

SUPPLEMENTAL MEMORANDUM OF UNDERSTANDING

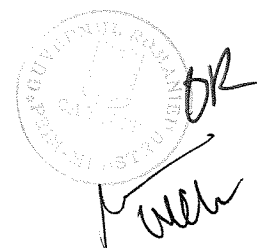
(First addendum to the Memorandum of Understanding)

BETWEEN

THE EUROPEAN UNION

AND

ROMANIA



SUPPLEMENTAL MEMORANDUM OF UNDERSTANDING

(First addendum to the Memorandum of Understanding)


between

THE EUROPEAN UNION and ROMANIA

1. On 6 May 2009, the Council of the European Union adopted Decision 2009/459/EC to make available to Romania medium-term financial assistance of up to EUR 5 billion. On 16 February 2010, the Council amended this Decision to address the impact on programme targets of the larger than expected recession. The assistance is provided as a medium-term loan under the balance of payments facility of Member States (based on Article 143¹ of the Treaty on the Functioning of the European Union (the "Treaty") and Regulation No 332/2002²). The EU assistance for Romania comes in conjunction with IMF support through a Stand-By-Arrangement (SBA) in the amount of SDR 11.4 billion (around EUR 12.95 billion), approved on 4 May 2009. Additional multilateral support of EUR 2 billion will be provided by the World Bank (EUR 1 billion) and the EIB and EBRD (EUR 1 billion).
2. The Memorandum of Understanding ("the Memorandum"), laying down the economic policy criteria linked to each disbursement as well as the reporting and monitoring conditions of the loan, was signed on 23 June 2009. Implementation of the fiscal, financial sector and structural reform measures foreseen in the Memorandum should enable the economy to withstand short-term liquidity pressures while improving competitiveness and supporting an orderly correction of imbalances in the medium term, hence bringing the economy back on a sound and sustainable footing. The first instalment of EUR 1.5 billion was disbursed on 27 July 2009 following the signature of the Loan Agreement of 23 June 2009. Four other instalments were scheduled over the period from the fourth quarter of 2009 to the second quarter of 2011.
3. In August 2009, the Commission services participated in an IMF review mission, which led to the disbursement of the second instalment under the IMF programme. As no EU disbursement was planned at the time, the mission was not a formal review under the EU assistance programme. Agreement was reached with the authorities on a revision of some programme targets. In particular, the 2009 government deficit target was set at 7.8% of GDP in ESA95 terms (7.3% of GDP in cash terms), on account of the deeper than expected recession. Additional measures were identified to limit the deficit in 2010 to 6.4% of GDP in ESA95 terms (5.9% of GDP in cash terms) including measures to contain the public wage bill as a percentage of GDP and limit expenditures on pensions and on goods and services, as well as increases in excises.
4. The Commission services carried out a mission from 28 October to 6 November 2009 to assess progress made with respect to the specific conditions attached to the second instalment of EUR 1 billion under the EU financial assistance programme. This was a joint mission with IMF and World Bank staff. As the Romanian authorities could not provide firm policy commitments regarding the 2010 budget, due to the uncertain political situation, the Commission and IMF decided to postpone the completion of the

¹ Ex Article 119 of the Treaty establishing the European Community.

² As amended by Regulation No 431/2009.


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review and the associated disbursements. A follow up technical mission took place from 14 to 16 December 2009, immediately after the presidential election, to discuss the preparation of the 2010 budget.

5. Following the formation of a new government on 23 December 2009 the Commission services carried another programme review mission from 20 to 27 January 2010. Based on the findings of the mission and after having consulted with the Economic and Financial Committee, the economic policy criteria for disbursement of the second instalment of the EU loan appear to be fulfilled. The revised 2009 government deficit target has been met. Parliament has adopted a 2010 budget in line with programme targets. The authorities have started to implement a law unifying the public compensation system, prepared a draft fiscal responsibility law (FRL) in line with EU, IMF and WB recommendations, and finalized a draft pension reform law which, if implemented, will improve significantly the long term sustainability of government finances in Romania. Progress has also been made regarding other structural reforms mentioned in the Memorandum. Finally, agreement was reached on a further gradual reduction of the fiscal deficit to below Treaty reference level of 3% of GDP in 2012. On 16 February 2010, this agreement was endorsed by the revised Ecofin Council recommendations to Romania under Article 126(7) of the Treaty.
6. Taking into account the changed macroeconomic outlook and delays encountered in implementing some of the reform measures foreseen in the Memorandum, the conditions attached to the disbursement of future instalments of the financial assistance need to be adjusted. The agreed changes in the specific economic policy criteria are laid out in the Annex to this Supplemental Memorandum of Understanding (the "Supplemental Memorandum"), which is an addendum to the Memorandum.
7. Articles laid down in the Memorandum and its Annex remain valid and in force, unless explicitly amended in this Supplemental Memorandum.
8. Based on the fulfilment of conditions in the Memorandum and following the consultation of the Economic and Financial Committee, the Commission shall decide on the release of the second instalment of EUR 1 billion subject to the signature of the Supplemental Memorandum by the parties and its entry into force.
9. The Annex forms an integral part of this Supplemental Memorandum.
10. All notices in relation with the present Supplemental Memorandum shall validly be given if in writing and sent to:

For the European Community

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

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For the Prime Minister

Prime Minister's Office
1, Piata 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

11. For Romania, the Supplemental Memorandum shall become effective after completion of internal procedures required under the Laws of Romania. The Supplemental Memorandum 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 Memorandum and become effective according to the same procedures as the Memorandum.



Official stamp of the Ministry of Public Finance of Romania, featuring the text "ROMANIA" and "MINISTERUL FINANTELOR PUBLICE". Below the stamp is a handwritten signature in black ink.

Done in Brussels on 22.02.2010 and in Bucharest on 18.02.2010 in five originals in the English language.

ROMANIA
Represented by



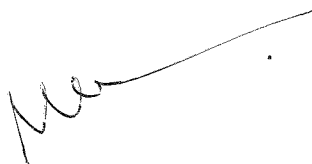
Emil Boc
The Prime Minister

EUROPEAN UNION
Represented by
EUROPEAN COMMISSION



Olli Rehn
Member of the European Commission

Sebastian Vladescu
Minister of Finance



Mugur Isarescu
Governor of the National Bank of Romania



SPECIFIC ECONOMIC POLICY CRITERIA
(Amendments and additions to Annex I of the MoU)

In view of the significant worsening of the economic outlook for 2009 and 2010, the 2009 and 2010 ESA95 deficit targets of 5.1% of GDP and 4.1% of GDP in the original Memorandum shall be replaced by targets of 7.8% of GDP in ESA95 terms (7.3% of GDP in cash terms) and 6.4% of GDP in ESA95 terms (5.9% of GDP in cash terms), respectively. Progress with fiscal consolidation shall be monitored against these new targets. The deadline for correcting the excessive deficit is extended from 2011 to 2012. Furthermore, the specific economic policy criteria spelled out in the Memorandum of Understanding shall be augmented by the following actions:

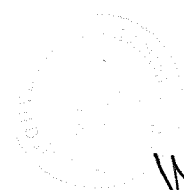
Third instalment [2010Q2]

A: Fiscal consolidation

- Achievement of the 2009 general government deficit target of 7.8% of GDP in ESA95 terms (i.e. 7.3% in cash terms).
- Progress with the implementation of the 2010 budget targeting a government deficit of 6.4% of GDP in ESA95 terms (i.e. 5.9% of GDP in cash terms).
- Rigorous implementation of the measures to reach this target, including:
 - A nominal reduction in expenditure in goods and services compared to the 2009 level.
 - A reduction in the public wage bill to 8.7% of GDP in 2010. To this end, nominal wages should be frozen at the level reached by end-2009 (except for minimum public wage earners).
 - A nominal freeze in the level of pensions compared to the level reached by end-2009, except for the minimum pensions which can be indexed according to inflation and a 0.5 percentage point increase in the pension contribution rate to the second pillar.
 - In case the envisaged measures are not on track to deliver the expected consolidation, contingency measures will be implemented to close any anticipated gap.

B: Fiscal governance reforms

- Adoption by Parliament of the fiscal responsibility law by end March 2010. The Fiscal Council should be fully operational by end April 2010 and be involved in the preparation of the 2011 budget.
- Preparation by the Government of draft legislation on the Code of Tax Procedure aimed at increasing the tax management efficiency. Legislation should be adopted by emergency ordinance by end April 2010.
- Adoption by the government of the revised pension legislation in February 2010.
- Establishment by the Government of a monitoring system for payment arrears by the 10 largest loss-making publicly owned enterprises, based on quarterly targets. An effective monitoring system should be operational by end March 2010.


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C: Financial sector regulation and supervision

- Amend legislation on credit institutions aiming at strengthening the powers of administrators of banks placed under special administration, in line with the EU company law and credit institutions directives, as well as the legislation on the winding-up of credit institutions. The revised legislation should be effective by end March 2010.
- Adoption by Parliament, before end March 2010, of a law on the independence of non-banking financial sector supervisory authorities, which shall include inter alia provisions aiming at: (i) ensuring statutory indemnity of supervisory staff for actions taken in good faith when discharging their duties (ii) strengthening of technical qualifications of the managing board members of supervisory authorities; (iii) ensuring the financial independence of supervisory authorities while taking into account the principles of accountability and transparency in the use of their resources.
- The NBR closely monitors asset quality developments and continues to ensure an appropriate level of provisioning.

D: Structural reforms

- Start the functional review of the public administration before the end of February 2010. The review will be conducted in two stages. Each stage will cover six government ministries or institutions.
- Progress in implementing the plan to increase the intensity of control of undeclared work, in particular by ensuring that labour contracts be registered before the take-up of employment.

Fourth instalment [2010Q4]

A: Fiscal consolidation

- Rigorously implement the measures to reach the 2010 government deficit target.
- Adoption by government of a medium-term budgetary framework for the period 2011-2013 before end May 2010.
- Submission by the Government of the 2011 budget. The budget should be underpinned by concrete measures and should be in line with a budgetary adjustment path allowing to reach a deficit below 3% of GDP in ESA95 terms in 2012.

B: Fiscal governance reform

- Adoption by Parliament, before end September 2010, of follow up legislation to the unified wage law ensuring respect of the quantitative targets for the public wage bill included in the unified wage law adopted in October 2009. The new law also includes provisions ensuring that pay schemes are simplified and that pay will be transparently linked to responsibility and qualifications. It should also abolish the "stimulus fund".
- Approval of the revised pension legislation by Parliament in June 2010.
- Ratification by Parliament, before end June 2010, of the emergency ordinance on the Code of Tax Procedure aimed at increasing the tax management efficiency.
- Adoption by Parliament, before end June 2010, of legislation to improve control over spending by local authorities. This legislation should include (i) the development of

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standardised costing norms on goods and services and on personnel spending (ii) the prohibition of the movement of resources from capital to current spending and (iii) the strengthening of the central government's oversight of local authorities by e.g. ex-ante spending control.

- Adoption by the Government by end-May 2010 of concrete measures to suppress blockages and delays so as to accelerate the absorption of the EU Structural Funds. This includes strengthening the capacity of the relevant public services involved in the management, control and usage of the EU Structural Funds, improving the effectiveness of public procurement procedures as well as the integration of Structural Funds' expenditures in the medium-term budgetary framework.

C: Financial sector regulation and supervision

- Progress in gradually enhancing the funding of the Deposit Guarantee Fund over the medium term. The NBR decision to increase the effective level of contribution under the terms of the current legislative framework should be adopted by end-September 2010.

D: Structural reforms

- Completion of the first stage of the functional review of the Romanian public administration and launch of the second stage before mid October 2010. Preparation by the Government of an action plan, which includes milestones and an implementation timeline, based on the outcome of the first stage of the review by end October 2010.
- Adoption of a multi-annual performance agreement between the Ministry of Transport and the agencies including the expected operational and investment targets and resources, by end-June 2010. This agreement will be undertaken in the context of the envisaged medium-term budgetary framework. The Performance Agreement should define a clear accountability framework and reduce political interference and frequent change in priorities.

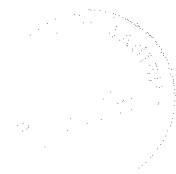
Fifth instalment [2011Q2]

A: Fiscal consolidation

- Achievement of the 2010 general government deficit target of 6.4% of GDP in ESA95 terms.
- Adoption by Parliament of the 2011 budget. This target should be underpinned by concrete measures, including expenditure ceilings on major budgetary items as well as on the consolidated public wage bill, and should be consistent with a budgetary adjustment allowing to reach a deficit below 3% of GDP in ESA terms in 2012.

B: Fiscal governance reform

- The government prepares a report by end-February 2011 on progress made with the absorption of the EU Structural Funds following the measures taken to suppress blockages and delays in their use.



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C: Structural reforms

- Completion of the second stage of the functional review of the Romanian public administration by end March 2011. Preparation by the Government of an action plan, which includes milestones and an implementation timeline, based on the outcome of the second stage of the review by end April 2011. Adoption and progress with implementation by the Government of the action plan based on the outcome of the first stage of the review by end March 2011.

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

Inflation

Monetary policy should remain geared towards price stability and the achievement of the NBR's inflation target (defined as annual consumer price index growth of $3.5\% \pm 1$ percentage point variation band at end-2010 and $3.0\% \pm 1$ percentage point variation band at end-2011).



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