share of non-co-financed investment in line with the medium-term fiscal strategy; and ensure congruence with EU priorities.
- Reinforcement of the statistical capacities and expertise at the Romanian National Statistical Institute in the field of Government Finance Statistics (GFS).
- Resolution, by October 2011, of the outstanding methodological issues from the April 2011 EDP notification in close collaboration with, and the assistance of, Eurostat.
- Debt management
- Review (and in this context discuss it with Commission staff), update and publish the debt management strategy on an annual basis, i.e. under this programme by end-December 2011 and end-December 2012.

C: Financial sector regulation and supervision

- Adopt by end-December 2011, the necessary prudential rules to ensure that the application of the provisions on debt-for-equity swaps of the GEO 99/2006 on credit institutions and capital adequacy will not lead to a weakening of the financial positions of credit

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

- Make the necessary legislative amendments to Law 503/2004 on the bankruptcy of insurance undertakings to ensure, *inter alia*: (i) the correlation with the Law 32/2000 on the insurance business and insurance supervision with subsequent amendments and with the general law on insolvency; (ii) the expansion of the scope of application of this law to re-insurance companies; (iii) the introduction of provisions on voluntary dissolution and liquidation. The amended legislation should become effective by end-October 2011. Subsequently, it should be confirmed by Parliament by end-April 2012.
- To continue preserving financial stability, the NBR will ensure that any future consolidation process in the banking sector will lead to the emergence of well-capitalized credit institutions backed by a strong shareholder base.
- Considering the increase in impaired assets and the difficulties associated with the enforcement of collateral, the NBR will continue maintaining a prudent regulatory approach to provisioning. To enable the introduction of IFRS as of 2012, the NBR will develop proposals for prudential filters aiming at preserving prudent loan-loss provisions, solvency and reserves. These proposals will be circulated for consultation by end-June 2011.
- Preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability. In this respect, the government will continue refraining from adopting legislative initiatives (such as the personal insolvency law) and promoting provisions in the debt collection law, which would undermine credit discipline.

D: Structural reforms

- Completion of the second stage of the functional review of the Romanian public administration by end-May 2011. Adoption by the government of Action Plans based on the recommendations of the second phase, by mid-June 2011; thereafter implementation.
- Continued implementation of the first set of Action Plans adopted in December 2010.
- Modernise and streamline the relations between different levels of government and between the government and citizens and businesses by greater reliance on electronic data exchange and online interfaces.

Product markets

- Phase out regulated prices in electricity and gas: i) presentation by September 2011 of roadmap for phasing out regulated prices in electricity and gas leading to their complete removal within the shortest possible timeframe; ii) define the vulnerable consumers by the end of 2011 according to EU legislation and develop mechanisms to protect them in conjunction with the Ministries of Finance and Labour; iii) complete removal, according to

EU Directives 72/2009 and 73/2009, of regulated prices for non-households in electricity and gas as soon as possible; and iv) complete the process for households.

- Eliminate legal, regulatory and physical barriers to cross-border trade of electricity and gas: i) Removal of legal and regulatory barriers to the export of gas by December 2011; ii) Presentation of a roadmap towards bi-directional flows of gas at the border with Hungary as soon as possible; iii) Improving coordinated auctions at the borders with Hungary and Bulgaria and establishing an intraday market in electricity by December 2011; iv) take all the necessary actions on the part of the government to ensure that a bi-directional flow of gas at the border with Hungary is established before the end of 2012.
- Ensure an effective unbundling of electricity and gas transmission networks and their operation in a transparent and non discriminatory manner; i) open negotiations with the Russian Federation to review historical Intergovernmental agreements concerning the "gas transit" pipelines through Romania as soon as possible; ii) Ensure fully certified unbundling of transmission networks in electricity and gas by February 2012.
- Establish, by June 2011, the conditions for a strong and independent energy regulator by putting in place the legal framework to ensure independence of the energy regulator and equip it with adequate means to fulfil its tasks and responsibilities as defined in the third energy package. Regarding the requirement on the budgetary treatment of this regulator, the deadline for additional reporting is January 1st 2012.
- Notify, in 2011, to the Commission the restructuring plan for the coal sector.
- Railway reform - Infrastructure: i) identify and close or lease lowest cost recovery segments of the railway lines; ii) negotiate with CFR Infrastructura a multiannual contract for at least 3 years providing sufficient incentives to the infrastructure manager and sufficient financial means; and iii) CFR Infrastructura to prepare a realistic business plan taking into account EU requirements.
- Railway reform – Passenger traffic: i) continue competitive tendering in the public service obligation contract; ii) encourage CFR Calatori to implement, by the end of 2011, performance schemes in cooperation with CFR Infrastructura in accordance with EU legislation, i.e. modify track access charges according to responsibility for disrupting services.
- Railway reform – Freight traffic: encourage CFR Marfa (the cargo rail company) to implement performance schemes in accordance with EU legislation.
- Railway reform - Regulatory authority: ensure the independence of the regulatory body (Council for Supervision of the Railway Sector) within three months from the start of the programme.
- Public Private Partnership: Ensure that the National Authority for Regulating and Monitoring Public Procurement is also empowered to monitor and control Public-Private Partnerships, including by requesting the competent Court to decide on the nullity of full right of the contracts.
- Establish an operational Point of Single Contact (PSC), provided for in the Services Directive, to help businesses with all administrative procedures involved for the

establishment in Romania or for the cross-border service provision. The PSC should provide all information about the conditions and requirements applicable in all services sectors covered by the Services directive, both for establishment and for temporary cross-border service provision as well as the online completion of any relevant administrative procedures (for example obtaining authorisations, making declarations, etc.). By June 2011, the following actions should be taken: a) appoint the Ministry of Communications and Information Society as the authority in charge of coordinating the setting up of the PSC, monitoring of the functioning of the PSC and reporting the progress made to the Commission; b) the National Center Digital Romania would i) provide a list of priority sectors and horizontal procedures to be covered by the procedures under the PSC; ii) Make information available online in respect of administrative procedures covered by the Services Directive; iii) Make online completion of relevant procedures available for priority sectors and horizontal issues. By the end of 2011, the PSC should be fully operational and the electronic completion of procedures should be possible in all the services sectors covered by the Services Directive.

- Remove restrictions in setting up retail shops. The government should eliminate the legal provisions requiring an economic needs test and the involvement of the competitors in the procedure for the authorisation of opening large surface retail stores by September 2011, making the relevant legislation compliant with the Services Directive (Directive 2006/123/EC of 12 December 2006), in general, and Article 14 of it, in particular.
- Introduction by the National Authority for Regulating and Monitoring Public Procurement of a request for a functional review of public procurement which should be completed by the end of 2011. Thereafter a timed action plan should be drawn up in early 2012 and should subsequently be executed.

Labour markets

- Implement reforms to the wage setting system allowing wages to better reflect productivity developments in the medium term, while respecting the autonomy of social partners, national traditions and practices.
- Widen the set of cases for use of fixed-term labour contracts (by Autumn 2011), while ensuring that this does not increase labour market segmentation. In parallel, improve the adequacy of the employment protection legislation and adapt to the flexicurity principles.
- Extend the period over which overtime can be compensated with paid hours off to 3 months (by Autumn 2011).

Pensions

- Safeguard the long-term sustainability of the pension system.

Absorption of EU Funds

- The EU Structural and Cohesion funds contribution to the total eligible expenditure that is certified to the Commission by the indicated dates is at least equal to:

30 June 2011: 900 million euro

31 December 2011: 2000 million euro

30 June 2012: 3800 million euro

31 December 2012: 5700 million euro

The advance payments are not considered part of the certified expenditure. The targeted amounts are based on a cumulative basis starting from 2007.

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

Price stability and reserve management

- Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation targets ($3.0\% \pm 1$ percentage point at end-2011 and end-2012).
- Reserve losses exceeding EUR 2 billion in any 30-day period during the program will trigger consultation with Commission staff.

Annex II: Monitoring and Reporting System

During the implementation of the Community assistance, the following indicators and reports shall be made available to the Commission by the relevant authorities on a regular basis. In general, reporting information provided to other multilateral and bilateral lenders involved in the programme of financial assistance of which the assistance provided by the Commission forms part shall at the same time also be provided to the Commission, unless it has been indicated that this is not specifically required.

Data provision to the Commission

Item	Periodicity
<i>To be provided by the Ministry of Public Finance</i>	
Preliminary monthly data on general government accounts	Monthly, 25 days after the end of each month
Monthly data on the public wage bill (of general government), number of employees and average wage (including the relative shares of base wage and bonuses). A functional breakdown of these data into the main public entities will be added.	Monthly, 30 days after the end of each month
Quarterly final data on general government accounts	Quarterly cash data, 35 days after the end of each quarter Quarterly accrual data, 55 days after the end of each quarter
The budget deficit of the general government using the ESA95 definition in the format of Table 10 of the Commission services' forecast	Quarterly, with a lag of three months
Preliminary data on below-the-line financing for the general government	Quarterly, no later than 35 days after the end of each month
Final quarterly data on below-the-line financing for the general government	Quarterly, no later than 45 days after the end of each quarter
Total accounts payable and arrears of the general government	Quarterly, within 55 days
Total accounts payable and arrears of the central government and social security funds	Monthly, within the next month
Stock of the central government external arrears	Immediately, upon occurrence
Public debt and new guarantees issued by the central government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Monthly, 25 days after the end of each month
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, 35 days after the end of each quarter

Item	Periodicity
Operating balance, profits, arrears, subsidies and transfers, capital expenditure, and personnel expenditure data of selected public enterprises. ³	Quarterly, three months after the end of the quarter
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
Monthly statements of the operations on the special account	Monthly, at the end of each month
Report on progress with fulfilment of policy conditionality	Monthly, at the end of each month
<i>To be provided by the National Bank of Romania</i>	
The Commission shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence
Evolution of foreign currency reserves including information and brief comments on FX market interventions and FX swaps by the NBR	Bi-weekly
Assets and liabilities of the monetary authority – Central Bank's monetary balance sheet	Monthly, 30 days after the end of each month ⁴
Assets and liabilities of the Romanian banking system – aggregate monetary balance sheet of credit institutions	Monthly, 30 days after the end of each month
Evolution of main foreign-owned banks' external funding ⁵	Monthly, 20 days after the end of each month
External funding flows for the banking, corporate and government sector, including expected developments in the 12 months ahead	Monthly, 45 days after the end of each month
Report on banking sector liquidity situation ⁶	Monthly, 15 days after the end of each month
Report on the evolution of financial stability indicators	Quarterly, 45 days after the end of each quarter

³ The companies are: C.N. CAI Ferate CFR, C.N. de Autostrăzi di Drumuri Nationale, CN a Huilei, Compania Națională Poșta Română, Complexul Energetic Turceni, S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A., S.C. Metrorex, S.N. de Transport Feroviar CFR Marfa S.A., S.N. Transport CFR Calatori, SC C.N. Tarom, SC Electrocentrale Bucuresti, SC Filiala de Furnizare EN.Electrica Transilvania Nord, SC Oltchim, SC Termoelectrica, SNLO Tg. Jiu, Societatea Comercială Electrificare CFR S.A., Societatea Comercială Interventii Feroviare S.A., Societatea Comerciala Telecomunicății C.F.R. S.A.

⁴ As higher frequency data become available, they will be communicated to the European Commission.

⁵ All forms of debt instruments and capital as well as net deposits provided to the nine largest foreign-owned Romanian subsidiaries by their parent banks.

⁶ Net liquidity position of the NBR vis-à-vis the banking sector (including the result of open market operations, standing facilities).

Item	Periodicity
Report on progress with fulfilment of policy conditionality	Monthly, at the end of each month



G.I.
M.I.