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Memorandum of Understanding

BETWEEN

THE EUROPEAN UNION and ROMANIA

MEMORANDUM OF UNDERSTANDING

Between

THE EUROPEAN UNION and ROMANIA

1. On 22 October 2013, the Council of the European Union adopted a decision making available precautionary medium-term financial assistance of up to EUR 2 billion for Romania until 30 September 2015.[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 1,751.34 million (about EUR 2 billion, 170% of Romania's IMF quota), approved on 27 September 2013, which the authorities will also treat as precautionary. The World Bank (WB) has made EUR 1 billion available under a Development Policy Loan (DPL) with a deferred drawdown option (DDO) valid through December 2015. In addition, the WB will continue providing earlier committed support of EUR 891 million, of which EUR 514 million is still to be disbursed mainly in support of Social Assistance Modernization project (EUR 300 million), a Revenue Modernization project (EUR 70 million), and the agricultural sector (EUR 61 million). The WB is also preparing a Health Sector Operation expected to be submitted for Board Approval late this calendar year or in the first half of 2014. A new Country Partnership Agreement between Romania and the WB is being prepared and is expected to be submitted for Board Consideration in the first half of next year. It will spell out any additional financial support that might be provided over the next 3 years to public investments or the policy agenda. The EU precautionary assistance will be conditional upon the implementation of a comprehensive economic policy programme, with a particular focus on structural reform measures including those country-specific recommendations of the EU semester aiming at reducing remaining vulnerabilities and at increasing the resilience and the growth potential of the Romanian economy. These measures relate to administrative capacity, product market reforms, the business environment, labour markets, pensions, state-owned enterprises, and healthcare. 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) Romania reaching its medium-term budgetary objective by 2015, in line with Stability and Growth Pact requirements; (ii) improving growth potential; and (iii) decreasing the future likelihood of renewed excessive structural imbalances in the Romanian economy, including through strengthening governance where needed.

2. EU financial assistance 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

[1] Council Decision (2013/531/EU), OJ L286.

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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 Precautionary Loan Facility Agreement (PLFA). The parties will conclude and sign the PLFA, containing the main terms and conditions applicable to all the potential disbursements within the precautionary EU financial assistance programme, but 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 2 billion ceiling for disbursements in the form of instalments.

3. Precautionary EU financial assistance is made available for activation following the request of Romania for a support programme continuing the previous precautionary BoP facility of EUR 1.4 billion.[2]

4. 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

   Following the correction of its excessive deficit, Romania is expected to reduce its structural budget balance by at least 0.5% per year until it reaches its medium-term objective of a structural general government deficit of 1% of GDP by 2015, and maintain it thereafter. Furthermore, the programme will continue efforts to prevent a new build-up of government arrears, both at central and local government level. The public sector wage bill will need to stay on a sustainable footing, limiting wage growth as well as public sector employment levels.

   B: Fiscal governance and structural fiscal reform

   The programme will support the Romanian government to further strengthen the fiscal governance framework. This will ensure that fiscal consolidation is politically and institutionally anchored. The implementation of the Fiscal Compact is crucial in this respect. The Fiscal Council scrutinises fiscal policy. Improvements in multi-annual budgetary planning will ensure a more sustainable fiscal policy.

   Fiscal governance will strongly benefit from on-going Technical Assistance provided by the IMF and the World Bank in the area of Public Financial Management and Control. The implementation of a commitment control system, which will be rolled out in several steps, will ensure the reduction and control of arrears. In the health sector, budget control mechanisms will be strengthened through improved reporting and monitoring frameworks, in particular with regard to hospitals and pharmaceutical spending in order to avoid a re-accumulation of payment arrears. Prioritisation of public investments will be strengthened, to enhance the country's growth potential.

   C: Public debt management

   The authorities will carry out necessary steps to improve public debt management with a view on reducing risks and building up the yield curve for sovereign debt.

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[2] Council Decision 2011/288/EU of 12 May 2011 (OJ No. L132 of 19.5.2011).

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D: Financial sector regulation and supervision

In the financial sector, authorities will continue upgrading the bank resolution framework and the legislation on the Deposit Guarantee Fund by amending GO 39/1996 and GEO 99/2006. To speed up the process of balance sheet cleaning, the National Bank of Romania (NBR) has clarified the provisions applicable to the write-off of loans with the Romanian Banking Association and will produce a comprehensive analysis of the asset quality in the banking sector. In order to further develop the capital market and diversify the sources of funding for banks, authorities will amend the covered bonds legislation. Preserving credit discipline and avoiding moral hazard among debtors contributes significantly to 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. Authorities will consult extensively with all relevant stakeholders, having in view also the impact assessment finalised by the NBR, on the new provisions on abusive clauses in the law for the application of the civil procedure code and will ensure that court cases involving abusive clauses are dealt with by higher ranking courts or by a unique specialised court and will take all other necessary measures to ensure a harmonised application of these provisions. To strengthen the supervision of the non-bank financial market and foster consumer protection, authorities will ensure that the legislation on the integrated non-bank financial regulator, the Financial Supervisory Authority/Autoritatea de Supraveghere Financiară (FSA/ASF), will be amended to comply with international best practices.

E: Structural reforms

The structural reforms aim at improving market functioning, at increasing resilience to external shocks and at strengthening Romania's long-run growth potential. The structural reform agenda of this programme covers part of the country-specific recommendations addressed to Romania in the context of the European Semester. This agenda does not exempt the Romanian government from fully implementing the country-specific recommendations of the EU semester which are not covered in this programme.

The restructuring of state-owned enterprises (SOEs), including privatisation, will be stepped up in order to reduce risks to the general government budget from accumulated arrears and operational losses, while increasing the financial viability of most of these companies' operations. Authorities will take measures to strengthen corporate governance of SOEs, including in the financial sector.

In the energy sector outstanding measures agreed under the two previous programmes will be implemented, among which the implementation of the roadmaps for the gas and electricity market liberalisation.

One of the cornerstones of this programme is the enhancement of the efficiency and effectiveness of the country's public administration. Moreover, the Romanian authorities would be invited to report every six months to the Economic and Financial Committee (EFC)/Economic Policy Committee (EPC) on the progress made in this area.

Improvement of the business environment and facilitating access to finance for the small and medium-size enterprises (SMEs) is another important pillar of the structural reform agenda of the programme. The programme aims at reducing

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administrative burden for the SMEs, facilitating their access to bank and equity capital, reducing the legal uncertainty by improving the land and property registration and supporting SMEs when going abroad. Furthermore, the programme supports the reform of the regulatory framework related to innovation, with the view to attract foreign direct investment in research and innovation activities.

In the field of labour markets, the programme supports the completion of the 2010 pension reform by equalising the pensionable age for men and women.

F: Monetary Policy

Monetary policy will remain geared towards price stability with a view to inflation staying within the National Bank of Romania's inflation target band (2.5% ± 1 percentage point).

5. In case Romania requests the activation of the European Union (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 30 September 2015. The Commission will assess financing needs in close co-operation with the International Monetary Fund (IMF). After the EFC has delivered its opinion, the Commission shall decide on the amount to be made available for disbursement in the form of instalments. The funds of the overall programme will be made available in a maximum of 2 instalments.

6. Any changes in conditionality will be specified in a supplement to this MoU (Supplemental Memorandum of Understanding).

7. 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.

8. If Romania requests the disbursement of an instalment under the PLFA and such a 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.

9. The updates to the Romanian Convergence Programme and the Romanian National Reform Programme under the EU 2020 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. While the balance-of-payments programme comprises specific actions that fall under the EU Council's country-specific recommendations, it does not in any way substitute for other actions covered by the country-specific recommendations to which Romania is expected to provide adequate follow-up.

10. 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.

11. 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 Technical

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Memorandum of Understanding negotiated with the authorities and submitted by the latter together with their Letter of Intent (LoI) and the Memorandum of Economic and Financial Policies (MEFP). 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.

12. 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.

13. 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.

14. 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.

15. The Romanian authorities will ensure, as appropriate, close co-operation with the Commission and the EFC.

16. The Romanian authorities commit to consult Commission staff 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. The Romanian authorities will also consult the ECB on any draft legislative provision in its fields of competence, as stipulated in Articles 127 (4) and 282 (5) of the Treaty on the Functioning of the European Union.

17. The Annexes form an integral part of this Memorandum of Understanding.

18. 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

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For the Ministry of Public Finance of Romania

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

For the National Bank of Romania

National Bank of Romania
25, Strada Lipscani
Sector 3, 030031 Bucharest
Fax No.: +40 21 312 62 60

19. 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 a Supplement. Any such supplement will be an integral part of the MoU and become effective according to the same procedures as the MoU.

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Done in Brussels on ...06. 11. 2013... and in Bucharest on ..05.11..2013... in five originals in the English language.

ROMANIA

Represented by

Victor-Viorel Ponta

The Prime Minister

Daniel Chițoiu

Deputy Prime Minister and Minister of Public Finance

Liviu Voinea

Minister Delegate for Budget

Mugur Isărescu

Governor of the National Bank of Romania

EUROPEAN UNION

Represented by

EUROPEAN COMMISSION

Olli Rehn

Vice-President of the European Commission

ANNEX 1

SPECIFIC ECONOMIC POLICY CRITERIA

A. Fiscal consolidation

No.	Measures
1	Continue fiscal consolidation towards the achievement of the medium term objective of a structural deficit of 1% of GDP by 2015 and respect this thereafter, in line with Stability and Growth Pact requirements.

B: Fiscal governance and structural fiscal reform

No.	Measures
2	Preserve the achievements of the previous two programmes, implement the further measures agreed under those programmes, and fulfil any remaining parts of yet unfulfilled conditionality. This applies in particular to: i) the Unified Wage Law (and the related suppression of the "stimulente"); ii) the medium-term sustainability of the public sector wage bill; iii) the pension reform; and iv) the reduction of payment delays in the health sector.
3	Strengthen the fiscal governance framework. Ensure the implementation and enforcement of the Fiscal Compact provisions, as well as adherence to best practice in terms of fiscal governance. Strengthen the Fiscal Council's capacity to contribute to the improvement of fiscal policy. Increase its role in assessing and publishing revenue projections after each macroeconomic forecast round (autumn and spring) and in the calculation of the deficit target ahead of the start of the budgeting process and the publication of its opinion thereon.
4	Further strengthen multi-annual budgetary planning. Improve the content of the Fiscal Strategy, inter alia by increasing transparency regarding assumptions and including an analysis of fiscal risks and liabilities. Ensure that the line ministers are involved in the medium-term budget planning process, by designing and implementing procedures for internal coordination arrangements. Improve the database for budget planning. Increase the capacity of the Ministry of Public Finance to estimate the structural deficit and the structural impact of measures. In order to comply with existing fiscal rules, strengthen the capacity to perform fiscal impact assessments of legislative proposals, and improve the impact assessment's quality and binding nature.
5	Improve the prioritisation of public investments, the enforcement of consistency of capital spending with budget envelopes and the alignment of investment planning with multi-annual budgetary planning. Set up a list of prioritised investments based on a sound cost/benefit analysis at central government level. Strengthen the Ministry of Public Finance (MoPF) with respect to the staffing of its Public Investment Evaluation Unit and to its role in project selection to enable it to guide the prioritisation and selection of investment projects. A milestone will be the government's approval of an

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	updated list of priority investments before the end of 2013.
6	Establish an effective commitment control system for all levels of government in order to control overall expenditure and prevent the accumulation of payment arrears. The commitment control system will cover expenditures on goods and services as well as investments. A crucial milestone on this path is the rollout of the web based application at the MoPF and at least one additional unit at both the central and local government levels by end-January 2014.
7	Establish a regular flow of fiscally-relevant data to the Ministry of Public Finance. A protocol will be set up, also to guide reporting obligations to the European Commission (Commission) and the International Monetary Fund.
8	Improve tax collection by implementing a comprehensive tax compliance strategy, in line with the respective World Bank project. In particular, define a services catalogue for the taxpayers by July 2014. Further, improve the VAT reimbursement procedure by reviewing the criteria for ex-ante control, increase the e-filing rate for the tax returns for companies from 89% to 93% and improve the filing compliance by mid-2015.
9	Reduce arrears for state-owned enterprises through restructuring to be undertaken in line with the EU state aid rules and prevention of future losses. In particular, reduce the stock of outstanding payments not made by due date of SOEs owned by the central government from 8.2 bn lei at end-June 2013 to 5.6 bn lei at end-December 2013, as specified in the Technical Memorandum of Understanding. Also, all SOEs should file, in accordance with existing regulations, quarterly financial information with the Ministry of Public Finance by the 25th day following quarter end.

C: Public debt management

No.	Measures
10	Update and publish, before end-March, the public debt management strategy (DMS) and the auction calendar on yearly basis, as well as quarterly announcement of the government securities auctions with indicative volumes by debt instruments (T-bills and bonds). The DMS should detail instruments, maturities, auction frequency that would be adherent to the maturity extension, risk management and cash buffer targets. It should also include a plan to improve cash management.
11	Continue to consolidate the financing buffer to protect against unforeseen external shocks at a level covering a number of months of gross financing. For 2013 this will cover four months of gross financing needs.
12	Finalise, by end-March 2014, the electronic auction system for domestic primary issuances (with the National Bank of Romania (NBR) acting as the agent of the MoPF).

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13	Introduce, by end-September 2014, an electronic trading platform to monitor transactions in the secondary market.
14	In line with the measures considered in the DMS to increase the transparency and predictability of the government securities market, the MoPF should organise, as of end-2013, quarterly consultations with primary dealers, mutual funds, pension funds, and life insurance companies as well as quarterly conference calls with the international investor community and non-deal road shows.
15	Enlarge, as of end-2013, the investor base and facilitate the access of individuals to government securities.
16	To support a benchmark building strategy and increase the liquidity of the domestic government securities market, the MoPF will establish, by end-September 2014, the legal, procedural and operational framework necessary to carry out buybacks, bond exchanges, and repo operations.
17	Establish, by end-2014, involvement of the Treasury in a central counterparty (CCP) clearing house.

D: Financial sector regulation and supervision

No.	Measures
18	Corporate governance of the Deposit Guarantee Fund in the Banking System will be strengthened, in particular to avoid any perceived conflict of interest for board members and executive directors. Furthermore, authorities will amend the provisions of Government Emergency Ordinance (GEO) 99/2006 on stabilisation measures and Government Ordinance (GO) 39/1996 after consultation with the Commission on the interpretation of the new EU state aid rules by end-2013 in line with CRD IV implementation deadline. Subsequently to the amendments to the banking law, the NBR will amend the internal procedures for bridge-banks by end-2013. The NBR will also continue updating its contingency planning on an on-going basis as well as the bank-by-bank contingency plans.
19	To speed up the process of balance sheet cleaning, the NBR has clarified with the Romanian Banking Association that the only provisions in place for the write-off of loans are those foreseen in the IAS 39 on the de-recognition of financial assets and which do not necessarily request banks "to exhaust all legal means" in order to write off. Any amendments to the current treatment of the prudential filters will be agreed with the Commission and the IMF. Furthermore, authorities will finalise by end-December 2013 an impact assessment on the fiscal cost resulting from the tax deductibility of sales of intra-group bank receivables.
20	The NBR will continue to closely monitor bank practices to avoid evergreening as well as the assessment of credit risk of restructured loans, so that they

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	remain prudent and in line with good international practices. The NBR has collected supervisory data on restructured loans, including loans to SOEs, on a quarterly basis by end-September 2013. The NBR will conduct a comprehensive analysis of the asset quality in the banking sector and produce a report containing granular information, migration matrixes and a vintage analysis of the banks' non-performing loans (NPLs) by end-October 2013.
21	The NBR will perform by end-December 2013 on-site inspections on a selected sample of 20 large, medium and small-sized banks focused on the strategies of banks to deal with impaired assets. These inspections will cover the following aspects: (i) the adequacy of IT systems to deal with impaired assets; (ii) the NPL work-out strategies of banks; (iii) the restructuring/rescheduling policies applied by banks. The analysis of the banks' IT adequacy will be finalised by end-2013. In a second phase, on-site inspections in the remaining banks will take place until end-March 2014. In consultation with the Commission and the IMF, an NPL resolution action plan will then be agreed by end-May 2014.
22	In order to further develop the capital market and diversify the sources of funding for banks, authorities will adopt the amendments to the covered bonds legislation by end-2013 through Government Ordinance, while appropriate safeguards to preserve financial stability are implemented. Any possible prolongation of the "Prima Casa" programme after its expiry should be restricted to mortgage lending denominated in RON. This will help develop a pool of long-term assets denominated in RON thereby fostering covered bonds issuances denominated in domestic currency.
23	As preserving credit discipline and avoiding moral hazard among debtors contributes significantly towards enhancing financial stability, authorities will continue refraining from adopting legislative initiatives (such as the personal insolvency law or proposals for the debt collecting law), which would undermine credit discipline. Furthermore, in order to avoid threats to financial stability, authorities will consult extensively with all relevant stakeholders, having in view also the impact assessment finalised by the NBR, on the new provisions on abusive clauses in the law for the application of the civil procedure code. Authorities will ensure that court cases involving abusive clauses are dealt with by higher ranking courts or by a unique specialised court and will take all other necessary measures to ensure a harmonised application of these provisions, such as training of judges. Moreover, as corporate insolvencies are increasingly fuelling the still on-going deterioration in asset quality, the NBR together with the Romanian Banking Association will explore possibilities for setting up a database of shareholders of companies in insolvency as well as implement more effective data reporting of the Association of Insolvency Practitioners.
24	To strengthen the supervision of the non-bank financial market and foster consumer protection, authorities will ensure that the legislation on the ASF/FSA (Autoritatea de Supraveghere Financiară/Financial Supervisory Authority), will be amended by end-September 2013 to comply with international best practices, in particular regarding the size of the managing and

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council board which should be restricted to maximum 9 members, minimum required professional qualifications of ASF board members, statutory protection of supervisory staff and of the institution as well as avoidance of conflicts of interest, notably the connection of these members with Parliament. Furthermore, the ASF: (i) will swiftly complete the integration of the former three supervisory authorities for securities, insurance and pensions while ensuring the smoothing functioning of supervisory activities; (ii) will develop a human resources policy geared first and foremost towards qualified staff to perform on-site supervision, off-site analysis, validation of internal models; (iii) will further enhance transparency and public accountability by ensuring an adequate public disclosure of all fees and commissions charged to the supervised entities; and (iv) will hire, in September 2013, a professional and independent consultancy company to assess staffing levels and staff. Based on this, within two months of the consultancy company's assessment, an action plan will be developed to streamline the ASF with a view to realising the savings in 2014.

25 The authorities will swiftly implement the World Bank recommendations on the ROSC (Report on the Observance of Standards and Codes), and following the comprehensive public consultation in September 2013 as well as with the Commission, the IMF and the World Bank, will send the amended insolvency code draft for approval to parliament by end-October 2013. All relevant stakeholders will be consulted before the insolvency code is approved by parliament.

E: Structural reforms

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Administrative capacity

26 Implement the Action Plans adopted in response to the findings of the functional reviews carried out in 2010-2011 in a timely manner. Continue to report on their implementation on a quarterly basis. Review and update the action plans by end-2013.

27 Establish a central delivery unit in line with the World Bank project by December 2013 to improve the government-wide policy prioritisation, implementation and coordination with particular reference to the implementation of the EU Council's country-specific recommendations not covered in this assistance programme.

Product markets

28 Preserve the achievements of previous two programmes and implement outstanding measures agreed under those programmes:

- continue the implementation of the roadmaps for gas and electricity market liberalisation. Complete deregulation of electricity prices for non-residential consumers by 1 January 2014. For households, implement the deregulation

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	steps for electricity prices in January and July 2014 and in January and July 2015, as set out in the electricity roadmap, with the share of electricity acquired from competitive market reaching 50%. For natural gas, continue price deregulation as planned in the gas roadmap with intermediary steps to be taken in October 2013, January, April, July and October 2014. If necessary, continue gas price liberalisation for non-residential consumers in 2015 as to achieve full price deregulation by end 2015. For residential consumers, continue gas price deregulation in 2015 with intermediary steps taken in January, April, July 2015 by which 52% of gas price convergence with the market should be achieved. Allow the pass-through mechanism for electricity and gas purchases by the supply companies to be applied. - continue the development of gas and electricity trading platforms; - continue the unbundling of energy transmission and dispatch operators; - improve cross-border integration of energy networks and provide for security-of-supply measures. Preserve the achievements of the previous two programmes and implement outstanding policy commitments in the transport area: - introduce performance schemes related to delays between the infrastructure company, on the one hand, and the passenger/freight companies, on the other hand, by end-2013; - introduce incentives for infrastructure manager to reduce unit costs and charges in CFR Infrastructure by end-2013; - facilitate improved payment of infrastructure access and electricity charges from the state-owned passenger rail company (CFR Calatori) and CFR Marfa through reforms of those enterprises and settle outstanding debts among the three main railway companies; - - further amend the formula for calculation of the PSO to give more weight to passenger-train kilometers travelled starting in January 2014.
	<u>Business environment</u>
29	Bring the national "Better regulation strategy" in line with the EU smart regulation agenda by making impact assessments of the new legislation related to business activities obligatory by end-2013. Develop a common methodology for impact assessments including the "SME test'" and establish a quality control mechanism by mid-2014. Implement pilot projects in four selected ministries by end-2014.
30	Further reduce administrative burdens on SMEs by: (i) making online submission and payment of taxes fully operational by mid-2014; and (ii) simplifying procedures regarding property registration and construction permits through a reduction of 25% before end-2013 of the information obligation procedures and through making electronic submission possible by mid-2014. To reduce delays, introduce standard deadlines and automatic

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approval after the deadline by mid-2014. To ensure that information submitted once to the administration is not requested again by another service, introduce data sharing within the e-government system by end-2014. Streamline the "one-stop shop" and the "point of single contact" into fully-operational and interconnected electronic platforms with a single entry point.

31 Increase the number of properties registered in the digitalised national land registry from currently 15% to 25% by mid-2015. To this end: (i) by end-2013, amend the law on the cadastre to allow for simplified procedures for systematic registrations in particular by using public display as quality control; (ii) find appropriate arrangements for a swift resolution of undebated inheritance cases; (iii) strengthen project management capacities of the national agency for the cadastre and land registry by mid-2014 with the view to implement the multi-annual land registration project; and (iv) increase the number of solved land disputes per year by 10% by end-2014 including through out-of-court dispute resolutions. For concession and leasing contracts related to the state domain make land and property registration compulsory prior to contract signature.

32 By end-2013, adopt a law on inventions by employees so as to encourage investment, in particular from private sources, in patenting activities. By end-2014, provide guidelines, in line with international best practices, including on the distribution of benefits arising from the commercial exploitation of the invention.

33 To improve access to finance for SMEs, extend the duration of the Mihail Kogălniceanu programme beyond 2013 to a multi-annual programme and strengthen the existing support schemes by rendering the National Loan Guarantee fund for SMEs more effective, especially as regards the maturity, price, and rollovers of the guaranteed loans, as well as the implementation process for the guarantee execution. Together with the Romanian Banking Association, introduce minimum transparency standards defining a minimum set of information regarding bank-lending conditions, to be published by banks by mid-2014. Strengthen services, including those related to access to finance that are provided by the SME territorial offices by increasing the number of assisted companies from 2013 to 2014 by 20%. To diversify sources of SME financing, adopt legislation on equity financing with risk sharing options, in particular as regards venture capital and business angels by mid-2014.

34 Improve export promotion and development for SMEs by starting a "passport-to-exports" scheme by mid-2014 and by making fully operational the pilot regional export centres by end-2014. Reinforce the electronic trade portal and improve the effectiveness of the trade counsellor schemes outside Romania with 30% more companies assisted in 2014 than in 2013.

__Labour markets and pensions__

35 Preserve the achievements of the previous two programmes, in particular by

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monitoring the implementation of the Labour Code and Social Dialogue Code and ensuring that any further amendment to labour legislation will be undertaken in consultation with all stakeholders through ordinary legislative procedures.

36 Considering the funding needs of the healthcare system and the possible need to adjust health insurance contributions, conduct a comprehensive review of labour taxation with a view to reducing, in a budget-neutral manner, the effective tax burden on labour for low- and middle-income earners. To this end, a study will be submitted for review by end-2013, detailing the tax policy reform options and plans for their implementation.

37 Enact the necessary legislation before end-2013 to equalise the pensionable age for men and women, by increasing the pensionable age for women from 63 to 65 years by the year 2035.

<u>State-owned enterprises</u>

38 Continue the corporate governance reform of state-owned enterprises (SOEs). Strengthen Ministry of Public Finance capacities to monitor operating performance and budgets of SOEs and prepare high-quality assessments of SOE performance on an annual basis. The Fiscal Council plans a report on the operations of SOEs and their fiscal implications. All SOEs should submit their 2014 budgets one month after the approval of the state budget. Improve the operating performance of a the largest railway companies and their subsidiaries (CFR Infrastructura, CFR Calatori, and CFR Marfa) so as to ensure that arrears clearance measures are complemented by reforms that improve the viability of these companies. The cumulative operating loss should not be larger than 2.3 bn lei by end-December 2013, as specified in the Technical Memorandum of Understanding.

Appoint a supervisory board by end-November 2013 for Hidroelectrica in accordance with GEO 109/2011 (SOE Corporate Governance law).

39 Ensure the sale of stakes in Romgaz, Hidroelectrica, Oltenia, Nuclearelectrica, Electrica and CFR Marfă as specified in the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).

40 By end-June 2014, the government will, in agreement with the Commission, adopt legislation to regulate the remunerations obtained by public employees for attending privatisation commissions and for positions on boards of SOEs.

<u>Healthcare sector</u>

41 The authorities are to consult in a timely manner with Commission staff and provide all necessary information regarding any proposals for legislative amendments that may have material impact on the fiscal sustainability or efficiency of the healthcare sector. The authorities will start early

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	consultations to ensure a timely implementation of the legislative process.
42	Preserve the achievements of the previous programmes and continue implementing outstanding measures, in particular but not exclusively with reference to: i) clearing arrears in the health sector; ii) preserving budget control mechanisms (such as the claw-back tax on pharmaceuticals and monthly hospital budget reporting); and iii) implementing e-health solutions.
43	Define, by end-September 2013, the publicly-reimbursable basic benefits package based on objective, verifiable criteria, to be financed within the limitations of available funding and establish the framework for a private supplementary insurance market aiming at increasing the share of private in total expenditure on health. As of 2015, the revision of the basic benefits package will be based on a cost-effectiveness analysis.
44	The authorities will prepare a comprehensive health strategy covering also the revenue side together with the MoPF by end-2013.
45	Improve efficiency and effectiveness in the healthcare system. This will be done by shifting resources from hospital-based care towards primary care and ambulatory care and by continuing the reduction of bed capacity in in-patient acute care hospitals in accordance with the national health strategy. Also, the budget for primary care will be increased via use of performance based payments to at least 10% of public health expenditure managed by the health house within the next 2 years.
46	Implement according to the deadlines the binding action plan for health care reform as committed to by the authorities, specifying the plan with measureable indicators, objectives and publishing supporting evidence and impact assessments of the reform proposals.
47	Continue the preparation of the reorganisation and rationalisation of the hospital network based on the government's project financed by the World Bank for health sector reform, slated for Board Approval by end-2013. This includes 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 primary health to post-hospital care as well as patient pathways in the health system.

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F: Monetary policy

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

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

No.	Measures
48	Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation target (central point 2.5% with a band of ±1 percentage point by end-2013, as of 2014, a continuous central point of 2.5% with a band of ±1 percentage point). The NBR will conduct discussions with Commission staff should the observed year-on-year rate on consumer-price index (CPI) inflation fall outside the bands specified in the Technical Memorandum of Understanding.
49	Authorities to confer with Commission staff if reserve losses exceed EUR 600 million in any given day.

ANNEX 2

CHRONOLOGICAL OVERVIEW OF MEASURES[3]

Continuous monitoring

No.	Measure	Date
9	Reduce arrears for SOEs all SOEs should file, in accordance with existing regulations, quarterly financial information with the Ministry of Public Finance by the 25th day following quarter end.	Continuous, as specified in the TMU
18	The NBR will continue updating its contingency planning on an on-going basis as well as the bank-by-bank contingency plans.	Continuous
20	The NBR will continue to closely monitor bank practices to avoid evergreening as well as the assessment of credit risk of restructured loans, so that they remain prudent and in line with good international practices.	Continuous
22	Restrict any possible prolongation of the "Prima Casa" programme after its expiry in September 2013 to mortgage lending denominated in RON.	Continuous
23	Continue refraining from adopting legislative initiatives (such as the personal insolvency law or proposals for the debt collecting law), which would undermine credit discipline.	Continuous
28	Continue the implementation of the roadmaps for gas and electricity market liberalisation;	Continuous
28	Facilitate improved payment of infrastructure access and electricity charges from the state-owned passenger rail company (CFR Calatori) and CFR Marfa through reforms of those enterprises and settle outstanding debts among the three main railway companies.	Continuous
38	Continue the corporate governance reform of state-owned enterprises (SOEs).	Continuous
38	Strengthen Ministry of Public Finance capacities to monitor operating performance and budgets of SOEs and prepare high-quality assessments of SOE performance on an annual basis.	Continuous
38	All SOEs should submit their 2014 budgets one month after the approval of the state budget.	Continuous
39	Ensure the sale of stakes in Romgaz, Hidroelectrica, Oltenia, Nuclearelectrica, Electrica and CFR Marfă as specified in the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).	As specified in the TMU
41	Consult in a timely manner with Commission staff and provide all necessary information regarding any proposals for legislative amendments that may have material impact on the fiscal sustainability or efficiency of the healthcare sector. Start early consultations to ensure a timely implementation of the legislative process.	Continuous
46	Implement according to the deadlines the binding action plan for health care reform as committed to by the authorities.	Continuous
48	Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation target (central point 2.5% with a band of ±1 percentage point by end-2013, as of 2014, a continuous central point of 2.5% with a band of ±1 percentage point). The NBR will conduct discussions with Commission staff should the observed year-on-year rate on consumer-price index (CPI) inflation fall outside the bands specified in the Technical Memorandum of Understanding.	Continuous
49	Confer with Commission staff if reserve losses exceed EUR 600 million in any given day.	Continuous

By end-September 2013

No.	Measure	Date
20	The NBR has collected supervisory data on restructured loans, including loans to SOEs, on a quarterly basis by end-September 2013.	End-September 2013
24	Amend the legislation on the ASF/FSA (Autoritatea de Supraveghere Financiară/Financial Supervisory Authority) to comply with international best practices.	End-September 2013
24	The ASF will hire a professional and independent consultancy company to assess staffing levels and staff. Based on this, within two months of the consultancy company's assessment, an action plan will be developed to streamline the ASF with a view to realising the savings in 2014.	End-September 2013
38	The Fiscal Council publishes a report on the operations of SOEs and their fiscal implications.	End-September 2013
43	Define the publicly-reimbursable basic benefits package based on objective, verifiable criteria, to be financed within the limitations of available funding and establish the framework for a private supplementary insurance market aiming at increasing the share of private in total expenditure on health.	End-September 2013

By end-October 2013

No.	Measure	Date
9	all SOEs should file, in accordance with existing regulations, quarterly financial information with the Ministry of Public Finance by the 25th day following quarter end.	End-October 2013
20	The NBR will conduct a comprehensive analysis of the asset quality in the banking sector and produce a report containing granular information, migration matrixes and a vintage analysis of the banks' non-performing loans (NPLs).	End-October 2013

[3] Annex 2 does not contain an exhaustive list of the measures in the Programme. It is included for information purpose only, to facilitate the identification of some of the deadlines defined in the MoU. The objectives of the programme can be found in no. 4 of the MoU and the relevant economic criteria are described in Annex 1.

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25	Implement the World Bank recommendations on the ROSC (Report on the Observance of Standards and Codes), and send the amended insolvency code draft for approval to parliament.	End-October 2013

By end-November 2013

No.	Measure	Date
38	Appoint a supervisory board for Hidroelectrica in accordance with GEO 109/2011 (SOE Corporate Governance law).	end-November 2013

By end-December 2013

No.	Measure	Date
3	Implement and enforce the Fiscal Compact provisions	End-December 2013
5	Approve an updated list of priority public investments	End-December 2013
9	reduce the stock of outstanding payments not made by due date of SOEs owned by central government from 8.2 bn lei in end June 2013 to 5.6 bn lei in end December 2013, as specified in the Technical Memorandum of Understanding.	End-December 2013
11	Consolidate the financing buffer at four months of gross financing needs	End-December 2013
14	Organise quarterly consultations with primary dealers, mutual funds, pension funds and life insurance companies as well as quarterly conference calls with the international investor community and non-deal road shows	End-December 2013
15	Enlarge the investor base and facilitate the access of individuals to government securities.	End-December 2013
18	The NBR will amend the internal procedures for bridge-banks.	End-December 2013
18	Amend the provisions of Government Emergency Ordinance (GEO) 99/2006 on stabilisation measures and Government Ordinance (GO) 39/1996 after consultation with the Commission on the interpretation of the new EU state aid rules in line with CRD IV implementation deadline.	End-December 2013
19	Finalize an impact assessment on the fiscal cost resulting from the tax deductibility of sales of intra-group bank receivables.	End-December 2013
21	The NBR will perform on-site inspections on a selected sample of 20 large, medium and small-sized banks focused on the strategies of banks to deal with impaired assets and will finalize the analysis of the banks' IT adequacy.	End-December 2013
22	Adopt the amendments to the covered bonds legislation through Government Ordinance, while implementing appropriate safeguards to preserve financial stability.	End-December 2013
26	Implement the Action Plans adopted in response to the findings of the functional reviews carried out in 2010-2011 in a timely manner. Continue to report on their implementation on a quarterly basis. Review and update the action plans by end-2013.	End-December 2013
27	Establish a central delivery unit in line with the World Bank project to improve the government-wide policy prioritisation, implementation and coordination with particular reference to the implementation of the EU Council's country-specific recommendations not covered in this assistance programme.	End-December 2013
37	Enact the necessary legislation before end-2013 to equalise the pensionable age for men and women, by increasing the pensionable age for women from 63 to 65 years by the year 2035.	End-December 2013
38	Improve operating performance of a the largest railway companies and their subsidiaries (CFR Infrastructura, CFR Calatori, and CFR Marfa) as to ensure that arrears clearance measures are complemented by reforms that improve the viability of these companies. The cumulative operating loss should not be larger than 2.3 bn lei by end December 2013, as specified in the Technical Memorandum of Understanding.	End-December 2013

By end-January 2014

No.	Measure	Date
6	Roll out a web based application for the commitment control system at the MoPF and at least one additional unit at both the central and local government levels.	End-January 2014
30	Further amend the formula for calculation of the PSO to give more weight to passenger-train kilometers travelled starting in January 2014.	End-January 2014

By end-March 2014

No.	Measure	Date
10	Update and publish the public debt management strategy, the yearly auction calendar, quarterly announcements of government securities auctions.	End-March 2014
12	Finalise the electronic auction system for domestic primary issuances.	End-March 2014
21	The NBR will perform on-site inspections in the remaining banks.	End-March 2014
26	Submit the quarterly progress report on the action plans implementation.	End-March 2014

By end-May 2014

No.	Measure	Date
21	The NBR in consultation with the Commission and the IMF will agree an NPL resolution action plan.	End-May 2014

By end-June 2014

No.	Measure	Date
8	Define a service catalogue for the taxpayers.	End-June 2014
26	Submit the quarterly progress report on the action plans implementation.	End-June 2014

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No.	Measure	Date
29	Develop a common methodology for impact assessments of new legislation related to business activities including the "SME test"' and establish a quality control mechanism.	End-June 2014
30	Make online submission and payment of taxes fully operational for SMEs.	End-June 2014
30	Simplify procedures regarding property registration and construction permits through making electronic submission possible.	End-June 2014
30	Introduce standard deadlines and automatic approval after the deadline for property registration and construction permits.	End-June 2014
31	Strengthen project management capacities of the national agency for the cadastre and land registry.	End-June 2014
33	Introduce minimum transparency standards defining a minimum set of information regarding bank-lending conditions, to be published by banks by mid-2014.	End-June 2014
33	Adopt legislation on equity financing with risk sharing options, in particular as regards venture capital and business angels.	End-June 2014
34	Start a "passport-to-exports" scheme to improve export promotion and development for SMEs.	End-June 2014
40	Adopt legislation to regulate the remunerations obtained by public employees for attending privatisation commissions and for positions on boards of SOEs; in agreement with the Commission.	End-June 2014

By end-September 2014

No.	Measure	Date
13	Introduce an electronic trading platform to monitor transactions in the secondary market.	End-September 2014
16	Establish the legal, procedural and operational framework necessary to carry out buybacks, bond exchanges, and repo operations.	End-September 2014
26	Submit the quarterly progress report on the action plans implementation.	End-September 2014

By end-December 2014

No.	Measure	Date
17	Establish involvement of the Treasury in a central counterparty (CCP) clearing house.	End-December 2014
26	Submit the quarterly progress report on the action plans implementation.	End-December 2014
29	Implement pilot projects for impact assessments of new legislation related to business activities in four selected ministries.	End-December 2014
30	Introduce data sharing within the e-government system.	End-December 2014
31	Increase the number of solved land disputes per year by 10% including through out-of-court dispute resolutions.	End-December 2014
32	Provide guidelines, in line with international best practices, including on the distribution of benefits arising from the commercial exploitation of the invention.	End-December 2014
33	Strengthen services, including those related to access to finance that are provided by the SME territorial offices by increasing the number of assisted companies from 2013 to 2014 by 20%.	End-December 2014
34	Make the pilot regional export centres fully operational.	End-December 2014
34	Reinforce the electronic trade portal and improve the effectiveness of the trade counsellor schemes outside Romania with 30% more companies assisted in 2014 than in 2013.	End-December 2014
43	Base the revision of the basic benefits package on a cost-effectiveness analysis.	End-December 2014

By end-March 2015

No.	Measure	Date
26	Submit the quarterly progress report on the action plans implementation.	End-March 2015

By end-June 2015

No.	Measure	Date
26	Submit the quarterly progress report on the action plans implementation.	End-June 2015
31	Increase the number of properties registered in the digitalised national land registry from currently 15% to 25%.	End-June 2015

To be met within the programme period, deadline yet to be defined

No.	Measure
1	Reduce the structural fiscal deficit to 1% of GDP.
3	Strengthen the role of the Fiscal Council regarding the assessment of revenue projections and the calculation of the deficit target.
4	Improve the content of the fiscal strategy.
4	Design and implement procedures for internal coordination arrangements, to involve line ministries in the medium-term budget planning.
4	Increase the capacity of the MoPF to estimate the structural deficit.
4	Strengthen the capacity to perform fiscal compact assessments of legislative proposals.
6	Establish an effective commitment control system for all levels of government.
7	Set up the protocol for a regular flow of fiscally-relevant data to the MoPF.
8	Implement a comprehensive tax compliance strategy in line with the respective World Bank project
8	Improve VAT reimbursement procedure.

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8	Increase the e-filing rate for the tax returns for companies from 89% to 93%.
18	Strengthen corporate governance of the Deposit Guarantee Fund in the Banking System, in particular to avoid any perceived conflict of interest for board members and executive directors.
23	Ensure that court cases involving abusive clauses are dealt with by higher ranking courts or by a unique specialised court and take all other necessary measures to ensure a harmonised application of these provisions, such as training of judges.
23	The NBR together with the Romanian Banking Association will explore possibilities for setting up a database of shareholders of companies in insolvency as well as implement more effective data reporting of the Association of Insolvency Practitioners.
24	The ASF will swiftly complete the integration of the former three supervisory authorities for securities, insurance and pensions while ensuring the smoothing functioning of supervisory activities.
24	The ASF will develop a human resources policy geared first and foremost towards qualified staff to perform on-site supervision, off-site analysis, validation of internal models.
24	The ASF will further enhance transparency and public accountability by ensuring an adequate public disclosure of all fees and commissions charged to the supervised entities.
28	Continue the development of gas and electricity trading platforms.
28	continue the unbundling of energy transmission and dispatch operators.
28	Improve cross-border integration of energy networks and provide for security-of-supply measures.
30	Streamline the "one-stop shop" and the "point of single contact" into fully-operational and interconnected electronic platforms with a single entry point.
31	Find appropriate arrangements for a swift resolution of undebated inheritance cases.
31	For concession and leasing contracts related to the state domain make land and property registration compulsory prior to contract signature.
42	Continue implementing outstanding measures, in particular but not exclusively with reference to: i) clearing arrears in the health sector; ii) preserving budget control mechanisms (such as the claw-back tax on pharmaceuticals and monthly hospital budget reporting); and iii) implementing e-health solutions.
45	Improve efficiency and effectiveness in the healthcare system. This will be done by shifting resources from hospital-based care towards primary care and ambulatory care and by continuing the reduction of bed capacity in in-patient acute care hospitals in accordance with the national health strategy. Also, the budget for primary care will be increased via use of performance based payments to at least 10% of public health expenditure managed by the health house within the next 2 years.
47	Continue the preparation of the reorganisation and rationalisation of the hospital network based on the government's project financed by the World Bank for health sector reform.

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