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ROMANIA

BALANCE-OF-PAYMENTS ASSISTANCE PROGRAMME

MISSION REPORT (21 JANUARY - 4 FEBRUARY 2014)

ACKNOWLEGDEMENTS

The report was prepared in the Directorate General Economic and Financial Affairs under the direction of István P. Székely, Director and European Commission mission chief to Romania.

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EXECUTIVE SUMMARY

EC and IMF staff conducted a second mission in Romania under the third economic adjustment programme covering 2013-2015.([1]) The mission (21 January – 4 February 2014) was an informal review from the Commission (no supplemental MoU was negotiated). On the IMF's side, it was a formal review mission (in preparation for the combined first and second formal review in the IMF Executive Board). Staff level agreement was reached on the LoI/MEFP and the revised TMU (Annex 3). The documents were signed by the Romanian authorities on 5 March 2014. A joint press statement was issued at the end of the mission (Annex 4).

Growth in 2013 was better than expected and is forecast to decelerate somewhat in 2014 while becoming broader based. The mission reviewed the macroeconomic framework, taking account of higher-than-expected growth in 2013 from 2.2% in 2013 Autumn Forecast to 3.5% (in real terms) thanks to a stellar export performance driven by a robust industrial output and an abundant harvest (see Annex 1 for an overview of key economic indicators). Growth is forecast to decelerate in 2014, to 2.3% (real, p.a.), before slightly recovering to 2.5% in 2015. It is projected to remain above potential, with growth drivers gradually switching from (net) exports in 2013 to domestic demand over the forecast horizon.

Inflation diminished sharply in the latter half of 2013, and is expected to touch new lows in the first half of 2014 before picking up again in the second half of 2014. After an average annual inflation of 3.2% in 2013, inflation is projected to decelerate further to 2.4% in 2014 mainly thanks to falling food prices leading to historical lows in the first half of 2014.

The current account deficit shrank to just over 1% in 2013 and is expected to roughly stay there in 2014. The current account deficit shrank by 3 percentage points in 2013. It stalled at slightly above 1% in 2013 and is expected to remain in similar territory for 2014. In 2015, a slight widening of the current account is expected to around 1.6% of GDP.

The unemployment rate increased slightly while employment has not recovered. The unemployment rate rose from 7.0% in 2012 to 7.2% in 2013. Overall employment was flat in 2013 and will recover only slowly in 2014; wage increases are expected to remain moderate but still provide an impulse to private consumption due to low inflation.

Sovereign financing conditions have markedly improved in 2013 and remained favourable in early 2014, but the global environment might become less favourable. The inclusion of Romanian bonds in benchmark indices and a positive rating outlook contributed to the improved position that culminated in the successful issuance at favourable terms of 10y and 30y USD-denominated Eurobonds in January 2014. With ongoing tapering of the US Federal Reserve, however, the likely end of the easing cycle and the recent flaring-up of exchange-rate turmoil in several emerging market economies, sovereign refinancing conditions might become less favourable going forward.

The cash deficit target for 2013 and the local and central government arrears targets were met, according to preliminary data. The 0.1% gap in the 2014 budget caused by the 3-month delay in excise duties was filled, but renewed pressures might arise from the authorities' intention to cut social security contributions by 5 percentage points and from possible electoral slippages. The preliminary outturn of the 2013 cash deficit is 2.5% of GDP, in line with the target. The EU co-financing adjustor was properly used. The 2.6% ESA deficit target seems achievable, but confirmation will only be available after the spring notification. The 0.1% of GDP gap in the 2014 budget from the 3-month delay in the excise rate increase was filled by freezing commitments mostly in investment expenditure across four ministries. Risks to the budget from the health-sector reform were largely contained, but others remain, especially from the envisaged social security contributions cut and from possible electoral slippages.

([1]) It refers to the EU's precautionary balance-of-payments programme and the IMF's Stand-By Arrangement.

Work on fiscal governance and public financial management is underway. The Fiscal Responsibility Law was amended in order to implement the Fiscal Compact. The prioritisation of public investments is advancing for significant projects at the central level. Progress is, however, slow on local investment projects. Reforms in public financial management with regards to tax collection and commitment control are broadly on schedule.

High non-performing loans continue to weigh on the banking sector while financial sector reforms have progressed further. The deterioration in asset quality has continued in 2013 and has weighed on the profitability of the banking sector. However, the banking system has remained well capitalised and managed to withstand the deterioration in asset quality. As to financial sector conditionality, further progress was made regarding the bank-resolution framework, the analysis of asset quality in the banking sector, the clarification of provisions on writing off loans, the assessment of the restructured-loan portfolios of banks and the evaluation of the staff of the non-bank financial sector supervisor. The recently-announced fiscal facility for debtors with below-average wages having one or several performing loans from banks needs further fine-tuning so as to mitigate moral hazard and contain adverse effects on credit discipline.

Progress with structural reforms is mixed. As to energy, progress has been rather solid on the regulatory side: both electricity and gas prices were further de-regulated in January 2014 and gas prices for corporates may be de-regulated earlier than planned; important legal amendments related to the unbundling of transmission system operators in electricity and gas are being prepared. As to transport, the regulatory reforms due for end-2013 were not implemented but were planned for early 2014. As to state-owned enterprise (SOE) reform, the restructuring of railway companies continues at a very slow pace. The preparations of the Initial Public Offers (IPOs) for three state-owned energy companies are underway, yet with outstanding issues to be resolved for Electrica (51% by end-May), mounting pressure to postpone Oltenia (15%, end-June) to October and a Court of Appeal decision putting the Hidroelectrica IPO (15%, end-June) at risk. The end-December target to reduce the overall arrears of 247 central government SOEs to 5.6 bn lei (1% of GDP) has been missed; an action plan is to be drafted. Corporate governance in SOEs remains a significant problem. As to healthcare, a revised basic-benefits package for publicly-reimbursed medical services and products is to be implemented by April 2014 (a considerable delay over the end-September 2013 programme deadline), central procurement of medical goods needs to progress at a faster pace and the update of the reimbursement list with up to 130 new medicines is to be accompanied by savings and a revision of the claw-back tax on pharmaceutical spending. Business environment reforms are advancing at different speeds. As to administrative capacity building, a delivery unit reporting to the PM was set up in December 2013. In line with programme conditionality, it will be also in charge of coordinating the follow up of the CSRs that are not covered by programme conditionality.

PM Ponta's government underwent a significant re-shuffling at the end of February, following the break-up of the ruling coalition. Political tensions might re-accumulate ahead of the European Parliament elections in end-May and of presidential elections in November. Mounting tensions within the USL coalition led to its break-up at the end of February. A new government ("Ponta III") was sworn in on 4 March composed of PSD and three smaller parties: UDMR, PC and UNPR. The former two were already part of the previous coalition.

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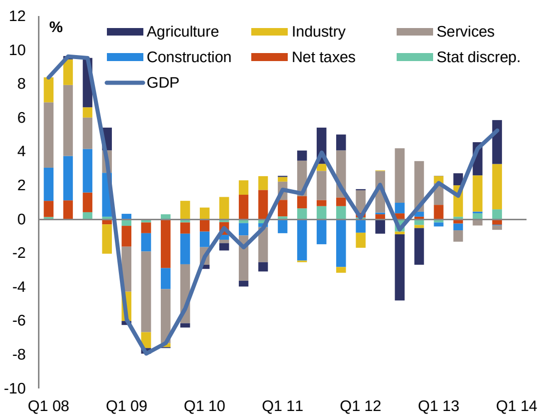
1. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

Real GDP growth in 2013 has come out at 3.5% (from 2.2% in the 2013 AF) thanks to a stellar export performance driven by a robust industrial output and an abundant harvest (Graph 1.1).([2]) The GDP growth in the last quarter of 2013 was 1.5% q-o-q and 5.2% y-o-y; this was the highest annual growth since the beginning of the crisis.

Graph 1.1: **GDP components - Supply side, y-o-y %ch.**

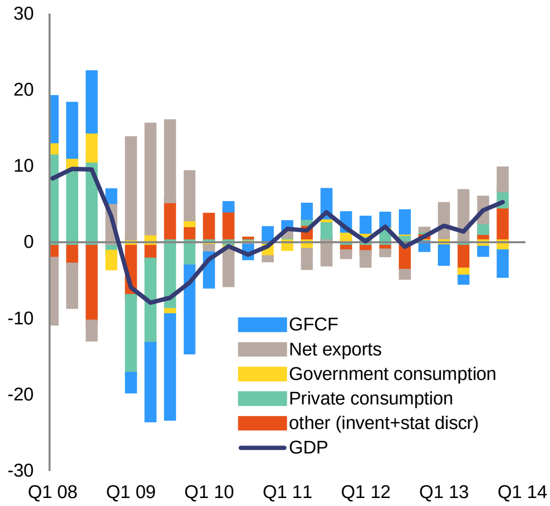


Source: Commission services

On the demand side, the good export performance masked weak domestic demand, with consumption being flat and investment contracting. Mirroring the positive developments in manufacturing and agriculture, exports expanded robustly in the first nine months of 2013, by 12.8%, while imports remained subdued (+2.3% in real terms), in line with weak domestic demand. A modest recovery of private consumption in the second half of 2013 most likely reflects an increase in self-consumption driven by the abundant crop this year; it also contributed to a build-up of inventories (Graph 1.2). On a negative note, gross fixed capital formation (GFCF) continued to contract in Q4 2013.

Real GDP growth is forecast to slightly decelerate to 2.3% in 2014 and to reach 2.5% in 2015. Growth is projected to remain above potential over the forecast horizon, reflecting the payoff of product and labour market reforms implemented during the programmes, improved confidence, and stronger global economic activity. Growth drivers are expected to gradually switch from (net) exports in 2013 to domestic demand in 2014 and 2015.

Graph 1.2: **GDP components - Expenditure side, y-o-y %ch.**



Source: Commission services

Investment is projected to regain momentum supported by a better absorption of EU funds([3]) as major infrastructure projects move ahead at full speed. After remaining in negative territory in 2013 (Graph 1.3), credit([4]) is expected to remain constrained by households' on-going needs for repairing balance sheets([5]) and the on-going deleveraging process in the banking sector (Graph 1.4) after a long period of deteriorating asset quality. Private consumption is projected, however, to moderately pick up on the back of

([2]) Based on the high frequency indicators available at end-January 2014, the mission reviewed the macroeconomic framework and revised upwards the GDP growth for 2013 from 2.2% (AF 2014) to 2.8% in real terms, with upside risks.

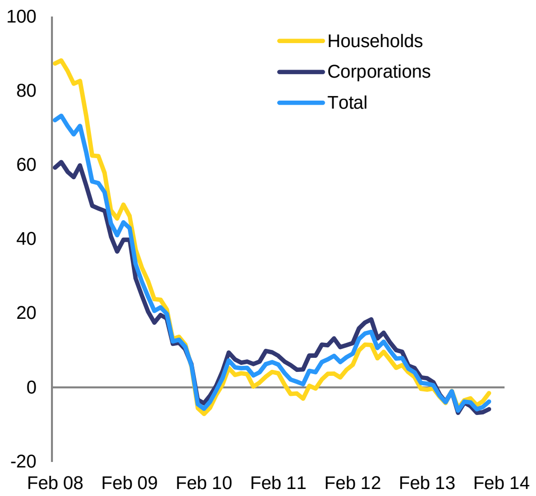
([3]) EU structural and cohesion funds absorption already increased in 2013 to reach 33.7% at end-December 2013 (from 11.5% at end-December 2012).

([4]) *NBR – Inflation Report, November 2013*: Overall, credit developments were associated with the relative drop in the volume of new business, reflecting the on-going tightening of lending standards and the contraction in non-financial corporations' loan demand respectively (as reflected in the NBR's lending surveys). Under the circumstances, household loan dynamics outpaced those of corporate credit for the first time in the past three and a half years. The credit breakdown by customer (as illustrated in Graph 1.3) reveals that household loans contracted at a slightly slower pace than corporate credit.

([5]) Many households still suffer from high debt-service-to-income ratios due to high lending/interest rates and low incomes.

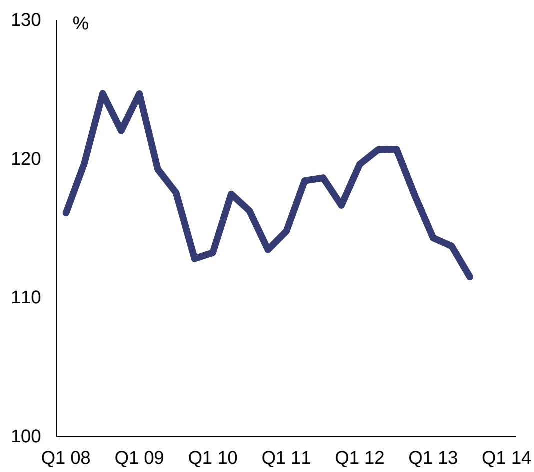
improving consumer confidence and an increase of real disposable income. Public consumption is forecast to continue to be constrained by the need for further fiscal consolidation in 2014 and especially in 2015.

Graph 1.3: **Domestic credit to the private sector, total loans, y-o-y %ch.**



Source: Global Insight, Commission services

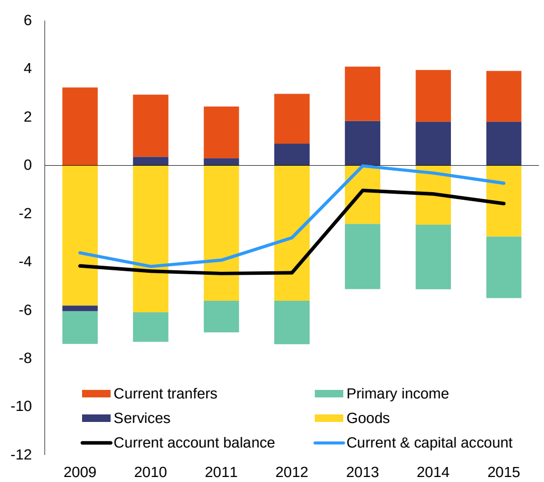
Graph 1.4: **Loans to deposit ratio**



Source: NBR

After a strong adjustment in 2013, the current-account deficit is expected to moderately widen over 2014-2015. The current account deficit declined significantly in 2013 (to around 1% of GDP), mainly due to a much lower trade deficit (graph 1.5). Exports of goods were driven by transport equipment, machinery and agricultural goods. Exports of goods to countries outside the EU increased by 11%, thereby outpacing those to EU member states, which grew by 8%. Exports of services surged, supported by a change in data collection in 2013. Moreover, imports of goods and services remained subdued in 2013 mainly due to weak domestic demand. Imports of mineral fuels fell significantly by 19%; anecdotal evidence suggests the closure of energy intensive companies, improved energy efficiency and the mild weather in early 2013 as drivers. The growth contribution of the external sector is expected to be marginally positive in 2014 and to turn negative in 2015. The external environment is expected to improve and to support continued, albeit slower, export growth. Imports, together with domestic demand, are forecast to pick up, slightly outpacing exports in 2015. The stable external position shall reduce Romania's vulnerability to the financial market volatility affecting emerging economies.

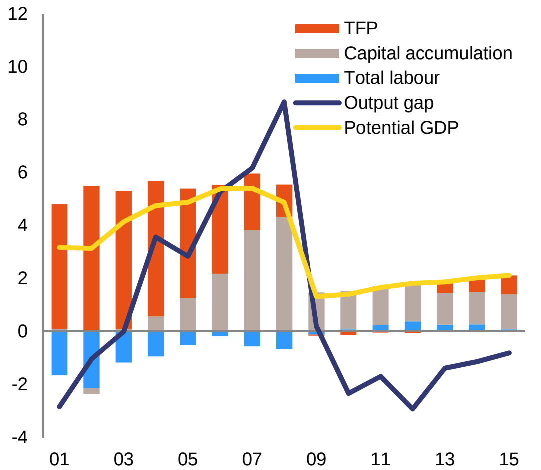
Graph 1.5: **Current and Capital Account in % of GDP**



Source: Commission services

Romania's current output gap is estimated to be relatively small compared to its historical values and it is expected to decline over the forecast horizon (Graph 1.6). Based on the latest EC staff estimates (end-Jan 2013, winter review mission), Romania's output gap in 2013 is estimated at -1.4%. The output gap would decline further to -1.1% in 2014 and to -0.8% in 2015. In Commission's AF 2013, the output gap was estimated to be slightly bigger (2013: -1.8%; 2014: -1.6%, 2015: -1.3%).

Graph 1.6: **Contribution to potential GDP (Winter forecast 2014)**

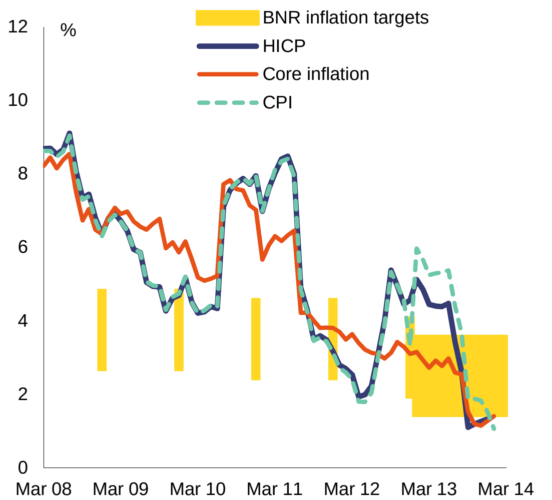


Source: Commission services

Risks to the macroeconomic outlook are balanced in 2014. Downside risks include: (i) additional needs for repairing household balance sheets, coupled with banks' on-going deleveraging process that may result in lower-than-expected private consumption; (ii) continuing political uncertainty may negatively impact on financial markets and foreign investors' confidence, affecting foreign capital inflows and sovereign financing; and (iii) the potential (negative) base effect from this year's record agricultural and strong industrial output. There are also upside risks: (i) additional investments induced by better-than-expected absorption of EU funds; (ii) 2014 being a double-election year, there is an upside risk of stronger domestic demand induced by fiscal slippages; such a short-term boost would, however, have a negative impact on public accounts in 2014 and beyond.

The annual average HICP inflation forecast was kept almost unchanged for both 2014 (2.4%) and 2015 (3.4%). Average annual inflation (measured in HICP terms) was 3.2% in 2013. As expected, HICP inflation sharply declined in the second half of 2013 to reach 1.3% (y-o-y) in December 2013. This was due to a very good harvest, a reduction in VAT on flour and bakery products (from 24% to 9% as of September 2013), as well as weak domestic demand and improved inflation expectations. Inflation is projected to decelerate further to an annual average of 2.4% in 2014 as falling food prices are expected to generate historical lows in the first half of 2014. It is expected to return to the upper part of the central bank's target band (2.5%±1pp.) in the second half of the year. In 2015, inflation is forecast to pick up somewhat to average 3.4% for the year as a whole, reflecting an expected gradual recovery in domestic demand and the continued price convergence towards the EU average. Risks to the inflation outlook are balanced over the forecast horizon.

Graph 1.7: **Inflation (y-o-y)**



Source: NBR

Financial market conditions have significantly improved throughout 2013 and started 2014 on a positive note. Some volatility was noticeable in May-June 2013 mainly due to changes in global market sentiment. CDS sovereign spreads have come further down, reaching around 180 basis points in late 2013/early 2014. Against this backdrop, sovereign financing conditions eased markedly with larger issuances and lower average yields. The BET stock market index gained about 22% over the course of 2013. The exchange rate turmoil observed in several emerging economies in late January 2014 also affected Romania, notably due to financial spill-over effects. Mainly due to significant repayments of the IMF loan the level of foreign currency reserves decreased by an equivalent of around EUR 1.26 bn in February

2014 bringing the reserve level including gold to an equivalent of EUR 34.9 bn.

Unemployment rose from 7.0% in 2012 to 7.2% in 2013 while overall employment was flat in 2013. The unemployment rate increased somewhat in 2013, to an annual average of 7.2%. It is expected to remain at similar levels in 2014, before coming down in 2015 when policy measures, especially those targeted at youth unemployment, are expected to show effects. While the number of employment contracts increased somewhat over the first three quarters of 2013, the number of self-employed fell, leaving average overall employment broadly unchanged in the first three quarters of 2013, compared to the same period in 2012. The share of fixed-term contracts (8.4% of total) was in 2013 similar to 2012. Given the expected deceleration in GDP growth in 2014, employment is projected to grow only slowly.

Nominal wage increases are expected to remain moderate, but still provide an impulse to private consumption thanks to low inflation. Compensation per employee has grown moderately in 2013 driven by public sector wage increases. In 2014, private sector wages are expected to increase by more than those in the public sector (in nominal terms). An increase in the minimum wage notwithstanding, overall compensation growth is forecast to remain moderate. Thanks to low inflation, real wages are expected to increase by up to 3% in 2014. This should contribute to a moderate recovery in private consumption. Public pensions will be increased by 3.8%, in line with inflation plus half of the real growth in the gross average wage, as provided by the pension law.

2. POLICY AREAS - PUBLIC FINANCE

2.1. FISCAL CONSOLIDATION

The 2013 deficit target in cash terms and the arrears targets were met, according to preliminary data. Risks regarding the ESA deficit target seem balanced. The cash target for 2013 of 2.5% of GDP (2.3% +0.2% adjustor for co-financing EU Funds) was met according to preliminary data: the nominal deficit was 15.7 bn lei, slightly lower than the target of 15.9 bn lei.([6]) The deficit was increased during the previous review mission with 0.2% of GDP, conditional on the use of the additional fiscal space solely for co-financing EU Funds. The authorities were able to use the adjustor, as the co-financing needs materialized. The 2.5% deficit target in cash terms corresponds to a 2.6% deficit in ESA terms. Final data will only be available in spring, but preliminary estimations by the authorities show that the ESA target is likely to have been met. Downwards risks stemming from a partial reduction of payables in the health sector should be offset by higher revenues in accrual terms. The targets for local and central government arrears were met. Clarity is needed moving further on the status of disputable arrears, which are not currently counted against the program target. The structural adjustment in 2013 is currently estimated at 0.4% of GDP (during the mission it was estimated at 0.5% of GDP).

To cover for the 670 mn lei (0.1% of GDP) gap in the 2014 budget caused by a 3-month delay in the excise hike, the authorities agreed to block commitments, mostly under investment spending, from 4 line ministries. The authorities implemented this decision via a government memorandum which was passed in mid-February following the end of the mission. The memorandum establishes that the ministries concerned will not be able to spend, nor will they be able to commit the amounts until the first budget revision in July. This will make expenditure cuts possible at the first budget revision in July, if needed. Under this scenario, the structural adjustment in 2014 is estimated at 0.3% of GDP.

Risks to the 2014 budget are related to a possible cut in social security contributions, health sector reform and possible election-related slippages. The authorities have reiterated their plan to cut social security contributions by 5 percentage points in mid-2014, although compensatory measures have yet to be identified. While MoU conditionality foresees a possible reduction of the tax wedge of low and middle income-earners, the authorities seem keen on moving ahead with an across-the-board cut. Work is underway for fine-tuning base-broadening measures in the social security contributions area, based on World Bank recommendations, but the authorities believe they cannot be put in place before January 2015. Hence, the need for compensatory measures for a possible cut in 2014 becomes more pressing. In the health sector, significant reforms are underway. Pending clarification of their budgetary impact, the enactment of the changes has been postponed until mid-2014 and 2015, to ensure that the budget is not affected. The authorities proposed a package of three demand-stimulation measures, given their assessment that domestic demand needs to be encouraged. The mission only agreed with the two which are neutral to the budget: a state-aid scheme to encourage job-creation and a scheme to encourage debt restructuring for individuals. The debt restructuring scheme will, however, have adverse budgetary implications in 2016/2017, which the authorities agreed to limit to 0.1% of GDP per year. The third measure, a tax exemption for reinvested profits, will most likely be brought up again during the April/May mission. Given the developments after the mission with regard to new initiatives that are likely to affect the budget, the authorities should stand ready to contain possible slippages that would endanger the deficit target.

Achieving the medium-term objective (MTO) in 2015 will be challenging. The two adjustors in 2013 and 2014 imply some back-loading of the structural effort in 2015: the effort needed to reach the MTO is estimated at 0.8% of GDP. While the budget for 2015 was not discussed during the mission, risks to meeting the objective arise also

([6]) Formal IMF assessment of the achievement of the deficit target in 2013 is different. Since the last LoI and MEFP were not approved in the Board following the Oct-Nov 2013 review mission, the additional 0.1% adjuster granted during that mission is not formally in place for the IMF. Therefore the cash target for 2013 is 2.4% of GDP, and the IMF assessment is that Romania missed this target due to higher co-financing expenditure. A waiver will be requested from the next IMF Board.

from measures planned to be enacted during 2014. One risk stems from the effect of a significant cut in the social security rate, which would further erode revenues and would make the achievement of the MTO more difficult. On the other hand, the authorities are working, with IMF and WB assistance, on the new royalty regime for 2015 which could possibly bring additional revenues, but progress is slow. The electoral cycle also represents a risk for the 2015 budget, given that presidential elections are scheduled for 2 and 16 November.

2.2. FISCAL GOVERNANCE

Work on improving fiscal governance is underway. The Fiscal Responsibility Law (FRL) was amended (in line with conditionality) in order to implement the Fiscal Compact. Concerning the enforcement of fiscal rules, the authorities committed to prepare a report on compliance with the FRL in the 2011-2013 period. Discussions were held on how to improve the Fiscal Strategy, in particular regarding fiscal risk analyses and transparency of budget assumptions. The next Fiscal Strategy is expected to be passed in July 2014, and it should incorporate several content improvements, also building on the work currently being done for the IMF Fiscal Transparency Assessment. The finance ministry does not have a good and regular overview of the evolution of budget assumptions (number of employees, numbers of pensioners etc.) used for the budget preparation and for impact assessments, as the information rests with line ministries. The finance ministry will set-up a formal procedure to receive regular information from line ministries, via a government memorandum by the next mission planned for late April. Further, the finance ministry started a pilot project on improved results-based budgeting at two ministries, with support of the World Bank.([7])

Prioritisation of significant investment projects will be further improved after the adoption of methodological norms. Prioritisation criteria for significant projects were defined in 2013. The authorities committed to adopt methodological norms to guide the application of these criteria by end-March 2014. From 2014 onwards, all new significant projects financed by the central government will be subject to these criteria and vetted by the Public Investment Evaluation and Prioritisation Unit, at the finance ministry. Existing significant projects will be reappraised following the adoption of the norms and a list of projects to be cancelled will be approved. Progress is rather slow with respect to prioritization of purely locally financed projects, as they are not subject to the above criteria and vetting, given the autonomy of the local governments. It was agreed to identify local government projects for which central government co-financing will be cancelled. For projects completely financed from local funds, the authorities committed to set up a consultation mechanism to review and prioritise investment projects, with a view to cancelling non-performing ones. The results of these separate prioritization exercises should feed into the preparation of the 2015 budget and into the medium-term budget planning.

Progress on tax administration is broadly on track. The restructuring of the tax collection authority (ANAF) has advanced. Still, the new anti-fraud unit, which started its operations in November 2013, currently stands at only half its planned staffing, and is expected to be fully staffed by mid-year. Concerning conditionality, the tax compliance strategy and the World Bank project on revenue collection are in progress and the commitment to establish a services catalogues for the taxpayers is on track. Advancement on e-filing has been slow though. Legislation to streamline VAT-reimbursement procedures is in drafting stage, discussions on guiding principles and changed thresholds for ex-ante and ex-post controls were encouraging. Also, a pilot compliance project will be launched targeting undeclared labour and tax evasion. The key instrument will be a matching of personal and corporate income tax declarations.

The partial roll-out of the commitment control system took place in January 2014. The new system was rolled out in three government entities (the finance ministry, the telecommunications ministry, and Bucharest/District 6) and their subordinated units in January. The actual use of the system and the reporting capacity are improving, but not yet complete. The system is not

([7]) A memorandum in this regard was adopted by Government on 19 March. The pilot project started at the ministries of Health and Education.

yet capable of producing comprehensive financial reports at different levels of aggregation. The authorities are working on increased functionality and on broadening the number of institutions covered. IMF staff has thus proposed to reset the structural benchmark for the partial roll-out of a "fully functional" commitment control system to end-April 2014.

The constitutional court has ruled the recent law on decentralisation unconstitutional. The authorities have committed to consult with the programme partners ahead of further legal initiatives to ensure that any new proposals will be deficit-neutral and that fiscal control will remain at central government level.

2.3. PUBLIC DEBT MANAGEMENT

Amid decreasing financing needs, the issuance policy of the sovereign aims at lengthening maturities and at extending the share of issuances on the domestic market. Gross financing needs of the sovereign in 2014 are projected at 62.3 bn lei of which 14.5 bn lei for the deficit, 39.1 bn lei for the refinancing of government securities on the domestic market and 7.6 bn lei for repayments of external loans. Funding needs will be equally financed from domestic and external sources, but the share of domestic issuances is expected to gradually increase to 70% by 2016. The ceiling of the current EMTN programme has been extended to EUR 15 bn. In January the treasury issued 10y and 30y US-dollar denominated Eurobonds totalling EUR 2 bn still benefiting from favourable market trends. But in light of the recent turmoil in emerging markets, intensifying tapering of the Fed and the likely end of the easing cycle, sovereign refinancing conditions are likely to be less favourable this year. In December 2013, the cash buffer (only FX) stood at EUR 5.5 bn (around 4% of GDP) and the treasury intends to maintain the target to keep the buffer at an average four-month of gross financing needs (currently nearly five months). No Eurobond is due for repayment this year, but a euro-denominated domestic bond (EUR 1.3 bn) is due in May. A new 5-year Euro-denominated bond issue was launched on the domestic market in January and tapped twice amounting to EUR 678 million. This bond will be reopened mostly during the first half of the year to refinance the 3-year euro-denominated bond due in May ,thereby lengthening its maturity. Euro-denominated bonds will be issued in the domestic market in the first four months of 2014, while extending their maturities. The treasury exercised the option to disburse EUR 700 bn of the World Bank DPL-DDO([8]) (18-year maturity, 3.6% interest). The remaining credit line of EUR 0.3 bn is expected to be drawn in 2014. The finance ministry is currently negotiating with the World Bank a new DPL of EUR 750 million out of a series of two programmatic DPLs envisaged for 2014 and 2015 to support the reform program.

Progress on programme conditionality related to debt management is deemed satisfactory so far. The Debt Management Strategy will be updated by end-March 2014 consistently with the 2014 Annual Borrowing Plan published in December 2013. Regarding investor relations, two non-deal roadshow are scheduled in Asia and Middle East in the second quarter of 2014, and there are dedicated calls with regional and global investors on a continuous basis. The primary auction system operated by the central bank (National Bank of Romania, NBR) is in its testing phase and should be fully operational by starting in March 2014. On liability management, the treasury hinted that the deadline to create the necessary legal and operational framework and to build up the capacity and infrastructure by end-September will most likely not be met. The necessary legal and operational framework for this electronic platform is likely to be in place by end-2014, following market consultations with primary dealers. Finally, the treasury works on improving the asset management of the foreign currency cash buffer.

([8]) Development Policy Loan with a Deferred Drawdown Option

3. POLICY AREAS - MONETARY POLICY

Falling inflation and improved inflation expectations have allowed the central bank to significantly reduce the policy rate. The central bank continued to lower its key policy rate, by 25 bps to 3.50% in February 2014, following successive policy rate cuts in July, August, September, November 2013 and January 2014 totalling 150 basis points. Inflation fell into the 2½%±1pp target range in September 2013 and remained within the target range thereafter. Inflation is projected to reach historical lows in the first half of 2014 (temporarily moving below the lower band of the target range) and gradually move towards the upper part of the band by end-2014 and to stay within the target range over 2015. However, risks to the medium-term outlook are mostly to the upside, especially as the favourable base effect fades out and domestic demand starts picking up.

Liquidity conditions in the interbank market have improved substantially since mid-2013 but deteriorated by end-January 2014. The NBR started easing liquidity conditions in spring 2013 and there was a change from a negative to a positive net liquidity position of the banking system vis-à-vis the central bank since late summer 2013. This helped interbank interest rates to decrease substantially. Recent abundant liquidity, related to a large extent to treasury operations, led interbank rates to decrease below the NBR's key policy rate. The cut in the Minimum Reserve Requirements (MRRs) in January 2014 is likely to further increase the liquidity in the interbank money market (MRRs were cut from 15% to 12% on leu-denominated liabilities and from 20% to 18% on foreign currency-denominated liabilities). However, the liquidity situation temporarily worsened by end-January reflecting the NBRs and Treasury operations prompting the interbank interest rates to move up towards the key policy rate level. Liquidity situation is set to improve going forward and the NBR will have to carefully assess possible instruments for liquidity absorption at its disposal. There was no use of the NBR repo operations by banks since September 2013. Strengthening the interest-rate channel of monetary transmission remains an important challenge, particularly in view of the highly volatile interbank market and persistently weak credit activity.

The mission discussed broader monetary policy instruments and the implications of the substantial cuts in the key rate and recent reduction in the minimum reserve requirements. The successive monetary policy rate cuts have fed through lending rates to the real sector albeit with a certain lag, with credit growth remaining negative (-3.3% y-o-y in December). Before further lowering the MRRs, the NBR has to assess possible implications on market liquidity, lending, exchange rate and foreign-owned banks' balance sheets. In particular, potential implications from excess liquidity from a further cut on Lei-denominated liabilities warrant a closer look. Maintaining the wedge between FX- and Lei-denominated liabilities is important. Liquidity management by the NBR and instruments needed to absorb excess liquidity were discussed, also in the context in which at the beginning of 2014 the NBR was active on the forex market with net sales of foreign currency. Gearing the monetary policy stance towards the inflation target while also avoiding an excessive volatility of the exchange rate (due to impact on inflation, inflation expectations and balance sheet concerns) may represent a challenge in the longer run.

4. POLICY AREAS - FINANCIAL SECTOR

The increase in impaired assets has continued in 2013 and has put further pressure on banking sector capitalisation and profitability. Capital adequacy at system level remained flat in 2013, *inter alia* due to several capital increases, and stood at 15% at the end of December 2013. Non-performing loans (90 days overdue) surpassed 21% at the end of August and further increased to 21.9% at the end of December 2013. The risks associated with the still on-going increase in non-performing loans (NPLs) have continued to be mitigated by the prudent loan-loss provisioning policy and the reassuring coverage of NPLs by provisions. However, the increase in loan-loss provisions has continued to put a strain on profitability. The banking sector recorded a meagre profit in 2013, with return on equity of 1.3%. The liquidity conditions have continued to improve in 2013, *inter alia*, due to the on-going deleveraging process and the increase in retail deposits. The loan-to-deposit ratio at system level declined steadily in 2013 and reached 105% in December 2013 compared to 117% end-2012.

Further progress was made in fulfilling financial sector conditionality. An amendment to the Government Emergency Ordinance no. 99/2006 has provided the NBR with more flexibility and powers to stabilise the financial system, to protect depositors and maintain public confidence in the banking sector. Furthermore, authorities have committed (in the new MEFP) to frontload the transposition of the EU bank resolution and recovery directive by end-September 2014. Although with delays compared to the initial deadline, the NBR has completed the analysis on the asset quality in the banking sector. The European Commission has requested further data on the restructured loans portfolio and an estimation of the impact on the EBA definition on NPLs and forbearance. As a follow-up to a conference call with IFRIC (the Interpretation Committee of IASB) on the interpretation of the IFRS provisions on the write off of loans, the NBR, the Romanian Banking Association and the "big four" auditing companies have made further progress in clarifying that banks can apply their own write-off policies in line with IFRS provisions as long as this application is consistent over time and verified by auditors. Furthermore, the NBR is exploring further solutions to allow banks to write-off fully provisioned loans without forgoing the legal rights to recover the written off loans. As committed in the MoU, the NBR has finalised the on-site inspections of the restructured loans portfolios and IT systems of 20 banks by end-December 2013. Following these on-site inspections, banks were requested to set aside additional loan-loss provisions amounting to 800 million lei. The government approved in December 2013 an emergency ordinance for the setting up of a specialised court for dealing with abusive clauses in loan contracts. The process of setting up this court is already underway, but it is unlikely that the court will be fully operational in March 2014, as initially expected. PricewaterhouseCoopers (PWC), the external consultant selected by the Authority for Financial Supervision (ASF) to make an assessment of ASF staff and staff levels, has completed the evaluation of 162 employees in middle management positions. The ASF decision to only assess staff in middle management positions is not in line with the MoU provisions, which request an assessment

Table 4.1: **Financial Soundness indicators**

(%)	2007	2008	2009	2010	2011	2012	2013	Q1 13	Q2 13	Q3 13	Q4 13
Capital Adequacy											
Capital Adequacy Ratio	13.8	13.8	14.7	15.0	14.9	14.9	15.0	15.0	14.7	13.9	15.0
Leverage Ratio	7.3	8.1	7.6	8.1	8.1	8.0	7.7	8.2	8.0	7.5	7.7
Tier 1 ratio	-	-	-	12.1	12.0	13.5	13.7	13.8	13.6	13.0	13.7
Asset quality											
NPL's (90 days overdue)	-	2.7	7.9	11.9	14.3	18.2	21.9	19.1	20.3	21.6	21.9
NPL's (60 days overdue)	4.0	6.5	15.3	20.8	23.3	29.9	32.1	30.0	30.5	31.8	32.1
Profitability											
Return on assets (after tax)	1.0	1.6	0.3	-0.2	-0.2	-0.6	0.1	0.6	0.7	0.6	0.1
Return on equity (after tax)	9.4	17.0	2.9	-1.7	-2.6	-5.9	1.3	5.1	6.0	5.0	1.3
Liquidity											
Immediate liquidity	38.7	34.4	35.3	37.8	37.2	35.9	41.5	37.6	37.8	38.2	41.5

(1) Q4 2913 data are provisional
(2) Tier 1 Ratio is equivalent to Core Tier 1 Ratio , as banks did not use hybrid instruments. Beginning with January 2012, the NBR is been calculating Tier 1 Ratio (Tier 1/Total Capital Requirements based on credit, operational and market risks).
Source: BNR

of the entire ASF staff. The recommendations of the consultant are expected by mid-February.

In order to support private consumption, the government has announced a fiscal facility for debtors with wages below the average wage that have one or several still performing loans from banks. Notwithstanding the estimations on the limited fiscal impact, this government-sponsored debt restructuring scheme is likely to have an adverse impact on credit discipline and willingness of debtors to repay their debts in the coming years. In order to mitigate moral hazard and maintain credit discipline, the scheme needs further fine-tuning, *inter alia*, in the following areas: (i) significant limitation as regards the types and number of loans to be covered by the scheme (focus should be on mortgage loans and less on consumer loans); (ii) clarification of the "voluntary" nature of the scheme for both the debtor and bank, in case this scheme is introduced by government ordinance; (iii) treatment of debtors who fall below the average wage threshold, but have already restructured their loans in the past; (iv) information to be provided to debtors for consumer protection purposes in case the restructuring scheme supported by the fiscal facility does not provide for a reduction in the net present value of loans; and (v) clear safeguards in order to prevent the abusive use of this scheme.

5. POLICY AREAS - STRUCTURAL REFORMS

5.1. ADMINISTRATIVE CAPACITY

Some progress has been made with the review and update of the action plans by the relevant line ministries. The Chancellery of the Prime Minister (CPM, formerly, the General Secretariat of the Government) confirmed that almost all ministries updated their progress reports by end-2013. They were sent to the European Commission in early January and are currently being reviewed. The WB staff will conduct an overall assessment of the implementation of the functional reviews (FRs), to be finalised by April 2014; this is an independent assessment required by internal WB procedures.

The Delivery Unit (DU) being established under the PM was formally created in December, meeting the MoU deadline. As agreed during the previous review mission, the DU includes one specific post to monitor the implementation of CSRs not covered by the BoP programme.([9]) Commission staff highlighted the need for the appointee to have the political capacity and backing to actively pursue solutions if delays in the implementation of the CSRs are identified. The incoming Commission's European Semester Officer in Bucharest, who attended this meeting, offered to work in close relationship with the DU.

A more permanent structure is desirable also at the centre of the government and with a strong political backing to improve the government-wide policy prioritisation, implementation and coordination, including the implementation of the CSRs. Since the DU is a temporary structure (the WB project has only a two-year timespan), a follow-up structure must be considered. The project of a "*Strategic Planning Committee*" that will be exploited with technical assistance from the WB may be the opportunity for such a reflection.

The Chancellery of the PM participated in the debate on administrative capacity at the EPC meeting on 20 February. Romanian authorities informed about deeply rooted sources of weak administrative capacity and asked the Council to support Romania's efforts to modernise its public sector notably by organising peer reviews and exchanges of best practices. Support from other organisations, notably the World Bank, was appreciated. Romania was requested to proceed with operationalizing the delivery unit, to finalise the administrative capacity strategy and to report on progress made in the framework of the European Semester.

5.2. ENERGY

The energy law requires some modifications in order to fully comply with the EU's third energy package. Despite delays regarding the original plans progress is good on the draft amendments to the Energy Law 123.

Progress has been made in developing gas and electricity platforms. The over-the-counter trading platform for electricity was approved in September 2013 and launched in February 2014. The regulator approved the creation of a trading platform for large electricity consumers on OPCOM in October 2013 but it is not yet operational as preparations are advancing at a slow pace. The volumes of electricity traded on OPCOM through other product offerings have improved substantially. Over 2013, they reached 73% of national consumption while provisional figures for January 2014 reach 89%. The intra-day trading for electricity was launched on 15 January 2014. First trades were reported but producers from renewable energy sources (presumed to be the most likely beneficiaries) have yet to participate actively. OPCOM's preparations for the gas over-the-counter trading platform are finalized. To strengthen the gas trading platforms that are currently less developed, the energy regulator is contemplating a legislative amendment that would make sales of at least 20% of gas obligatory on the two currently-existing gas trading platforms. Other regulatory measures are being envisaged.

Progress in unbundling transmission system operators has been good but more needs to be done. Production and supply, on the one hand, and transmission and dispatch of energy, on the other hand, should be separated according to the EU 'acquis'. So far, full unbundling has not yet taken

([9]) Programme conditionality focuses on macro-critical policy areas. The CSRs not covered by the programme refer to reform needs in the areas of labour markets, social assistance reform, social inclusion, education, and justice reform.

place. The authorities need to ensure full compliance with the certification decision of energy regulator ANRE on the unbundling of Transelectrica and Transgaz by, respectively, July 2014 and August 2014.

While there is some progress in the area of gas interconnections, progress in cross-border integration of electricity networks has been slow. As to gas inter-connections, physical gas exports to Hungary have become possible as of February 2014. However, progress on cross-border integration has otherwise been absent, in particular with regard to Bulgaria due to lacking investments. Progress with provisions of security-of-supply measures is slow. As to electricity networks, the coupling of the Romanian electricity market with Slovakia, the Czech Republic and Hungary seems to be delayed: while a memorandum between the countries was signed in July 2013, the previously-announced deadline for coupling electricity markets (September 2014) was no longer considered to be attainable.

5.3. TRANSPORT

None of the earlier commitments to implement the outstanding regulatory measures from the 2nd programme by end-2013 have been met but the authorities planned to implement necessary reforms by end-February. Incentives for the infrastructure manager to reduce unit costs and charges still need to be introduced in the 2014 addendum to the activity contract of CFR Infrastructură. Performance schemes related to delays still need to be introduced in the access contract of each rail operator so as to be in force as of 2014. The formula for calculating the public service obligation subsidy still needs to be adjusted: The current share of train-km (80%) will be reduced to 70% and the share of passenger-km (20%) will be increased to 30%. The authorities planned to finalise these reforms by end-February 2014.

The authorities confirmed the plan to revisit the terms of the multi-annual infrastructure contract. Until now, the terms of this contract did not provide for a financial balance. Budgetary allocations are expected to be paid on time. In addition, a combination of efficiency improvements, network reductions, and subsidy increases is expected to bring the rail companies' budgets into balance. One of the agreed network reductions is closing or leasing out 700km of unfolded rail lines – a government decision on this will be adopted by mid-March 2014 (IMF prior action).

5.4. STATE-OWNED ENTERPRISE REFORM

The operational performance target on the railway companies has been achieved at end-December 2013. Preliminary data shows a cumulative operating loss of 2.2 bn lei, within the 2013 target of 2.3 bn lei.

Restructuring of the passenger and infrastructure railway companies continues at a very slow pace. A combination of efficiency improvements, network reductions, and subsidy increases is expected to bring the rail companies' budgets into balance, but progress has so far been virtually non-existent. The 2014 budget for CFR Călători was not yet approved and the budget of CFR Infrastructură had not yet been submitted. The full board of the latter was dismissed just days ahead of the mission allegedly following the failure to implement the measures required by the Court of Accounts. The government approved a loan from the treasury to CFR Călători to clear the arrears in the railway system, which allows CFR Infrastructură to move to more competitive electricity contracts bought on the trade platform OPCOM.

The restructuring of CFR Marfă looks more promising, but the details of the privatisation timeline are still to be defined. The 2014 budget of CFR Marfă, approved by the government, includes a series of restructuring measures to overhaul the company. A programme of redundancies, starting from end-March 2014 is being discussed with the trade unions, old wagons will be sold for scrap iron, and a tougher stance will be adopted on clients with unpaid invoices. The authorities reiterated their commitment to privatise a majority share of CFR Marfă within the deadline of May 2015, even if the publication of the tender procedure for the privatisation consultant is one month behind schedule. The timeline with all intermediate steps will be drafted in cooperation with a legal advisor that has yet to be recruited.

Preparations for the IPO of 51% of Electrica by end-May are within schedule, although substantial challenges lie ahead. The company is being restructured in order to increase its attractiveness to potential investors. Three([10]) of its five services companies were put into liquidation but a number of outstanding issues still need to be solved: (i) settling the arrears from CFR Infrastructură; (ii) spinning-off minority shareholdings in privatised distribution companies (ENEL and E.ON); (iii) liquidating one more services company;([11]) and (iv) privatising the remaining one.([12])

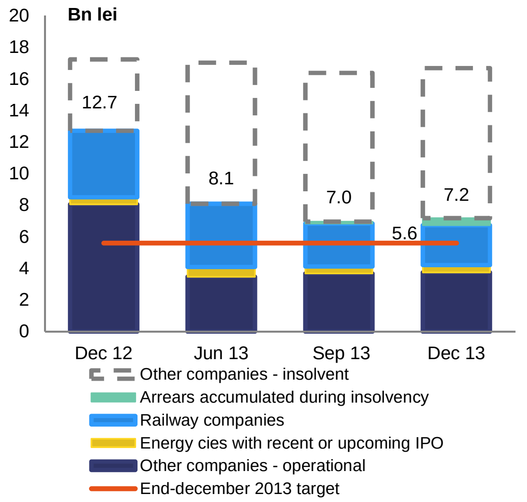
Hidroelectrica re-entered insolvency on 25 February upon decision by the Bucharest Court of Appeal. During the mission both the Romanian authorities and the minority shareholder Fondul Proprietatea confirmed that the go-to-market preparation for Hidroelectrica (15% by end-June) was progressing according to its timeline. Cost pressures potentially slightly reducing investors' interest included the increase in the price of water, the increase in the volume of electricity to be sold at the regulated price (i.e. below market-price), and the new tax on special constructions budgeted for 2014 at 150 mn lei. On 25 February 2014 the Bucharest Court of Appeal ruled in favour of the energy traders that challenged Hidroelectrica's exit from insolvency, cancelling the decision of the Bucharest Court to close the insolvency procedure. The decision has immediate effect and brings Hidroelectrica back in the insolvency procedure, effectively putting the IPO at risk. The authorities are looking to reverse the decision through a special appeal procedure; even so it is now very unlikely that the IPO of Hidroelectrica will take place by end-June 2014.

The IPO for Oltenia (15%) remains planned for end-June, although pressures and a tight timeline suggest a potential postponement to October. Officials hinted that three simultaneous IPOs are not manageable for the (small) team working on the privatisations and the Minister-Delegate for Energy suggested the IPO might only take place in October. One outstanding challenge to be tackled before the launch of the privatisation is the confirmation of the property rights for land historically in the possession of the company, and the revaluation of this land. A second measure is the transfer of the ownership of one non-profitable mine to the thermal power plant that is its sole client. A final concern are the outstanding receivables past due date of more than 700 mn lei. Potential investors will take into account the need for investments to upgrade the mining technology. On the positive side, the National Mineral Resources Agency gave its green light to declassify coal reserves, allowing the study of coal reserves to take place. Oltenia's general manager stated this study could take longer than initially estimated due to the confidentiality of some of the coal reserves.

The target on arrears reduction in central-government owned SOEs has been missed. Against a target to reduce arrears from 7.0 bn lei by end-September to 5.6 bn lei by end-December, arrears increased slightly, to 7.2 bn lei, equivalent to 1.1% of GDP (see Graph 5.1). Faced with this dismal performance, the mission demanded a report of actions to reduce SOE arrears (IMF prior action). The newly negotiated target for end-March is set at 5.4 bn lei.([13]) The new MEFP also calls for all line ministries with oversight of state-owned enterprises with arrears to submit to the Ministry of Public Finance by end-March action plans for the reduction of arrears in those companies. The main purpose is to reduce arrears by end-December 2014 also through restructuring measures, as opposed to relying fully on budget-transfer schemes.

([10]) SC Servicii Energetice Banat SA, SC Servicii Energetice Dobrogea SA and SC Servicii Energetice Moldova SA.
([11]) SC Servicii Energetice Oltenia SA
([12]) SC Servicii Energetice Muntenia
([13]) As of end-March 2014, outstanding payments past due date by companies under insolvency will be excluded from the target.

Graph 5.1: **Payments past due date at central government owned enterprises**



The energy companies with recent or upcoming IPO's are Nuclearelectrica, Romgaz, Electria, Hidroelectria and Oltenia. The railway companies are CFR Cai Ferate, CFR Calatori, CFR Marfă and their respective subsidiaries. Payments past due date of companies already under insolvency or placed under insolvency are excluded from the target. Payments past due date of companies placed under insolvency after 30 June 2013 and accumulated while under insolvency are included in the end-December target but excluded from the end-March target. Any remaining payments past due date will be included again when a company exits insolvency.
Source: Ministry of Public Finance data

Progress has been mixed on corporate governance reform. The independent assessment of the emergency governance ordinance 109/2011 on corporate governance has not yet started, pending funding, and a new Government Ordinance (GEO 26/2013) departs from international best practices.([14]) The mission agreed with the authorities the necessary next steps to properly prepare by end-June 2014 the new legislation on the remuneration of civil servants participating in SOEs boards, general shareholders meetings and privatisation commissions. The WB technical assistance will probably be used to design a SOEs remuneration policy based on best practices. The authorities also agreed to increase transparency and public disclosure by publishing the composition of the different boards on the SOE's and the finance ministry's websites. The government shall consider also the publication of remunerations paid to the boards' members.

5.5. HEALTHCARE

Progress was made towards a comprehensive reform of the healthcare system aimed at improving its financial sustainability and at raising the efficiency of healthcare spending. The basic-benefits package for publicly-reimbursed medical services and products was redesigned. It will shift over a period of 4 years up to 1 million inpatient hospital care admissions to ambulatory care settings; it will strengthen the provision of preventative and primary care services and define the room for financing of health services by private insurance schemes. A new minimum health package will provide preventative care (assessment of health risks) and treatments to the uninsured population, in addition to emergency services that they are currently entitled to. The National Health Programmes have been updated. The framework of these reforms has been approved by government on 29 January. The Ministry of Health is now preparing the secondary legislation on both the basic and minimum benefit package, after which provider contracting will start by April 2014. The supplementary benefits package to be covered by private co-payments and private health insurance has been delayed, (deadline not met September 2013) and will be postponed until end-September 2014. The Ministry of Health will ask the World Bank to deliver a report on policy options for this purpose, financed within the World Bank's project for health sector reform. Reflecting the reduction in need for in-patient care due to the expansion of ambulatory care, the capacity of hospital beds will be reduced by 6,000 beds over the period 2014-2016.

Expenditure defined by the new benefits packages will be limited to the available budget allocation in 2014. The design of the basic benefit package remains within the existing budget envelope. The minimum health package will only be implemented in January 2015, at which point an additional 374 mn lei will have to be allocated to these services. The revision of the National Health Programmes will apply as of August 2014 through a reallocation of 200 mn lei within the total health budget.

([14]) The Commission and the World Bank already expressed concerns regarding the provisions of Government Ordinance 26/2013 in a letter addressed to the finance and budget ministers in December 2013 (Ares(2013)3787151).

The setup of an agency for centralised procurement of medical and non-medical goods used by public healthcare providers will aim at savings on medicines, medical devices and medical supplies. The first centralised tenders ran by the Ministry of Health brought between 6% and 25% savings on the unit cost of the tendered products. The Ministry is committed to operationalize the external agency by end-April 2014 in order to cover a number of tenders within six groups of medical goods by the end of the year. Any savings achieved via centralised procurement should be used to cover other health expenditure.

Adding over 130 new medicines on the reimbursement list without corresponding savings or additional funding puts the current claw-back arrangement at risk. The estimated minimum amount is 590 m lei but it could be considerably higher, if more patients than currently assumed receive the new drugs. The new drugs can have zero cost for the government in the sense that they could be fully financed by the claw-back tax, as already now pharmaceutical spending exceeds the budget by more than 1 bn lei. However, this could increase the risk for future court cases related to the claw-back tax. Currently, there are over 160 court cases claiming back payments related to past claw-back arrangements. Cash flow needs at the National Health House will increase and to keep the addition of new drugs budget-neutral, the VAT collected by the tax administration on clawed-back amounts would need to be shifted to the National Health House. In order to reduce risks to the budget, the Romanian authorities committed to finance the additional cost of the new list of reimbursable medicines not solely through the claw-back tax but also through achieved savings from revised pharmaceutical policies as well as an update of the list, for instance in line with the NICE study. In addition, quarterly audits will be conducted regarding the prescription of expensive medicines to prevent over-prescription.

A revised claw-back tax will define a lower tax rate for generics. The revised claw-back tax will provide a lower tax rate for generics and will be budget-neutral compared to the current tax. It has already been discussed with the stakeholders in the pharmaceutical industry. However, the formula is not yet final and definitions, such as exactly which group of drugs would benefit from the lower tax rate, need to be specified.

5.6. LABOUR MARKET

The achievements of the labour market reforms initiated during the last programme are being preserved. The authorities continue to monitor the labour market developments following the implementation of the new Labour Code and Social Dialogue Code. Consultations with social partners on possible amendments to the Social Dialogue code are ongoing, with a number of proposals having been submitted by the trade unions in December 2013. An eventual revision of the legislation, to be undertaken through the normal legislative process, is not envisaged before September 2014. To bring national stakeholders and international experts together, a high-level conference on social dialogue with PM participation is being organized in spring. The reform of the labour code shows some effect: the authorities saw the reform as positive as it allowed increasing the number of fixed-term contracts (436,000 on average in 2013).

Measures to boost employment, in particular among young people, are being implemented. A draft plan for the implementation of a Youth Guarantee, in line with the European Council conclusions of June 2013, was submitted for review to the European Commission. The plan includes measures that qualify for support under the Youth Employment Initiative. The secondary legislation for the Apprenticeship Law that introduces a dual apprenticeship model and a law facilitating professional training /internships for university graduates were adopted in December 2013. The work-based professional school and vocational training scheme, now in its second year, is expected to attract a growing number of students and partner companies following the changes to the National Education Law introduced in December, which extended its duration by one year allowing direct access after the 8th grade (completion of primary education). A new state-subsidy scheme has been agreed to support job creation, in particular in disadvantaged regions.

The high tax burden on labour for low- and middle-income earners is currently being re-assessed. The government submitted a study by the World Bank outlining different tax policy reform options to reduce the labour tax wedge for low-income earners in a budget-neutral manner. The aim is to introduce a package of measures as of January 2015 encompassing a revision of social security contributions for the self-employed and the possible introduction of new tax allowances and tax credits aimed at reducing the incentives to operate in the informal economy. At the same time, the government has publicly announced its intention to cut social security contributions for employers by 5pps across the board as of 1 July 2014. The Romanian Research Institute on Labour Issues has been requested to prepare a study on the impact of reduction of social security contributions, yet so far no estimates have been provided regarding the cost of this measure, and no details have been given on possible compensatory measures.

The end-2013 MoU deadline for enacting the necessary amendments to the pension law to equalise pensionable age of men and women has been missed. The legislation to gradually bring the retirement age for women to 65 years by 2035 will be discussed and voted both in the Senate and the Chamber of Deputies in February. The amendments are expected to be adopted in Parliament by end-February after which the President has to enact the legislation.

The reform of the social benefit system that should allow for more administrative efficiency and better targeting is being somewhat postponed. The social benefits' system is being streamlined with three social benefits (heating, family and minimum social insertion) being merged into one 'minimum insertion income' with a strengthened means-testing. This reform that is being supported by the World Bank's technical assistance project is also important in the context of rising energy prices as vulnerable consumers need to be appropriately protected. According to the authorities' current timeline, the legislative framework should be amended by September and the methodological norms would be issued by November 2014. While the new system should be operational as of 2015, there are doubts if this timeline is realistic.

5.7. BUSINESS ENVIRONMENT

Reforms in the area of business environment are advancing at different speeds yet with overall good results. The state guarantee scheme for bank lending has been re-launched with improved provisions and a higher ceiling; simplification of administrative procedures is on-going; government services related to export promotion activities are being strengthened. On a less positive side, the budgetary resources allocated to the land registry are claimed to be insufficient to reach the registration levels by the agreed target; it is still unclear if the law regarding the inventions by employees that is currently in parliament will make patenting more attractive for foreign investors; e-government and data sharing provisions will not be implemented in line with the earlier agreed deadline.

Delays are expected in the preparation and implementation of the 'Better regulation strategy 2014-20' that should make impact assessments a standard part of legislative process. With support of the WB technical assistance, an ex-post evaluation of the last strategy was being prepared for end-January 2014. The new strategy is to be prepared by April-May and adopted by mid-2014. An essential part of strategy implementation is the elaboration of common methodology for impact assessments, however due to a change in the WB support team the respective MOU deadlines regarding the common methodology, introduction of quality control measures and pilot projects in four ministries will not be met.

Administrative burdens for SMEs are being reduced but at different speeds. Simplification of procedures regarding property registration and construction permits is on-going but it cannot be verified as the Secretariat General of the Government is still working on quantification of the simplification process. To ensure that information submitted once to the administration is not submitted again, the authorities committed to introduce data sharing within the e-government system. An inter-ministerial Technological and Economic Committee was established in January 2014 and it was agreed that a roadmap for interoperability identifying principles and the timeline will be established by mid-2014. A key element of the roadmap would be the identification of common technical and security standards related to interoperability. However, the authorities were concerned that due to the complexity of the process and a large number of stakeholders a full interoperability of the government system will not be achievable by end-2014, as set out in the MoU. Regarding the commitment to streamline two different electronic platforms (the Point of Single Contact and the One-stop shop) that currently provide different services to SMEs in the areas of 'business-to-government' and 'business–to-business', a link between the two platforms has been established. A more sophisticated integration that would entail a single entry point, integration of functionalities and a greater usability for customers is a more complex task. It was agreed that by end-February a roadmap with milestones and deadlines will be sent to the Commission and by mid-April the single entry point and changes to the interface will be finalised.

Improvements of the intellectual property rights' framework are underway but the reform might be watered down. The draft law on employee invention has been adopted by the government and has already passed the Senate. Yet some changes introduced in the Senate make the law less attractive for foreign investors than the original draft of the government. The authorities have sent a letter to the parliament urging it to drop the Senate's amendments; they are optimistic that they will be able to make this point clear during the discussions in the Chamber of Deputies in February.

The provisions for SMEs' access to finance have improved as regards bank lending, yet no significant progress has been reported on improving the regulatory framework for SME equity financing. The scheme for state guarantees for bank lending has been re-launched with improved and more efficient provisions. The conditions for lending and scheme design have been improved: lending amounts for individual SMEs increased, maturity increased from one to two years (with the option of a third additional year for the repayment of the working capital credit line), application and execution processes were simplified and further standardised, and a more balanced risk-sharing with the state was introduced. The spread over the 3-month ROBOR charged by banks under the scheme was capped at 3.5%. When adding the National Guarantee Fund's management fee and a fee for credit risk exposure, the maximum interest rate spread for a loan paid by a SME under the scheme would be competitive, at around 5.5%. The normative framework regarding the new scheme has been elaborated and pricing/procedural issues have been agreed with stakeholders. The ceiling of 2 bn lei was almost twice oversubscribed and has been fully allocated across the 20 bidding banks. At the same time, no significant progress can be reported on the elaboration of regulatory framework for SME equity financing. Romania participates in the EU Jeremy programme since mid-2013 with a project of 150 mn euros yet the preparation of the regulatory framework that would target SME equity financing is still in the incipient stage. As to the authorities' commitment of strengthening services of SME territorial offices, the project's financing has not been secured.

Export-promotion services for SMEs are being strengthened albeit with delays. A delay of several months is reported in the Swiss-financed export promotion project establishing a 'passport-to-export' scheme. Mainly due to the decision-making process of the Swiss government, the project is now expected to be adopted in May 2014; the tendering process for the selection of the contractor should be completed by end 2014. Pilot export centres will be set up by in Q1 2015, thus the government will miss the deadline of the MOU of end-2014. Two centres are supposed to be regional while the other two are cluster specific. The project will have 100-200 SMEs as beneficiaries. The export promotion strategy for 2014-20, prepared in cooperation with the Export Council and adopted by the Ministry of Economy in autumn 2013, is to be submitted to the Cabinet for adoption. The electronic trade portal was visited by 44% visitors more in 2013 than in 2012; a number of modernisation steps are planned for this year. As to the trade councillor scheme, 3100 SMEs were assisted by the scheme in 2012. Its strengthening is at risk as no budgetary resources have been allocated in 2014, yet the authorities are looking into options of EU funds' financing.

The reforms related to the land registration have advanced somewhat yet more efforts are needed. In March 2014, an emergency ordinance was passed, strengthening the autonomy of the land registry (including financing) as of September 2014. A number of legal amendments have been prepared by the land registry staff to comply with the MoU conditionality but it is uncertain whether the Secretariat General of the Government will process these amendments in a timely manner. The budgetary allocation for 2014 has been substantial, yet it allows for the fulfilment of less than 50% of the MoU conditionality.

ANNEX 1
Key economic indicators

Table A1.1: **Key economic indicators for Romania (Overview, 2007-2015)**

	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Gross Domestic Product	*(annual percentage change, unless otherwise indicated)*								
Nominal GDP (in bn RON)	416	515	501	524	557	587	629	662	697
Real GDP	6.3	7.3	-6.6	-1.1	2.2	0.7	3.5	2.3	2.5
Private Consumption	11.9	9.0	-10.1	-0.3	1.1	1.1	0.9	1.5	2.5
Public Consumption	-0.1	7.2	3.1	-4.7	0.2	1.7	-1.5	1.8	1.5
Gross fixed capital formation	30.3	15.6	-28.1	-1.8	7.3	4.9	-2.7	3.4	4.5
Exports	7.8	8.3	-6.4	13.2	10.3	-3.0	13.6	5.7	6.3
Imports	27.3	7.9	-20.5	11.1	10.0	-0.9	2.9	5.0	7.3
Contribution to GDP growth									
Domestic demand	15.9	11.9	-15.0	-1.5	2.6	2.2	-0.4	2.1	2.9
Inventories	0.0	-3.5	1.4	0.4	0.1	-0.7	-0.3	0.0	0.0
Net exports	-9.6	-1.0	7.0	0.0	-0.5	-0.8	4.2	0.2	-0.5
Prices									
HICP inflation (average)	4.9	7.9	5.6	6.1	5.8	3.4	3.2	2.4	3.4
HICP inflation (year-end, quarterly)	6.8	6.9	4.5	7.8	3.4	4.7	1.6	3.5	3.3
NBR target	4.0	3.8	3.5	3.5	3.0	3.0	2.5	2.5	2.5
Labour market									
Total employment	9365	9366	9181	9156	9082	9203	9219	9257	9322
Unemployment rate (registered, year-end)	4.0	4.4	7.8	7.0	5.2	5.4	*5.6*	n.a.	n.a.
General Government Accounts	*(in percent of GDP, cash)*								
Total revenues	30.6	32.2	31.4	32.3	32.7	33.1	32.9	32.9	n.a.
Total expenditures	32.8	37.0	38.7	38.7	37.2	35.6	35.3	34.9	n.a.
Current	29.4	32.1	34.8	35.1	33.0	32.3	32.5	32.2	n.a.
Capital	3.5	5.0	4.4	3.7	4.1	3.3	2.8	2.7	n.a.
Govn deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.5	-2.5	-2.3	-2.0	n.a.
Government deficit, ESA95 definition, target [1)]	-2.9	-5.7	-9.0	-6.8	-5.6	-3.0	-2.4	-2.0	n.a.
Deficit adjustor (for co-financing EU funds)							-0.2	-0.2	
Government deficit, cash definition including adjustor							-2.5	-2.2	
Government deficit, ESA95 definition, including adjustor							-2.6	-2.2	
Gross debt, general govn, ESA95 definition	12.8	13.4	23.6	30.5	34.7	38.0	38.3	39.3	39.2
Balance of payments	*(in percent of GDP)*								
Current account balance [2)]	-13.6	-11.4	-4.2	-4.4	-4.5	-4.4	-1.0	-1.2	-1.6
Trade balance	-13.9	-13.0	-6.0	-5.7	-5.3	-4.7	-0.6	-0.7	-1.1
Capital and financial account balance	14.0	12.8	5.0	4.6	4.2	3.8	n.a.	n.a.	n.a.
FDI balance	5.7	6.7	3.0	1.8	1.4	1.7	n.a.	n.a.	n.a.
Net international investment position	-43.5	-49.4	-62.4	-62.6	-64.2	-68.0	-62.0	n.a.	n.a.
Foreign exchange reserves (in bn Euro)	25.3	26.2	28.3	32.4	33.2	31.2	32.5	*32.9*	n.a.
Gross external debt	47.0	51.8	68.7	74.4	75.1	75.8	*68.1*	n.a.	n.a.
Monetary and exchange rate developments									
Broad money M3 (annual % change, end of the period)	33.65	17.49	8.97	6.93	6.63	2.69	8.80	*-0.42*	n.a.
NBR policy rate (in %, end of period)	7.50	10.25	8.00	6.25	6.00	5.25	4.00	*3.50*	n.a.
Exchange rate (lei/euro, end of period)	3.61	4.02	4.24	4.26	4.32	4.44	4.47	*4.52*	n.a.
REER (Unit Labour Costs deflator, % change)	19.9	8.0	-13.0	-3.7	0.6	-2.4	n.a.	n.a.	n.a.
Financial market & banking sector developments									
Private credit growth (y-o-y)	60.4	33.7	0.9	4.7	6.6	1.3	-3.3	n.a.	n.a.
Capital Adequacy									
CAR	13.8	13.8	14.7	15.0	14.9	14.9	15.0	n.a.	n.a.
Leverage ratio	7.3	8.1	7.6	8.1	8.1	8.0	7.7	n.a.	n.a.
Tier 1 ratio	-	-	-	12.1	12.0	13.5	13.7	n.a.	n.a.
Asset quality									
NPLs (90 dpd)	-	2.7	7.9	11.9	14.3	18.2	21.9	n.a.	n.a.
NPLs (60 dpd)	4.0	6.5	15.3	20.8	23.3	29.9	32.1	n.a.	n.a.
Profitability									
ROA (after tax)	1.0	1.6	0.3	-0.2	-0.2	-0.6	0.1	n.a.	n.a.
ROE (after tax)	9.4	17.0	2.9	-1.7	-2.6	-5.9	1.3	n.a.	n.a.
Liquidity									
Immediate liquidity	38.7	34.4	35.3	37.8	37.2	35.86	41.52	n.a.	n.a.

Note: * 2014 Winter Forecasts or *latest values*

1) The ESA95 deficit for 2011 includes the one-off item regarding the payment of obligations related to court decisions which became definitive in 2011.

2) Current account and trade balances are reported based on the latest Commission forecast using National Accounts Data.

Source: European Commission, National authorities

Table A1.2: **General government accounts (2007-2014)**

	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Final	2013 Proj	2014 Proj
	(in percent of GDP, cash projection)							
TOTAL REVENUES	30.6	32.2	31.4	32.3	32.7	33.1	32.9	32.9
Profit tax	2.5	2.5	2.4	1.9	1.9	1.9	1.9	1.9
Income and wage tax	3.5	3.6	3.7	3.4	3.4	3.6	3.7	3.6
VAT	7.5	7.9	6.8	7.5	8.6	8.6	8.4	8.3
Excises	3.0	2.7	3.1	3.3	3.4	3.5	3.3	3.7
Social insurance contributions	9.3	9.5	9.6	8.7	9.1	8.8	8.7	8.8
Non fiscal revenue	1.9	3.1	3.1	3.8	3.3	3.2	2.8	2.6
Other fiscal taxes	1.9	2.0	2.0	2.6	1.7	2.0	2.0	1.6
Revenue from capital	0.9	0.8	0.8	0.9	1.2	1.5	2.1	2.3
TOTAL EXPENDITURES	32.8	37.0	38.7	38.7	37.2	35.6	35.3	34.9
Current expenditures	29.4	32.1	34.8	35.1	33.0	32.3	32.5	32.2
Personnel expenditures	6.2	8.9	9.3	8.2	6.9	7.0	7.4	7.3
Goods and services	6.2	6.3	5.7	5.7	5.7	5.8	6.3	5.9
Interest	0.7	0.7	1.2	1.4	1.6	1.8	1.8	1.7
Subsidies	1.7	1.5	1.4	1.3	1.2	1.0	0.8	0.9
Transfers	14.7	14.7	16.7	18.2	17.3	16.3	16.0	16.2
Social Assistance	9.2	10.5	12.8	13.1	12.2	11.5	11.0	10.8
Other transfers	5.5	4.1	3.9	5.1	5.0	4.8	5.0	5.3
Other	0.0	0.0	0.4	0.3	0.4	0.3	0.2	0.2
Capital expenditures	3.5	5.0	4.4	3.7	4.1	3.3	2.8	2.7
Other expenditure (net lending)	0.0	-0.1	-0.5	-0.1	0.1	0.1	0.0	0.0
Government deficit, cash definition	-2.3	-4.8	-7.3	-6.4	-4.5	-2.5	-2.3	-2.0
Government deficit, ESA95 definition 1)	-2.9	-5.7	-9.0	-6.8	-5.6	-3.0	-2.4	-2.0
Deficit adjustor (for co-financing EU funds)							*-0.2*	*-0.2*
Government deficit, cash definition including adjustor							*-2.5*	*-2.2*
Government deficit, ESA95 definition, including adjustor							*-2.6*	*-2.2*

1) The ESA95 deficit for 2011 includes the one-off item regarding the payment of obligations related to court decisions which became definitive in 2011.
Source: National authorities, European Commission

Table A1.3: **Key monetary indicators (2008-2014)**

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

	2008	2009	2010	2011	2012	2013	Nov 13	Dec 13	Jan 14
Broad money (M3)	**174028**	**189630**	**202773**	**216208**	**222018**	**241550**	**234980**	**241550**	**240541**
Intermediate money (M2)	173629	188013	199572	212059	221830	241254	234700	241254	240384
Money market instruments	399	1617	3201	4149	188	296	280	296	157
Narrow money (M1)	92549	79361	81592	85834	89020	100314	97746	100314	99734
Currency in circulation	25287	23968	26794	30610	31477	34786	34227	34786	34943
Overnight deposits	67262	55394	54799	55224	57543	65528	63519	65528	64791
Time deposits*	81080	108652	117980	126225	132809	140940	136954	140940	140650
Money and credit (Annual percentage change, eop)									
Broad money (M3)	17.5	9.0	6.9	6.6	2.7	8.8	6.4	8.8	9.7
- NFA contribution	-54.1	64.9	8.0	-13.4	69.8	85.7	78.4	85.7	80.1
- NDA contribution	35.2	4.3	6.8	9.3	-4.4	-5.7	-7.5	-5.7	-7.0
Intermediate money (M2)	17.3	8.3	6.1	6.3	4.6	8.8	6.4	8.8	9.7
Narrow money (M1)	15.8	-14.2	2.8	5.2	3.7	12.7	10.8	12.7	15.9
Currency in circulation	17.9	-5.2	11.8	14.2	2.8	10.5	7.4	10.5	15.3
Overnight deposits	15.0	-17.6	-1.1	0.8	4.2	13.9	12.7	13.9	16.3
Time deposits*	19.0	34.0	8.6	7.0	5.2	6.1	3.5	6.1	5.6
p.m. Credit to private sector	33.7	0.9	4.7	6.6	1.3	-3.3	-3.0	-3.3	n.a
Interest rates (In percent, eop)									
Robor, 3 m	15.46	10.65	6.17	6.05	6.05	2.44	2.70	2.44	3.52
Robor, o/n	14.53	8.90	2.99	4.53	6.30	1.74	1.78	1.74	4.33
NBR policy rate	10.25	8.00	6.25	6.00	5.25	4.00	4.00	4.00	3.75
NBR credit facility rate	14.25	12.00	10.25	10.00	9.25	7.00	7.00	7.00	6.75
NBR deposit facility rate	6.25	4.00	2.25	2.00	1.25	1.00	1.00	1.00	0.75
Exchange rates									
Lei per euro (end of period)	4.02	4.24	4.26	4.32	4.44	4.47	4.44	4.47	4.49
Lei per euro (average)	3.68	4.24	4.21	4.24	4.46	4.42	4.45	4.46	4.52
Real effective exchange rate (percentage change)									
HICP based	-5.0	-7.6	2.5	3.2	-5.5	n.a.	n.a.	n.a.	n.a.
ULC deflator based	8.0	-13.0	-3.7	0.6	-2.4	n.a.	n.a.	n.a.	n.a.

* Maturity up to 2 years

Source: NBR, European Commission

Table A1.4: **Gross external financing requirements and sources (2011-2015)**

(In billions of euros, unless otherwise indicated)

	2011	2012					2013	2014	2015
			Q1	Q2	Q3 Proj	Q4 Proj	Year Proj.	Proj.	Proj.
I. Total financing requirements	**38.5**	**44.0**	**8.6**	**8.5**	**9.7**	**10.2**	**37.0**	**28.2**	**28.3**
I.A. Current account deficit	5.9	5.8	-0.1	-0.2	0.8	1.0	1.5	2.2	2.9
I.B. Short-term debt	21.8	25.8	5.5	4.8	5.5	5.4	21.2	15.2	14.1
Public sector	5.9	7.5	2.0	1.8	2.2	2.0	8.0	2.7	2.7
Banks	11.9	14.1	2.6	2.1	2.1	2.3	9.0	7.9	6.7
Corporates	4.0	4.2	1.0	0.9	1.1	1.1	4.2	4.6	4.6
I.C. Maturing medium- and long-term debt	11.4	12.1	2.8	3.9	3.6	3.9	14.2	10.9	11.3
Public sector	1.8	2.8	0.4	0.8	1.0	1.4	3.7	2.6	3.7
Banks	3.7	4.9	1.6	2.0	1.5	1.4	6.4	3.3	3.3
Corporates	5.9	4.4	0.9	1.1	1.1	1.1	4.2	4.9	4.3
I.D. Other net capital outflows 1/	-0.5	0.3	0.3	0.0	-0.1	-0.2	0.1	0.0	0.0
II. Total financing sources	**34.6**	**42.3**	**10.8**	**10.2**	**10.8**	**10.1**	**41.9**	**28.0**	**29.1**
II.A. Foreign direct investment, net	1.8	2.2	0.4	1.0	0.1	1.1	2.6	2.6	2.7
II.B. Capital account inflows	0.7	1.9	0.3	0.6	1.2	1.1	3.2	1.9	1.9
II.C. Short-term debt	23.8	23.3	4.9	5.6	4.7	5.7	20.9	14.1	14.1
Public sector	6.3	6.7	1.9	1.8	1.7	1.8	7.3	2.7	2.7
Banks	12.3	12.1	1.9	2.7	1.8	2.7	9.0	6.8	6.7
Corporates	5.1	4.5	1.1	1.1	1.2	1.2	4.6	4.6	4.6
II.D. Medium- and long-term debt	8.3	14.9	5.2	3.0	4.8	2.2	15.2	9.3	10.4
Public sector	2.7	6.7	3.7	1.4	2.9	0.8	8.8	2.8	3.0
Banks	3.0	5.1	0.9	0.9	1.1	0.7	3.7	2.5	3.0
Corporates	2.6	3.1	0.6	0.6	0.8	0.7	2.7	4.1	4.3
Errors and Omissions	0.4	0.8	-0.3	-0.1	1.1	0.5	1.1	0.0	0.0
III. Increase in gross reserves	**-0.5**	**-1.5**	**1.0**	**0.4**	**1.0**	**-0.3**	**2.1**	**-3.8**	**-1.5**
IV. Financing Gap	**3.0**	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-0.7**	**-3.9**	**-3.6**	**-2.9**
V. Program financing	**3.0**	**-0.6**	**-0.9**	**-1.2**	**-1.2**	**-0.7**	**-3.9**	**-3.6**	**-2.9**
IMF 2/	0.9	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-4.4	-1.4
Purchases	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	-1.6	-0.9	-1.2	-1.2	-1.4	-4.6	-4.4	-1.4
European Commission	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5
Disbursements	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal repayments	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5
Others	2.1	1.0	n.a.	n.a.	n.a.	0.7	0.7	0.8	0.0
World Bank	0.7	0.0	n.a.	n.a.	n.a.	0.7	0.7	0.8	0.0
EIB/EBRD/IFC	1.4	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Memorandum items:									
Gross international reserves	n.a.	35.4	36.4	35.4	36.4	35.4	35.4	31.6	30.1
Coverage of gross international reserves									
- Months of imports of GFNS (next year)	n.a.	7.0	7.0	6.8	7.0	6.8	6.8	5.8	5.2
- Short-term external debt (in percent)	n.a.	93.1	97.0	87.9	95.3	94.7	94.7	97.0	105.3

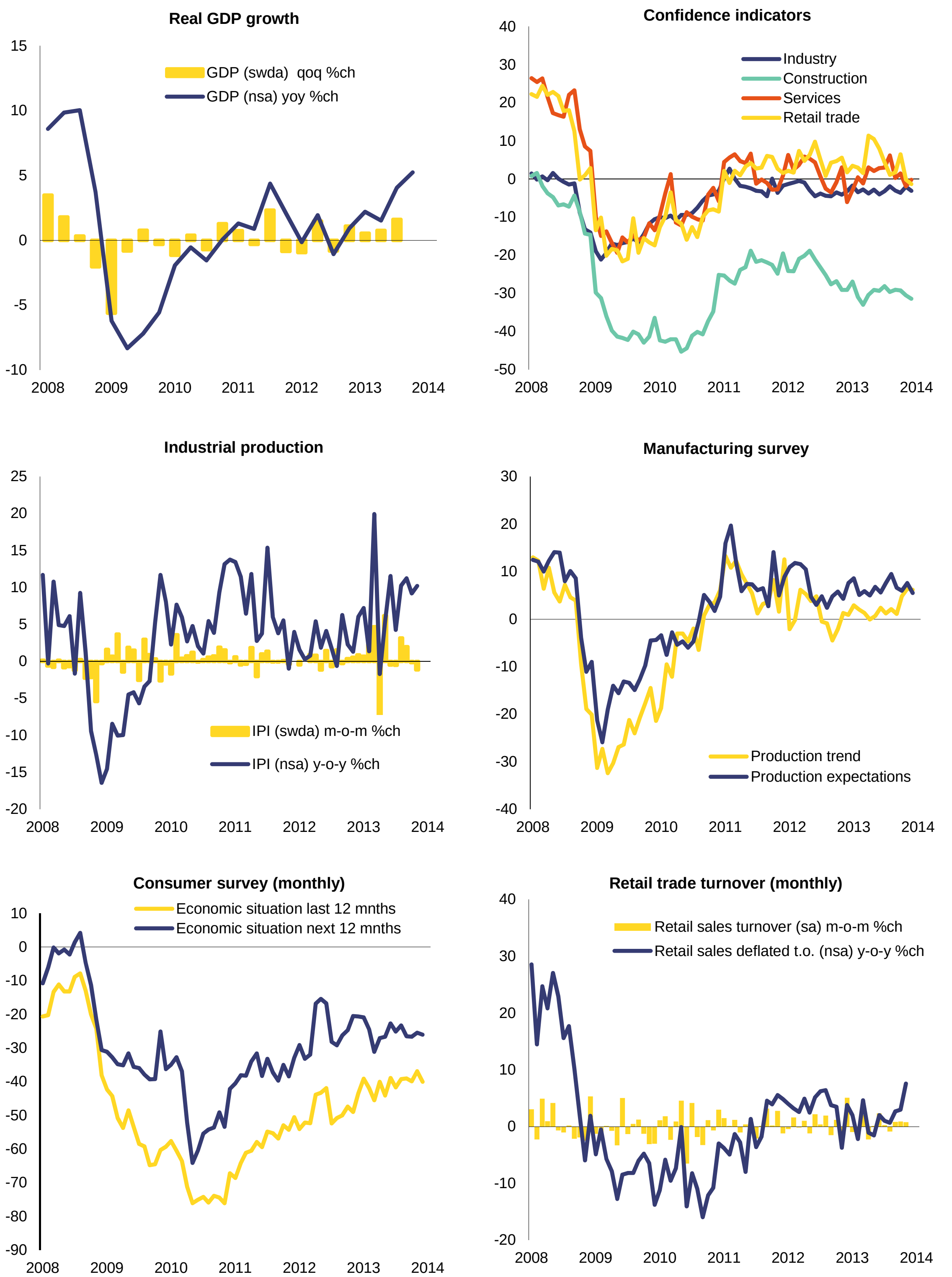
1) Includes portfolio equity, financial derivatives and other investments, assets position
2) Last disbursement of the first programme is treated as precautionary
Note: Slight deviations from the National Accounts figures provided in other tables are due to a different methodology used.
Source: National authorities and IMF staff estimates.

Table A1.5: **Key labour market indicators (2007-2013)**

	2007	2008	2009	2010	2011	2012	2013	13 Q1	13 Q2	13 Q3	13 Q4	2012-2011	*2013-2012**
1 - Population (total, 1000 pers.)	**21551**	**21517**	**21484**	**21447**	**21384**	**21336**	**n.a.**	**21305**	**21305**	**21267**	**n.a.**	**-0.2 %**	***-0.2* %**
2 - Population (working age:15-64, 1000 pers.)	**15046**	**15042**	**15028**	**14999**	**14968**	**14928**	**n.a.**	**14898**	**14898**	**14881**	**n.a.**	**-0.3 %**	***-0.3* %**
3 - Labour force (15-64, 1000 pers.)	**9479**	**9462**	**9483**	**9540**	**9474**	**9584**	**n.a.**	**9386**	**9728**	**9776**	**n.a.**	**1.2 %**	***0.2* %**
4 - Activity rate (% of population 15-64)	**63.0**	**62.9**	**63.1**	**63.6**	**63.3**	**64.2**	**n.a.**	**63.0**	**65.3**	**65.7**	**n.a.**	**0.9 pps**	***0.3* pps**
Young (15-24)	30.5	30.4	30.9	31.2	31.1	30.9	n.a.	28.3	31.7	33.0	n.a.	-0.2 pps	*-0.8* pps
Prime age (25-54)	79.0	78.3	78.5	79.5	79.1	79.8	n.a.	78.8	80.7	80.8	n.a.	0.7 pps	*0.3* pps
Older (55-64)	42.4	44.2	43.9	42.5	41.5	42.9	n.a.	41.2	43.7	44.0	n.a.	1.4 pps	*-0.1* pps
Nationals (15-64)	63.0	62.9	63.1	63.6	63.3	64.2	n.a.	63.0	65.3	65.7	n.a.	0.9 pps	*0.3* pps
Non-nationals (15-64)	67.0	62.7	65.0	n.a.	n.a.	n.a.	n.a.	n.a.	57.9	79.4	n.a.	n.a. pps	*4.5* pps
Male	70.1	70.6	70.9	71.5	70.7	72.1	n.a.	71.1	72.9	73.9	n.a.	1.4 pps	*0.7* pps
Female	35.9	35.9	35.9	36.2	35.4	35.3	n.a.	32.9	36.1	38.1	n.a.	-0.1 pps	*0.4* pps
5 - Employment rate (% of population 15-64)	**58.8**	**59.0**	**58.6**	**58.8**	**58.5**	**59.5**	**n.a.**	**58.1**	**60.2**	**61.0**	**n.a.**	**1.0 pps**	***0.2* pps**
Young (15-24)	24.4	24.8	24.5	24.3	23.8	23.9	n.a.	21.6	24.3	25.3	n.a.	0.1 pps	*-0.8* pps
Prime age (25-54)	74.6	74.4	73.7	74.4	74.1	74.9	n.a.	73.3	75.3	75.9	n.a.	0.8 pps	*0.2* pps
Older (55-64)	41.4	43.1	42.6	41.1	40.0	41.4	n.a.	39.8	41.9	42.4	n.a.	1.4 pps	*-0.5* pps
Low-skilled (15-64)	40.3	41.0	42.0	43.0	40.5	41.9	n.a.	40.3	43.0	43.8	n.a.	1.4 pps	*-0.4* pps
Medium-skilled (15-64)	63.9	63.5	62.2	62.2	62.3	63.1	n.a.	61.4	63.3	64.0	n.a.	0.8 pps	*0.0* pps
High-skilled (15-64)	85.8	85.7	84.1	82.4	82.1	81.4	n.a.	81.4	83.0	81.6	n.a.	-0.7 pps	*0.8* pps
Nationals (15-64)	58.8	59.0	58.6	58.8	58.5	59.5	n.a.	58.1	60.2	60.9	n.a.	1.0 pps	*0.1* pps
Non-nationals (15-64)	65.2	58.7	62.7	n.a.	n.a.	n.a.	n.a.	n.a.	57.9	79.4	n.a.	n.a. pps	*4.5* pps
Male	64.8	65.7	65.2	65.7	65.0	66.5	n.a.	65.1	66.7	68.3	n.a.	1.5 pps	*0.5* pps
Female	52.8	52.5	52.0	52.0	52.0	52.6	n.a.	51.1	53.7	53.7	n.a.	0.6 pps	*-0.1* pps
6 - Employed persons (15-64, 1000 pers.)	**8843**	**8882**	**8805**	**8822**	**8750**	**8886**	**n.a.**	**8652**	**8967**	**9070**	**n.a.**	**1.5 %**	***0.0* %**
7 - Self employed (% of total employment)	**17.5**	**17.3**	**17.7**	**18.8**	**17.2**	**17.5**	**n.a.**	**16.9**	**17.1**	**17.4**	**n.a.**	**0.3 pps**	***-0.3* pps**
8 - Temporary employment (% of total employment)	**1.6**	**1.3**	**1.0**	**1.1**	**1.5**	**1.7**	**n.a.**	**1.4**	**1.5**	**1.5**	**n.a.**	**0.2 pps**	***-0.4* pps**
9 - Part-time (% of total employment)	**9.7**	**9.9**	**9.8**	**11.0**	**10.5**	**10.2**	**n.a.**	**9.9**	**10.2**	**9.9**	**n.a.**	**-0.3 pps**	***-0.7* pps**
10 - Unemployment rate (harmonised:15-74)	**6.4**	**5.8**	**6.9**	**7.3**	**7.4**	**7.0**	**7.3**	**7.2**	**7.3**	**7.3**	**7.3**	**-0.4 pps**	***0.3* pps**
Young (15-24)	20.1	18.6	20.8	22.1	23.7	22.7	23.6	23.1	23.6	23.6	n.a.	-1.0 pps	*0.1* pps
Other (25-74)	4.9	4.4	5.4	5.8	5.8	5.6	5.9	5.6	5.8	5.9	5.9	-0.2 pps	*4.5* pps
Low-skilled (15-74)	7.1	7.1	7.5	6.1	7.3	6.9	n.a.	7.3	7.3	6.5	n.a.	-0.4 pps	*-0.4* pps
Medium-skilled (15-74)	6.9	6.0	7.2	8.3	8.1	7.5	n.a.	8.1	8.3	7.6	n.a.	-0.6 pps	*0.3* pps
High-skilled (15-74)	2.9	2.7	4.3	5.4	5.1	5.6	n.a.	5.6	5.1	5.8	n.a.	0.5 pps	*-0.2* pps
Nationals (15-74)	6.4	5.8	6.9	7.3	7.4	7.0	n.a.	7.5	7.5	7.0	n.a.	-0.4 pps	*-0.1* pps
Non-nationals (15-74)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a. pps	*-1.1* pps
Male (harmonised:15-74)	7.2	6.7	7.7	7.9	7.9	7.6	7.9	7.7	7.9	7.9	8.0	-0.3 pps	*0.0* pps
Female (harmonised:15-74)	5.4	4.7	5.8	6.5	6.8	6.4	6.6	6.5	6.6	6.6	6.6	-0.4 pps	*-0.8* pps
11 - Long-term unemployment (% total unemployment)	**50.0**	**41.3**	**31.6**	**34.9**	**41.9**	**45.3**	**n.a.**	**44.7**	**42.8**	**50.4**	**n.a.**	**1.5 pps**	***0.0* pps**
12 - Worked hours (average actual weekly hours)	**n.a.**	**40.5**	**40.4**	**40.3**	**40.3**	**40.3**	**n.a.**	**39.9**	**40.3**	**40.3**	**n.a.**	**0.0 %**	***-0.5* %**
13 - Indicator board on wage developments (% change)													
Compensation per employee	22.0	31.9	-1.9	-3.3	-4.1	8.3	n.a.	3.9	3.5	2.2	n.a.	8.3 pps	*2.2* pps
Real compensation per employee (GDP deflator)	7.5	14.4	-5.8	-8.5	-7.9	3.5	n.a.	-0.9	-1.4	0.5	n.a.	3.5 pps	*0.5* pps
Hourly labour costs (Eurostat labour cost index)	19.9	22.6	10.8	0.8	4.4	6.7	n.a.	8.6	6.0	3.8	n.a.	6.7 pps	*3.8* pps
Wage and salaries	21.9	23.8	9.6	1.2	4.9	6.7	n.a.	8.6	6.0	3.8	n.a.	6.7 pps	*3.8* pps
Labour productivity (real GDP/person employed)	5.9	7.3	-4.7	-0.9	3.0	-0.6	n.a.	2.3	1.6	3.6	n.a.	-0.6 pps	*3.6* pps
Nominal unit labour costs	15.2	22.9	2.9	-2.4	-6.8	4.8	n.a.	1.6	1.9	-2.4	n.a.	4.8 pps	*-2.4* pps
14 - Sectoral breakdown of unit labour costs													
Business economy	21.1	20.5	11.9	5.2	6.5	6.3	n.a.	5.6	3.4	2.5	n.a.	-0.1 pps	*-0.5* pps
15 - Sectoral breakdown of compensation per employee													
Industry excluding construction	27.2	34.5	-19.7	3.8	3.4	2.0	n.a.	11.6	8.2	16.4	n.a.	-1.4 pps	*10.4* pps
Construction	27.9	33.0	15.3	-28.8	9.3	-1.0	n.a.	10.6	0.5	5.9	n.a.	-10.3 pps	*1.0* pps
Trade, transport and information services	17.2	25.2	7.6	-9.9	5.1	2.8	n.a.	-12.2	-5.6	-11.7	n.a.	-2.3 pps	*-15.7* pps
Finance and business services	14.6	26.8	0.7	6.4	6.7	19.2	n.a.	29.1	22.3	4.2	n.a.	12.5 pps	*2.2* pps
Non-market related services	19.1	30.7	0.5	-6.0	-8.5	9.2	n.a.	14.6	13.5	13.0	n.a.	17.7 pps	*4.0* pps

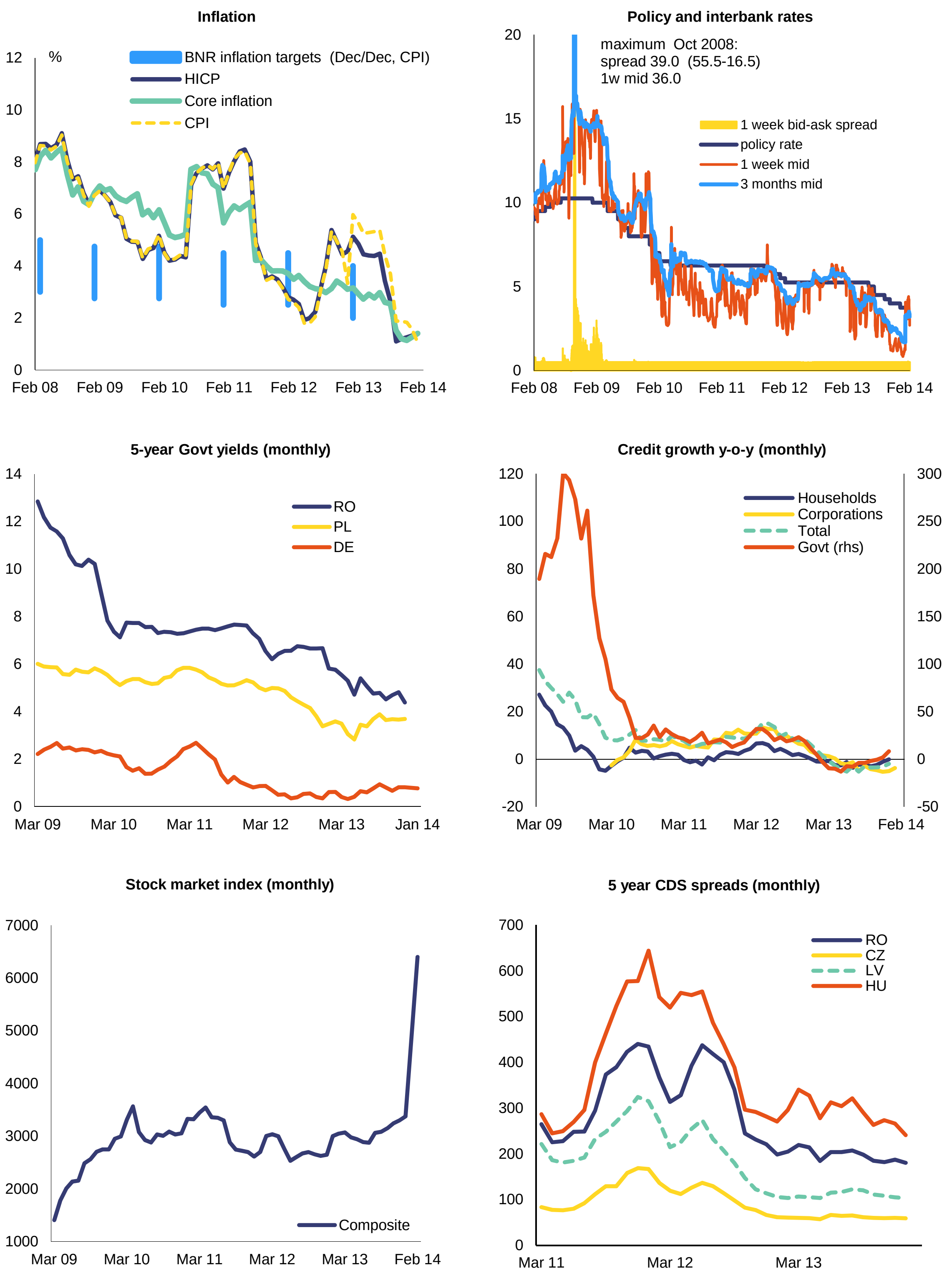
* 2013-2012 developments are yearly figures or latest available quarter
Source: Commission services

Graph A1.1: **Key economic indicators (2008-2014)**



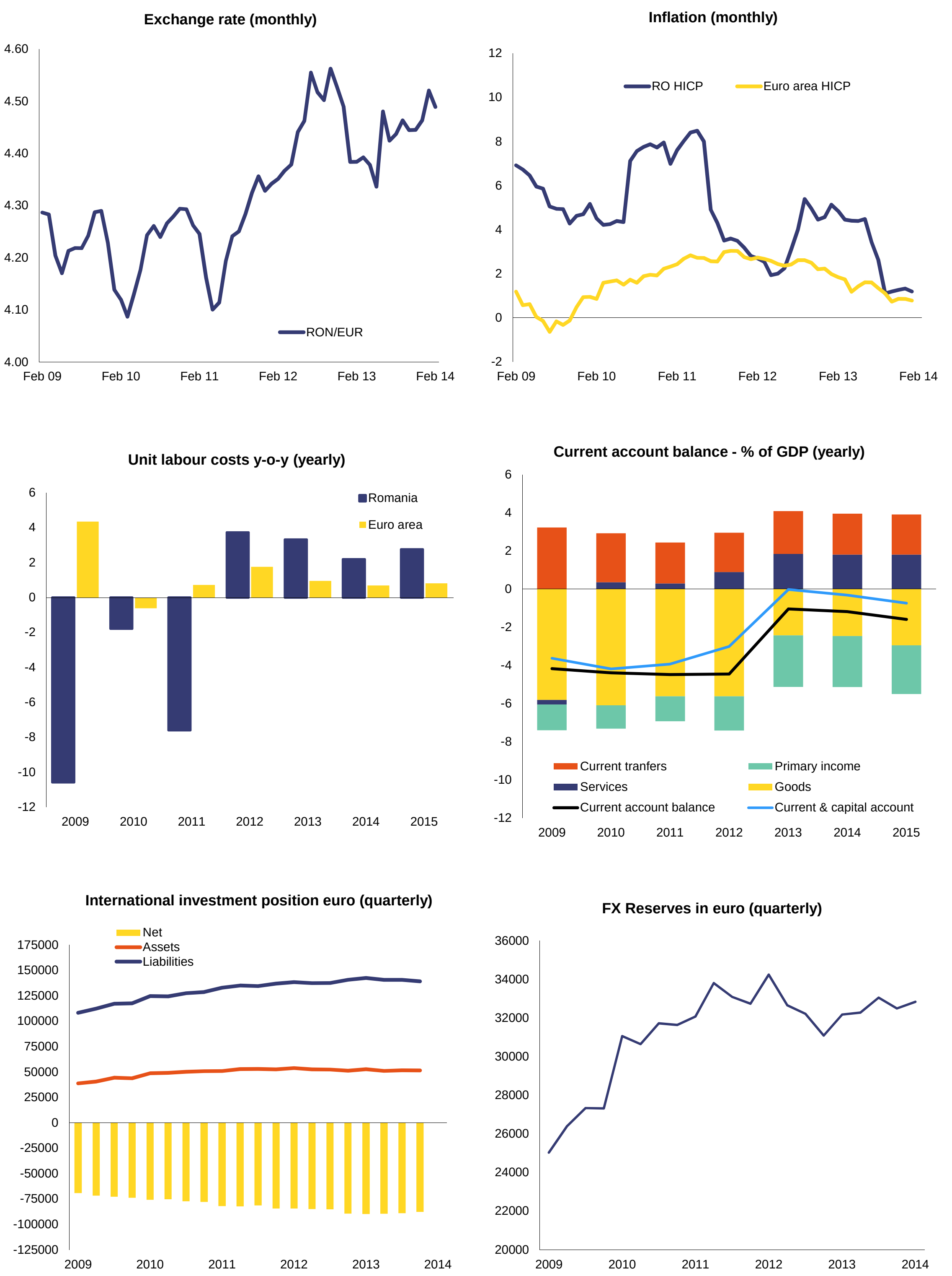
Source: Commission services, National authorities

Graph A1.2: **Monetary and financial market indicators**



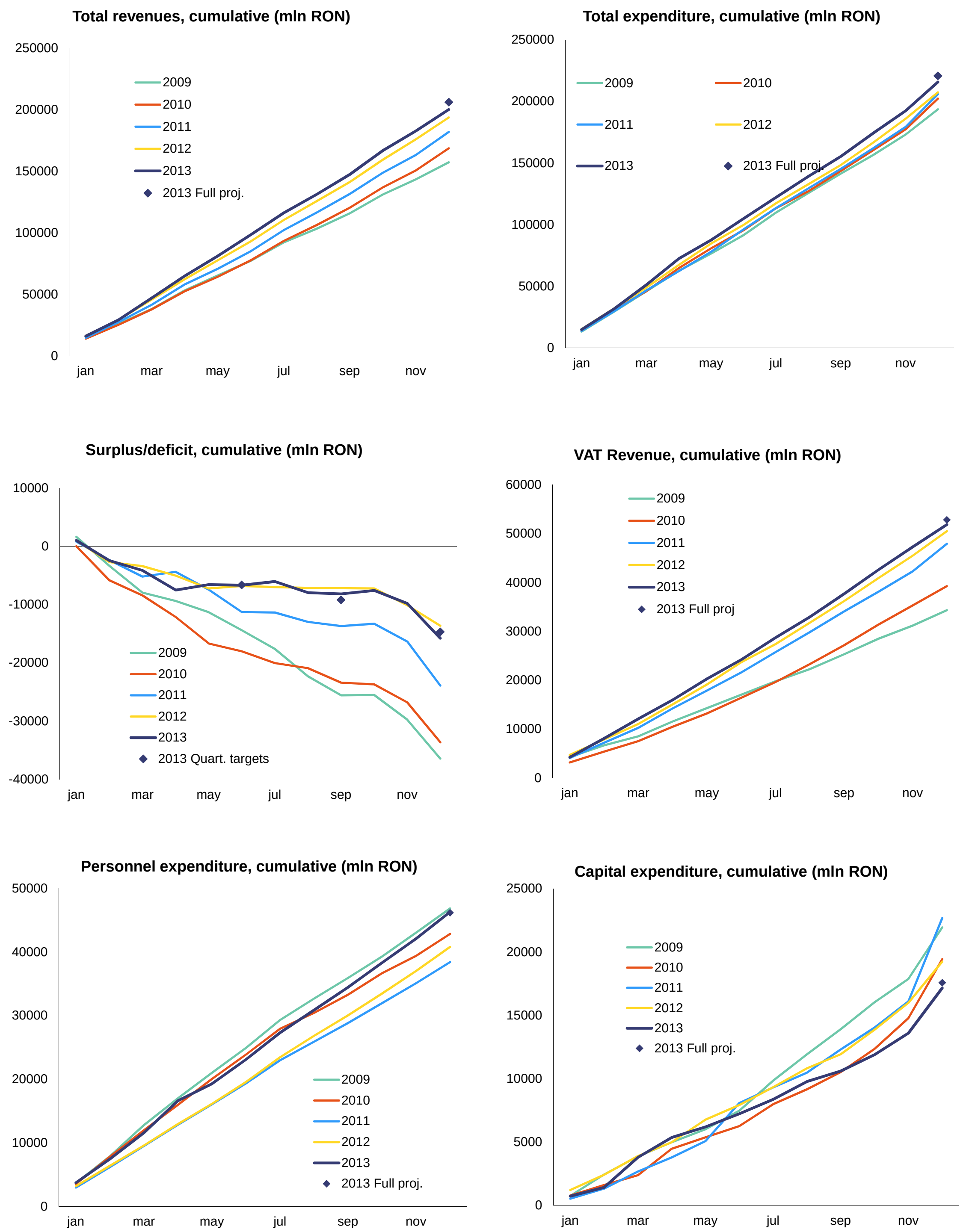
Source: Commission services, National authorities

Graph A1.3: **Price and competitiveness indicators**



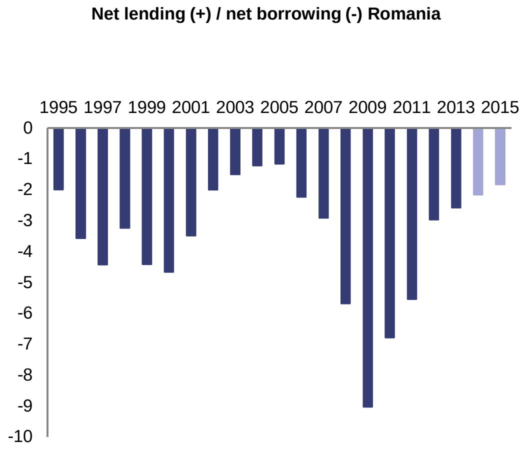
Source: Commission services, National authorities

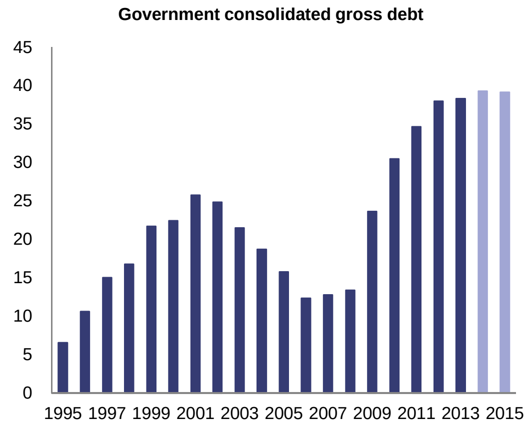
Graph A1.4: **Budgetary execution**



Source: Commission services, National authorities

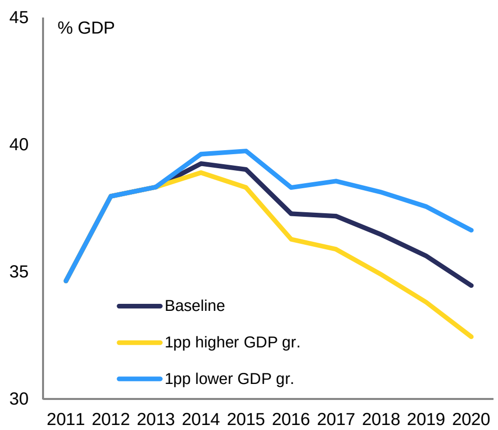
Graph A1.5: **Evolution in government deficit and debt**

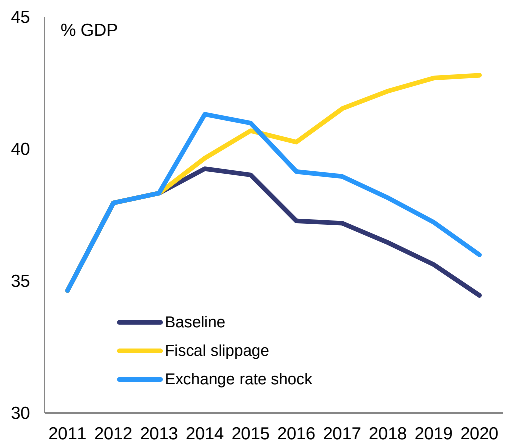




Figures for 2014 and 2015 reflect to the EC 2014 winter forecast
Source: Commission services

Graph A1.6: **Debt sustainability analysis (medium term projections of public debt)**





Source: Commission services, MoPF

Romania's nominal public debt([15]) is sustainable according to medium-term projections. In the baseline, the MTO of a structural deficit of 1% of GDP is reached in 2015 and the deficit remains at this level going forward. This implies further small adjustments of the headline deficit even after 2015, since the expected closing of the output gap implies a gradual equalisation of the structural and the headline deficit. Interest rates for new issuances are assumed at 5%. The GDP growth path follows latest Commission services' estimations, including Winter Forecast 2014 estimations for 2013-2015. Annual inflation is expected to decrease further until, from 2015 onwards, a plateau is reached at 2.7%.

In the baseline, gross public nominal debt peaks in 2014 just above 39% of GDP. It then starts to decline to reach around 34.5% of GDP in 2020. The higher GDP growth scenario assumes an increase of

([15]) General government gross debt according to the convergence criteria set out in the Maastricht Treaty potential growth leading to an additional 1pp of GDP growth per year. This effect accelerates the reduction of public debt (to 32.5% of GDP in 2020). In an adverse scenario of a permanent slowdown of growth by 1pp below the baseline, public debt would peak in 2015 at almost 40% of GDP before starting to decrease slowly. In the fiscal slippage scenario, the fiscal consolidation effort is assumed to stop at 2.6% of GDP. Public debt would then continue to grow and reach almost 43% of GDP in 2020. An exchange rate shock, modelled as depreciation by 10%, would shift public debt above 41% in 2014.

ANNEX 2
EU funds absorption

Table A2.1: **Cumulative EU Funds absorption**

Date	EAFRD	% of total EAFRD	SCF	% of total SCF	Grand total	% of total
Mar-09	*171*	*2.1%*	*87*	*0.5%*	*258*	*0.9%*
Dec-10	1436	17.7%	368	1.9%	1804	6.6%
Mar-11	*1552*	*19.1%*	*548*	*2.9%*	*2100*	*7.7%*
Dec-11	2209	27.2%	1066	5.5%	3275	12.0%
Dec-12	3323	40.9%	2204	11.5%	5527	20.2%
Dec-13	4538	55.9%	6430	33.7%	10968	40.1%
Jan-14	4861	**59.8%**	6462	**33.9%**	11323	**41.4%**

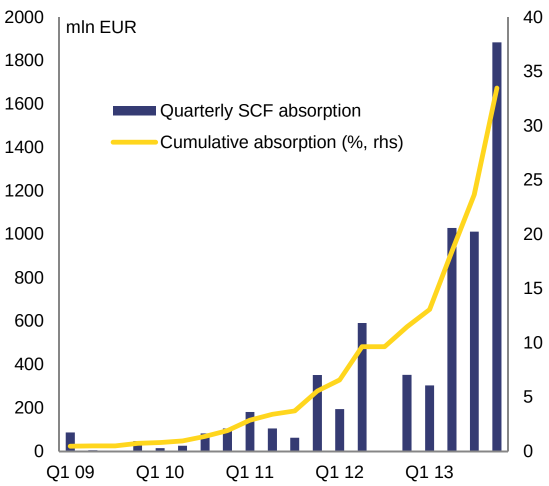
Legend
EAFRD: European Agricultural Fund for Rural Development
SCF: Structural and Cohesion Funds

Total EAFRD	8124
Total SCF	19058
Total Funds	27337

Source: Commission services

Romania's absorption rate of EU funds improved substantially in 2013, even if it remains the lowest in the EU. As of end-January 2014, Romania managed to absorb 11.3 bn euros (i.e. 41.4% cumulative absorption rate of the total structural, cohesion and agricultural funds allocated for the 2007-2013 programming period; see Table A2.1).

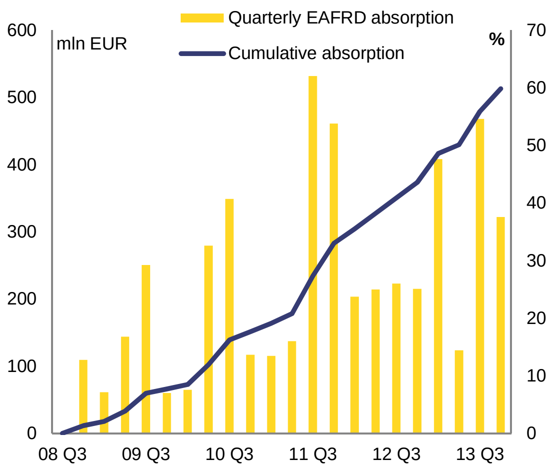
Graph A2.1: **Cumulative SCF absorption**



Source: Commission services

Stronger absorption of the structural and cohesion funds (SCF) and the N+3 de-commitment rule helped Romania to avoid any de-commitment of funds in 2013, and there is a moderate risk of EU funds de-commitment in 2014. The Commission proposal allowing Romania and Slovakia to apply an N+3 de-commitment rule for the commitments made in 2010 and 2011 was approved by the Council and the European Parliament and thus allowed the country to avoid de-commitment of funds in 2013. It also reduced the de-commitment risk in 2014, even if de-commitments cannot yet be ruled out.([16])

Graph A2.2: **Cumulative EAFRD absorption**



Source: Commission services

The absorption rate for the European Agricultural Funds for Rural Development (EAFRD) is 60% as of end-January 2014 (Graph A2.2**).** The absorption of EU agricultural funds is much better than for SCF, but Romania is also lagging behind its regional pears.

The application of the 95% "top-up" is also contributing to a stronger funds absorption. Since the new precautionary programme was approved by the Council, on 22 October 2013, Romania benefits from a "top-up" of 10 percentage points in the EU co-financing level, allowing for a co-financing rate of up to 95% for all the operational programmes.

The partnership agreement paper setting up the EU funding priorities for Romania for the next programming period (2014-2020) is not yet finalised. A second draft of the document was submitted to the Commission on 10 February 2014 and is now being reviewing by the Commission services.

([16]) The end-date for eligibility of expenditure for the 2007-2013 programming period remains unchanged as end-December 2015.

ANNEX 3
Programme documentation

A3.1 LETTER OF INTENT TO THE EU

Bucharest, 5th March, 2014

Mr. Olli Rehn
Vice-President of the European Commission
responsible for Economic and Monetary Affairs and the Euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Mr Ioannis Stournaras
Minister of Finance
Ministry of Finance
5-7 Nikis Street
Place Syntagma
101 80 Athens
Greece

minister@minfin.gr

Dear Mr. Rehn,

Mr Stournaras,

1. We reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). We made good progress on structural reforms. In particular, we launched initial public offerings (IPOs) of shares in two state-owned energy companies, Romgaz and Nuclearelectrica, and the energy regulator implemented the next steps of the energy

price liberalisation roadmaps as planned. We accelerated our absorption of EU funds, which is particularly important since domestic demand has been weaker than expected. For 2014, we remain committed to gradually reduce the fiscal deficit but slightly moderate the adjustment path to facilitate greater absorption of EU funds with a view to enhancing the economy's growth potential.

2. We believe that the policies set forth in the Memorandum of Economic and Financial Policies (MEFP) of 12 September 2013 and the attached MEFP are adequate to achieve the objectives of our economic program. We also remain committed to preserving the achievements of the preceding two programmes and to adhering to previously made commitments. We stand ready to take additional measures as appropriate to ensure achievement of these objectives. We will consult with the European Commission (EC) and the IMF before modifying measures contained in this Letter and the attached MEFP or adopting new measures that would deviate from the goals of the program, and will provide the EC and the IMF with the necessary information for program monitoring.

3. We authorise the EC and the IMF to publish the Letter of Intent and its attachments, and the related staff reports. This letter is being copied to Mme. Lagarde.

Sincerely,

Victor-Viorel Ponta
Prime Minister

Mugur Isărescu
Governor of the
National Bank of Romania

A3.2 MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Economic Developments and Outlook

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

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

Fiscal Policy

3. In 2013, the preliminary fiscal deficit was 2.5 percent of GDP (in cash terms), which implies a reduction in the ESA-based structural deficit by at least 0.4 percent of GDP in line with the EU's Stability and Growth Pact (SGP) rules. However, the cash deficit target under the program, set at the time of the program approval, was missed by a small margin, primarily due to higher EU cofinancing. At the same time, revenues underperformed reflecting lower personal income and goods and services taxes due to a less-tax rich recovery and weakened collections around mid-year following a restructuring of the tax administration. Non-tax revenues also fell on lower dividend payments from public institutions. The revenue shortfalls were largely offset by lower than expected social transfers, spending on goods and services, and lower interest payments. While reimbursable spending on EU funded projects was below target, spending on national cofinancing exceeded projections. Arrears declined at both the central- and local- government level, meeting the program targets.

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

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

6. To reach the deficit target, we implemented additional measures. Starting with 2014, we introduced a formula to index excise taxes to inflation. The base on property taxes for companies was expanded to include special structures. Royalties on mineral resources other than oil and gas were increased by 25 percent. The increase in the minimum wage will also generate additional revenues. To ensure that sufficient financial resources are available and hence minimize risks for arrears and deficits,

we will align property taxes accruing to local governments with the increased devolution of spending assignments to the local governments currently being envisaged (see paragraph 14). As already provided for in the Fiscal Code, property tax rates for individuals can be increased by 20 percent at the discretion of local governments. To address local government arrears, the Fiscal Code already includes provisions.

7. On the expenditure side, to safeguard against revenue collection uncertainties, we have deferred the commitment of investment and subsidy spending of about 0.1 percent of GDP until the second half of the year. We will also not release the budget's 10 percent buffer, which applies to certain expenditure categories (about RON 2.3 billion, 0.3 percent of GDP) before the second budget rectification in 2014. Moreover, an unallocated amount of RON 220 million will be used to facilitate the reduction of state-owned railway company arrears.

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

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

10. In order to stimulate the business environment and reduce the labor tax wedge, a main goal of the Government is a reduction in the social security contribution rate. To this effect, we will seek to implement in the second half of 2014 a significant reduction in the rate. Any such rate reduction will be

conducted in a budget neutral manner, with an emphasis on base broadening measures. The reduction will safeguard the stability of the social security system, the soundness of public finances, and promote program objectives. Towards this goal, we will conduct a feasibility study that will be discussed with all stakeholders. The conclusions of the study will be agreed with the EC, IMF, and World Bank.

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

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

13. **Fiscal Compact and medium-term budget**: In compliance with the EU fiscal governance requirements, we have amended the Fiscal Responsibility Law to integrate structural fiscal targets and corrective actions in case of deviations. We will seek to target an average structural effort of ½ percent of GDP until a medium-term budgetary objective (MTO) of 1 percent of GDP deficit is reached. Under this path, we expect to reach the MTO by 2015. We will also seek to shift to a medium-term budgetary framework.

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

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

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

- We have made progress in the implementation of the commitment control system. We have approved a government emergency ordinance to provide standard definitions of commitments in September 2013. We developed a commitment control application, which supplements a new data warehouse and the existing treasury application to form the commitment control system. By end-January 2014, all users in the identified three pilot entities (Ministry of Public Finance, Ministry of Communication, and District 6 of the City of Bucharest) were connected and are starting to use the new commitment control system. By end-April 2014, the system will produce for all pilot institutions reports showing, at the minimum, approved budget, committed amounts, and paid amounts (reset structural benchmark). We intend to make the system available for operation (connected, tested, trained, and all functionalities in place) in all general government entities, as a pilot, by end-June 2014 (structural benchmark). In preparation of this transition, we started pilot testing on several public units in early December 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. **Tax administration:** With a view to raising revenue collection and efficiency, and address recent revenue underperformance, we will, with immediate effect, intensify our efforts to monitor all

aspects of tax collection while continuing with our comprehensive reforms of the tax administration (ANAF):

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

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

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

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

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

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

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

19. **Health care:** We are preparing a comprehensive reform of the healthcare system, which should contribute to make the system financially sustainable, raise the efficiency of healthcare spending and improve health outcomes. The reforms consist of four pillars: (i) a minimum health package, (ii) a basic health package, (iii) revision to the list of reimbursable medicines, and (iv) revision to existing and introduction of new national health programs. The new minimum health package aims at providing prevention services (assessment of health risks) and treatments to the uninsured population, in addition to emergency services that they are currently entitled to. The basic health package, for the insured population, is based on streamlining hospital services by reducing the redundant capacity for inpatient services in line with the national health strategy and shifting the delivery of health services away from hospitals to primary health care providers and medical ambulatory services; developing institutional

capacity in Health Technology Assessments and evidence-based protocols (Agency for Evaluation and Quality in Health); and allocating more resources towards primary and secondary preventive care. Moreover, under the new basic package, some services are excluded from the current benefits of the insured population (which might be covered by private insurance companies), while more critical services are added.

20. The new services to be started in 2014 under the health care reforms will be limited to the available budget allocation. The design and costing of the basic package was completed in January 2014 within the existing budget envelope, delineating the options for private sector involvement (structural benchmark from end-September 2013). The process involved discussions with various stakeholders, including public consultation on the website of the Ministry of Health. The modalities of private sector financing will be defined by end-September 2014. The updated package of the National Health Programs will be implemented by August 2014 within existing budget allocation, while the implementation of the minimum health package will begin in January 2015. The additional cost of the new list of reimbursable medicines will be financed through a revised claw-back tax on pharmaceutical expenditures and achieved savings from revised pharmaceutical policies as well as an update of the list, for instance in line with the NICE study. Quarterly audits will be conducted regarding the prescription of expensive medicines to prevent over-prescription and ensure the sustainability of the claw back tax system. The new claw-back system has already been discussed with the stakeholders in the pharmaceutical industry. The revised claw-back tax will provide a lower tax rate for generics and will be budget-neutral compared to the current tax. The Government will adopt the reforms by May 2014, including the revised services to be started in 2014.

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

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

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

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

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

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

22. **Debt management:** In line with our debt management strategy, we will continue to work towards improving our risk management, in particular towards lengthening the average remaining maturity of our debt. For example, we issued 30-year U.S. dollar denominated Eurobonds for the first time ever, at favorable financing conditions in January 2014. We will update our Debt Management Strategy for 2014-16 consistently with the annual Borrowing Plan published at the end of 2013. We have consolidated the fiscal buffers, to achieve our objective of covering four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on these buffers represents a necessary cost for insurance against shocks. We will expand the share of issuances on the domestic market in order to develop the domestic bond market. At the same time, we intend to smooth volatility in the treasury account by issuing shorter maturity treasury bills. We are making good progress on electronic trading

platform. We are continuing our efforts to create the necessary framework for liability management operations as well as widen the investor base and improve outreach efforts. We are receiving technical assistance financed with EU funds and implemented with support of the World Bank to strengthen the debt management department. We will ensure that increases in guarantees issued remain prudent.

Monetary and Exchange Rate Policy

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

24. We further lowered the policy rate during September 2013-January 2014 by a cumulative 100 basis points to 3.50 percent as headline inflation was seen to continue its declining trend, in the context of persistent negative output gaps. Reflecting these cuts, average interest rates on new loans reached historical lows in December at 7.6 percent; a less pronounced development took place in deposit yields. In addition, in January we reduced the high minimum reserve requirements (MRRs) by three and two percentage points for leu- and foreign exchange denominated liabilities, respectively, with a view to gradually bring the MRRs closer to levels practiced by the ECB and prevailing in most other EU countries. We discussed the policy outlook with IMF and EC staff as part of the inflation consultation mechanism. We agreed that anchoring inflation expectations and dealing with volatile international capital flows continues to require a prudent monetary policy stance supported by the consistent implementation of the macroeconomic policy mix. There is little room left for further monetary easing including interest rate cuts. We will closely monitor inflation developments following the recent easing steps to ascertain that inflation expectations remain firmly anchored, and market conditions remain favorable.

25. Base money creation has increasingly reflected treasury operations related to growing disbursements of EU funds. The resulting buildup of excess liquidity, which in the meantime has been mopped up, explained the divergence between interbank rates and the policy rate, which has complicated monetary operations. We will ensure adequate liquidity conditions in the banking system, while

underpinning the good functioning of money markets and reducing the divergence between interbank rates and the policy rate in order to strengthen the transmission of monetary policy signals. To this end, we are considering a further narrowing of the interest rate corridor and a gradual reintroduction of liquidity absorbing operations. Going forward, the NBR will preserve the wedge between minimum reserve requirement ratios for foreign and domestic currency liabilities in order to discourage foreign-currency lending. Moreover, any further changes with respect to minimum reserve requirements would be implemented gradually, after evaluating the effect of previous steps, and taking into account the impact on inflation expectations.

Financial Sector

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

27. The capitalization of the banking sector remained strong at 15 percent at end-December 2013 albeit with some differences between banks. The level of system-wide provisions significantly increased in the second half of 2013 mainly as a consequence of the interim audit of the banks June financial statements followed by the on-site inspections performed by NBR to the first 20 large banks on IT adequacy and loans restructuring practices. A new NBR-mandated collateral audit in the last quarter of 2013 led to identify a system-wide provisioning gap of RON 800 million, which was closed by year-end.

While the liquidity position has been less restrictive than in previous years for the banking system as a whole, funding conditions are still uneven among some banks. The pace of foreign-owned bank deleveraging has accelerated in line with the rest of the region but remains orderly, with a parent funding decline of 30 percent since end-2011 (19 percent in 2013 alone up to December). As a result, reliance on local funding has increased, especially deposits, prompting a significant fall of the system-wide loan-to-deposit ratio to 105 percent at end-2013, from 117 percent the previous year. The risks from continuing parent funding retrenchment remain significant, especially if credit demand recovers, though they are mitigated by the lower prudential filter and minimum reserve requirements.

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

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

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

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

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

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

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

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

36. The FSA should swiftly complete the integration of the former three supervisory authorities. Based on the assessment of the selected independent consultancy company on staff levels and the staff *per se*, an action plan will be elaborated within two months (from the date of the assessment made by the consultancy company) in order to rationalize the FSA. Following the assessment of the consultant, the FSA will perform a business optimization exercise. In addition, the FSA will also enhance transparency and public disclosure of all fees and commissions charged to the supervised entities. The FSA is

performing a comprehensive fee structure comparison with other European countries, after which the very high fee structure, in certain areas, will be brought in line with best international practices.

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

Energy and Transportation Sector Reforms

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

39. Measures to reduce existing arrears and prevent the accumulation of new arrears in state-owned enterprises comprise the first prong of the approach. We missed the December indicative target on the cumulative arrears of all central-government owned enterprises (SOE arrears). As a corrective measure, the Government will take a number of actions to reduce arrears in the first quarter of 2014 by more than the reduction implied by the original target path in order to meet the target for end-March. Three electricity service companies with arrears have already entered into voluntary liquidation procedures and payments from the budget will be made to partially clear arrears of state-owned railway companies to electricity suppliers as well as the arrears of the National Road Company. We will provide a report to the IMF that specifies the actions we took to significantly reduce the SOE arrears and achieve the end-March 2014 indicative target (prior action). We will also provide this report to the European Commission. Also, all line ministries with oversight of state-owned enterprises with arrears will submit to the MOPF action plans by end-March in order to reduce arrears in those companies by end-December 2014. In addition, we

will strengthen the monitoring of the arrears situation inter alia through regular status reports to the MOPF and to the cabinet, improve the oversight function of the SOE monitoring unit (with World Bank support), and move to monthly data collection. Moreover, we will review and update the plans later in 2014 with the aim of reducing arrears to a de minimis level by September 2015. The plans will consider a wide range of options for arrears reduction, including placement of companies into insolvency or liquidation process. The MOPF will ensure that the ministries' plans are consistent with the overall arrears reduction path established under the program and prepare a summary report that clearly identifies the companies and the actions that will be taken to adhere to the overall path. This summary report will be provided to the IMF by end-April 2014 (structural benchmark).

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

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

delays, particularly with the budgets of CFR S.A. and CFR Calatori S.A. We will have these budgets approved by mid-March 2014, the latest.

42. The third prong includes measures to improve the pricing framework and efficiency of the energy and transportation sectors. We will continue to implement the electricity and gas price road maps and the pass-through mechanism for electricity and gas purchases by the supply companies will continue to be applied. For electricity, complete deregulation of electricity prices for non-residential consumers was achieved by January 1, 2014, and for households it will be achieved by December 31, 2017. For natural gas, we increased regulated prices in October and January as called for in the gas price liberalization road map. We intend to implement the remainder of the road map to deregulate gas prices as planned to achieve complete price deregulation for non-residential consumers at the latest by December 31, 2015, and for residential consumers by December 31, 2018. We are considering completing deregulation of gas prices for non-residential consumers earlier than scheduled based on a risk assessment study. If necessary, such deregulation would be accompanied by a requirement for producers to sell a certain percentage of their gas production available for the competitive market and for wholesale suppliers to trade a certain percentage of their estimated sales by using the centralized gas trading platforms licensed by ANRE. ANRE will conduct a risk analysis, based on which it will decide on the early deregulation for wholesale suppliers. We will also continue to take steps to strengthen OPCOM as an electricity and gas trading platform, including through ownership diversification. Moreover, the Government will prepare a new energy strategy to help ensure Romania's energy security and the realization of potential of the energy sector as an engine of economic growth through investment and exports.

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

taken or to be taken to prepare for the upcoming IPOs, all of which are structural benchmarks under the program, include:

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

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

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

44. Despite our efforts, the majority privatization of the state-owned freight railway company (Marfa) was not concluded before the expiration of the deadline set in the government decision approving the transaction. While the privatization was not concluded, the Romanian Competition Council has confirmed that a debt-equity swap conducted to lower arrears will not be considered state aid as long as there is a credible intention to privatize Marfa. In 2013, Marfa incurred an operating loss, which was within the overall operating balance target. To ensure the viability of Marfa, we intend to aggressively restructure the company and continue the privatization process. We approved Marfa's 2014 budget which is based on a list of specific restructuring measures, including a reduction in personnel costs, the sale of obsolete freight cars for scrap, and halting delivery to customers with arrears to Marfa, that will generate

an operating surplus in 2014 and a positive cash flow. Marfa's management has already taken steps in this direction by recently securing new freight service contracts and starting discussions with the labor union on reducing personnel cost as provided for in the budget to start taking effect from end-March 2014. The Ministry of Transportation commits to fully support Marfa management as it implements these measures. Marfa's operating performance will continue to be monitored through the existing quarterly indicative target on the operating performance of the three main railway companies. We have also established a new quarterly indicative target on the accumulation of Marfa's arrears. The target is set at zero, excluding interest and penalties on arrears, for the remainder of the program and will provide an early indication of the success of the restructuring. The restructuring of Marfa is critical and reaching the indicative targets is a priority under the program. In the event that the restructuring does not yield the desired results, which will be reflected in missing the arrears target on Marfa, we will consider other options for moving the restructuring process forward including those noted in paragraph 39. In December we approved a government decision to continue with Marfa's privatization through a strategic investor, which is expected to occur in May 2015.

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

- **CFR Infrastructura:** We have agreed with the EBRD on a roadmap to address deficiencies in meeting the covenants and other terms of the EBRD loan agreement signed in 2012 and secure the disbursement of the second tranche of the loan based on progress in implementing the roadmap. We will also work with the EBRD on terms of reference to hire a consultant to develop a restructuring action plan. Moreover, we will approve a government decision to lease or close over 700 km of rail line. We intend to follow this measure with leasing or closure of another

900 km of rail line during the course of 2014. We estimate that these steps will generate annual savings of RON 70 million. We will continue to fill management and board positions in Infrastructura following the letter and spirit of the procedures specified in the SOE Corporate Governance ordinance (109/2011).

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

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

Labor Markets

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

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

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

Legislative Initiatives

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

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

Table A3.1: **Romania quantitative programme targets**

	2012	2013					2014					
	Dec	June	Sept		Dec		March		June		Sept	Dec
	Actual	Actual	Prog.	Actual	Prog.	Actual	Indicative	Prog.	Indicative	Prog.	Indicative	Indicative
I. Quantative Performance Criteria												
1. Floor on the change in net international reserves (mln euros) 1) 2)	16,344	3,922	3,922	6,326	4,622	7,343	250	-500	0	0	200	500
2. Floor on general government overall balance (mln lei) 3)	-17,430	-6,629	-9,340	-8,143	-15,300	-15,771	-4,000	-4,539	-6,200	-8,230	-7,209	-14,712
3. Ceiling on stock of central government and social security arrears (bn lei)	0.027	0.036	0.020	0.018	0.020	0.01995	0.020	0.020	0.020	0.0200	0.018	0.015
4. Ceiling in general government guarantees issued since end-2008 (face value bn lei)	9.8	10.9	16.0	11.45	16.0	12.1	18.0	18.0	18.0	18.0	18.0	18.0
II. Continuous Performance Criterion												
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation												
6. 12-month rate of inflation in consumer prices												
Outer band (upper limit)	…	…	5.1	…	5.3	…	4.6	3.0	5.0	3.6	5.0	5.5
Inner band (upper limit)	…	…	4.1	…	4.3	…	3.6	2.0	4.0	2.6	4.0	4.5
Actual /Center point	5.0	5.4	3.1	1.9	3.3	1.6	2.6	1.0	3.0	1.6	3.0	3.5
Inner band (lower limit)	…	…	2.1	…	2.3	…	1.6	0.0	2.0	0.6	2.0	2.5
Outer band (lower limit)	…	…	1.1	…	1.3	…	0.6	-1.0	1.0	-0.4	1.0	1.5
IV. Indicative Target												
7. Ceiling in general government current primary spending (excl. EU funds and social assistance mln lei) 3)	134,330	70,412	106,300	105,570	147,509	144,560	36,700	36,500	74,400	73,000	109,000	150,500
8. Floor on operating balance (earnings before interest and tax, net of subsidies and one-off adjustments to income due to financial or accounting operations) of key SOEs (as defined in paragraph 22 of the TMU, bn lei) 3)	-3.1	-1.0	-1.6	-1.3	-2.3	-2.2	-0.5	-0.7	-0.8	-0.9	-1.2	-2.1
9. Ceilng on oustanding payments past due of all central-government owned enterprises (as defined in TMU, bn lei) 4)	12.7	8.3	7.5	7.0	5.6	7.2	4.7	5.4	3.7	4.6	3.9	3.4
10. Ceilng of stock of local government arrears (bn lei)	0.84	0.14	0.30	0.24	0.30	0.20	0.30	0.30	0.30	0.25	0.20	0.20
11. Ceilng of stock of net Treasury loans for EU-funded projects (mln lei) 3)	…	1,546	3,000	2,004	3,000	1,852	3,000	4,000	3,000	4,000	4,000	4,000
12. Ceilng on oustanding payments past due of CFR Marfa (mln lei)	…	…	…	…	…		…	99.2	…	99.2	99.2	99.2
Memorandum items												
Central government hospital arrears(bn lei)	…	…	…	0.011	…	0.014	…	…	…	…	…	…
Local government hospital arrears(bn lei)	…	…	…	0.045	…	0.053	…	…	…	…	…	…

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

Source:

Table A3.2: **Romania. Performanance for First and Second Reviews**

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

1) A modification of this benchmark is proposed to specify that the required action is submission of draft legislation to parliament.

2) A modification of this benchmark is proposed to faclitate monitoring by specifying the required actions

3) The content of this benchmark has been modified: the size of the IPO was increased from 10 to 15 percent and the references to the planned captal increase

Source:

A3.3 TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, the methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2013 and 2014 are listed in Tables 1 and 2 of the MEFP, respectively.

2. For the purposes of the program, *the exchange rates* of the Romanian Leu (RON) to the euro is set at RON 4.4588 = €1, to the U.S. dollar at RON 3.4151 = $1, to the Japanese yen at RON 3.4480 = ¥100, and to the pound sterling at RON 5.2077 = £1, and *the gold price* is set at RON 132.1562 per gram as shown on the National Bank of Romania's (NBR's) website as of June 30, 2013. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of June 30, 2013.

3. For the purposes of the program, the *general government* includes the entities *as defined in the 2013 and 2014 budgets*. These are: the central government (state budget, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), and the road fund company. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operation of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform the IMF staff of the creation of any such new funds or programs immediately.

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

A. Floor on the Change in Net International Reserves

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

5. NIR of the NBR are defined as the euro value of gross foreign assets of the NBR minus gross foreign liabilities of the NBR; and will be measured on the basis of the NBR's operational rather than accounting definitions. Non-euro denominated foreign assets and liabilities will be converted into euro at the program exchange rates and gold price.

6. Gross foreign assets of the NBR are defined to include the NBR's holdings of monetary gold, SDRs, the country's reserve position at the IMF, holdings of cash, securities and deposits abroad in convertible foreign currencies. Excluded from reserve assets are: (i) precious metals other than monetary gold; (ii) assets in nonconvertible currencies; (iii) illiquid assets; (iv) any assets that are pledged, collateralized, or otherwise encumbered, unless there is also a gross foreign liability associated with it; (v) claims on residents; and (vi) claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

7. Gross foreign liabilities of the NBR are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), banks' foreign currency deposits against reserve requirements, and all credit outstanding from the IMF, but excluding government foreign currency deposits at the NBR.

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

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

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

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

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

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

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

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

9. The quarterly consultation bands around the 12-month projected rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Romanian Statistical Institute), are specified below. Should the observed year-on-year rate of CPI inflation fall outside the outer bands specified below, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the NBR will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the table below.

Inflation Consultation Band

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

C. Performance Criterion on General Government Balance

10. The budget deficit for 2013 and 2014 will be monitored through the cash balance of the general government in GFS 1986 classification. Consistent with the national methodology, revenues and spending for EU funds will be treated on an accrual basis. Any privatization receipts will be treated as a below the

line item. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.

Cumulative Floor on General Government Balance[1]

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

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

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

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

+ (i) net external financing, excluding valuation gains and losses;

+ (ii) change in net domestic credit from the financial system, excluding valuation gains and losses from deposits denominated in foreign currency and including adjustments for;

+ (a) received EU funds not yet spent (advance payments);

+ (b) claims of the government on EU funds;

+ (c) property fund obligations not yet paid;

+ (iii) change in the stock of issued government securities, net of valuation changes;

+ (iv) net changes in other financing;

of which: (a) temporary financing for EU projects, out of which temporary financing for structural and cohesion fund projects;

(b) reimbursement payments from EU for the EU projects, out of which reimbursement payments for structural and cohesion fund projects

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

13. If the difference between the general government deficit measured from above the line and from below the line is larger than lei 200 million each quarter during 2014, the MOPF will consult with IMF

staff. The first quarter deficit target includes a treasury loan to Calatori to provide for arrears clearance which at the first budget revision will be recorded as budget expenditure. The overall deficit for the year includes RON 220 million for this purpose.

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

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

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

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

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

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

16. The performance criterion established on the stock in domestic payments arrears of the central government and social security sector (as defined in ¶3 above) contemplates their elimination during the program period. The stock will be measured net of intergovernmental arrears, but both gross and net arrears will be reported by the government. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past due date by 90 days (in line with ESA95 definitions for expenditures). The authorities will consult with IMF staff if new arrears are disputed following an audit by the Central Harmonization Unit for Financial Management and Control Systems. As a memorandum item, arrears of central government hospitals will be reported separately.

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

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

17. The general government will not accumulate external payment arrears during the program period. For the purposes of this performance criterion, an external payment arrear will be defined as a payment by the general government that has not been made within seven days of falling due. The performance criterion will apply on a continuous basis.

H. Indicative Target on General Government Current Primary Spending

18. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables. Actual data (to which the target will be compared) should include payments related to arrears reduction plans and spending funded through the clawback tax.

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

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

I. Indicative Target on Local Government Arrears

19. The indicative target on the stock of domestic payments arrears of local governments contemplates no accumulation of new arrears and their reduction during the program period. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past the due date by 90 days (in line with ESA95 definitions for expenditures). As a memorandum item, arrears of local government hospitals will be reported separately on a quarterly basis.

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

J. Absorption of EU Funds

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

K. Monitoring of Public Enterprises

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

22. Quarterly indicative targets for the first and second quarters of 2014 are set on the aggregate operating balance net of subsidies and the effects of one-off financial or accounting operations, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A. and five of its subsidiaries (S.C. Interventii Feroviare S.A., Informaticã Feroviarã S.A., S.C. Sere şi Pepiniere S.A., S.C. Electrificare CFR S.A., and S.C. Întreţinere Mecanizata S.A.) S.N. de Transport Feroviar de Marfã ”CFR Marfã” S.A. and its subsidiary (S.C. Întreţinere şi Reparaţii Locomotive şi Utilaje S.A.), and S.N. Transport Feroviar de Călători ”CFR Călători” S.A. and its subsidiary (S.C. de reparaţii locomotive C.F.R. SCRL Braşov S.A.). The data shall be reported with operating results by firm. The targets will be as follows:

Floor on Cumulative Operating Balance[1]	(In billions of lei)
End-December 2012 (actual)	-3.1
End-June 2013 (actual)	-1.0
End-September 2013 (preliminary)	-1.3
End-December 2013 (preliminary)	-2.2
End-March 2014 (target)	-0.7
End-June 2014 (target)	-0.9
End-September 2014 (indicative)	-1.2
End-December 2014 (indicative)	-2.1

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

23. In case one of these enterprises is placed into insolvency or liquidation procedures, which occurs when it is recorded in the trade registry that the enterprise was placed into insolvency or liquidation procedures, or its majority share is privatized, which occurs when payment is received from an entity, in which the government does not have a controlling interest, in exchange for the majority shares of the enterprise, the aggregate target listed above will not be adjusted by the original operating balance target for this firm. If any of the companies listed above is split into a new company, both companies will

remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

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

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

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

In case one of these enterprises is placed into insolvency or liquidation procedures, which occurs when it is recorded in the trade registry that the enterprise was placed into insolvency or liquidation procedures, or its majority share is privatized, which occurs when payment is received from an entity, in which the government does not have a controlling interest, in exchange for the majority shares of the enterprise, the aggregate target listed above will not be adjusted by the outstanding payments past due for this firm. If any of the companies listed above is split into a new company, both companies will remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

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

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

L. Reporting Requirements for the Prior Action

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

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

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

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

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

M. Reporting Requirements on Tax Administration

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

Romania: Audit and Installment Agreements

	2011	2012	2013	2014				
			Total	Total	Q1	Q2	Q3	Q4
Audits								
Large Taxpayers								
No. of closed audits	282	243	242	305	58	95	82	70
Supplementary amounts discovered (mill. lei)	2445.5	944.0	2,559.1	1447.2	275.2	450.8	389.1	332.2
Fiscal Verifications								
High Net Wealth Unit								
Closed preliminary verifications	-	-	24	6	6			
Fiscal verifications	-	-	-	10	0	0		10
Income tax amounts declared by HNWI group population (mill lei)1/	238.3	252.2	267.3	283.4	-	-	-	-
Installment Arrangements to Clear Tax Arrears 2/								
Large taxpayers								
Number of installments granted	15	42	57	87	74	80	83	87
Value of installments granted ('000 lei)	379.0	553.0	939.24	1479.0	1184.0	1280.0	1245.0	1479.0
Medium-sized taxpayers								
Number of installments granted	232	550	775	1154	933	1018	1096	1154
Value of installments granted ('000 lei)	174.0	396.0	395.21	669.3	606.5	692.2	602.8	669.3

1/ The income tax declared during the current year refers to the income received during the previous year.
2/ Refers to the evolution of the stock (new entries minus payments done or cancelations) of installment agreements and the corresponding amounts.

Reporting Requirements

Performance under the program will be monitored from data supplied to the IMF and EC by the NBR and the MOPF as outlined in the table below. The authorities will transmit promptly to IMF and EC staff any data revisions as well as other information necessary to monitor the arrangement with the IMF and EC.

Romania: Data Provision to the IMF and EC

Item	Periodicity
To be provided by the Ministry of Public Finance	
Preliminary monthly data on general government accounts, including on GFSM 2001 basis	Monthly, on the 25th day of the following month
Quarterly final data on net lending from the Treasury for EU funded projects	Quarterly, on the 5th day past the test date
Preliminary monthly data providing a breakdown of general government expenditures on post-accession EU projects (co-financing, non-eligible spending, corrections, reimbursable funds, and EU top-ups)	Monthly, on the 25th day of the following month
Preliminary monthly data on EU funds with breakdown on each operation program, including inflows.	Monthly, on the last day of the following month
Quarterly final data on general government accounts, including public enterprises as defined by ESA95 and breakdown of general government spending on EU projects	Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th day past test date
The budget deficit of the general government using ESA95 definition	Quarterly, with a lag of three months
Preliminary data on below-the-line financing for the general government	Monthly, with a lag of no more than 35 days past the test date
Final quarterly data on below-the-line financing for the general government, including details of the domestic and external issuances and	Quarterly, no later than 45 days past the test date

repayments (by currency)	
Total accounts payable and arrears of the general government, including local governments and central and local government hospitals	Preliminary monthly, within the next month. Quarterly, within 55 days
Progress report on the status of the audit of the stock of the disputed local arrears.	Quarterly, no later than 45 days past the end of each quarter
Data on payment delays and arears with respect to drug reimbursement by the National Health Insurance House (pharmacies and wholesale), with a particular view on the implementation of directive 7	Monthly, at the end of each month
Stock of the central government external arrears	Daily, with a lag of not more than seven days
Public debt and new guarantees issued by the general government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Preliminary monthly data within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
Time lines showing the expected completion dates for key steps leading to the launching of the initial public offerings of the energy state-owned companies	Quarterly, within 10 days of the end of each quarter
Preliminary data on the operating balance, profits, stock of outstanding payments past due, and personnel expenditures for each key public enterprise as defined in ¶22	Monthly, within 25 days
Final data on the operating balance, profits, stock of outstanding payments past due, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, end-May for the previous year and end-August for first half of the current year
Preliminary data on the stock of outstanding principal payments past due for the public enterprises identified in ¶26. The data will show separately the principal, interest, and penalty	Monthly, within 25 days

amounts of the outstanding payments past due.	
Preliminary data on the stock of outstanding payments past due for each public enterprise as defined in ¶21	Quarterly, within 35 days
Final data on the stock of outstanding payments past due for each public enterprise as defined in ¶21	Quarterly, end-May for the previous year and end-August for first half of the current year
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
The balance of the TSA in RON	Monthly, within two weeks of the end of each month
The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period)	Monthly, within two weeks of the end of each month
The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows.	Monthly, within two weeks of the end of each month
Reporting of progress in the implementation of the Romanian public administration's functional review	Quarterly, to be sent two weeks before each mission for each of the 12 ministries
Data on subsidies by ministries	Quarterly, one month after the end of the quarter. Additional reporting one week before review mission
Data on public employment and status of ordinance 77/2013 implementation, in particular numbers of staff reductions at central government ministries and staff increases at local	Monthly, at the end of each month

governments	
To be provided by the National Bank of Romania	
NIR data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data
Monetary survey data in the format agreed with IMF and EC staff	Monthly, within 30 days of the end of the month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporate	Monthly, 45 days after the end of each month
Balance of payments in the IMF format currently used to report	Monthly, 45 days after the end of each month
Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency).	Monthly, 20 days after the end of each month
Detailed bank-by-bank data on restructured loans to households and corporates including SOEs	Quarterly, 45 days after the end of each quarter
Financial soundness indicators([17])	Monthly, 45 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly

([17]) Data on solvency should be provided on quarterly basis.

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

ANNEX 4
Press statement

European Commission

MEMO

Brussels, 4 February 2014

Romania: Statement at the Conclusion of the IMF and EC Staff Visit

Teams from the International Monetary Fund and the European Commission visited Bucharest during January 21-February 4 to conduct discussions on the combined first and second reviews under the IMF Stand-By Agreement (SBA) and on the status of Romania's precautionary balance of payments programme with the European Union.

Staff level agreement has been reached. The programme remains broadly on track. Most end-December performance criteria were met and structural benchmarks have either been met or are nearing completion.

In 2013, real GDP growth picked up to an estimated 2.8 percent, on the back of continued strong exports, while domestic demand remained subdued. Economic activity was driven mostly by robust industrial output and an abundant harvest. In 2014, real GDP is projected to advance by 2.2 percent with domestic demand firming on the basis of a supportive policy framework, better absorption of EU funds, and an improvement in confidence. Historically low inflation is projected to decline further in the first half of 2014 before returning to the upper part of the central bank's target band in the second half of 2014. The current account deficit is expected to remain between 1 and 1.5 percent of GDP, contributing to Romania's strong external position, which has helped the country weather recent pressures on emerging markets.

The authorities approved a budget consistent with a deficit target of 2.2 percent of GDP for 2014. A subsequent delay in the implementation of excise taxes on fuel products will be compensated with freezes on the expenditure side. The authorities intend to continue fiscal adjustment in 2015, in order to reach Romania's medium-term budgetary objective of a structural deficit of 1 percent of GDP, while also accommodating expected further increases in co-financing of projects supported by the EU.

Monetary policy continues to be accommodative, which has translated into a considerable reduction in lending rates. Combined with the government loan guarantee programmes, this should enable lending activity in lei to start a modest recovery. Notwithstanding pressures on asset quality, the banking sector continues to maintain reassuring capital, liquidity and provisioning buffers.

Progress on reducing state-owned enterprise arrears has stalled. However, corrective actions are being launched, including budgetary transfers and restructuring measures. An action plan to sustainably lower arrears over the medium term will be defined. Building on the success of the Romgaz IPO, progress toward completion of Initial Public Offerings (IPOs) of three other state-owned enterprises remains broadly on schedule. Regulatory reforms in energy and transport sectors are set to continue, as well as deregulation of the gas and electricity prices, in line with the earlier agreed roadmaps.

ANNEX 5
Compliance with MoU conditions

SPECIFIC ECONOMIC POLICY CRITERIA

A. Fiscal consolidation

No.	Measures	Current assessment
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.	The cash budget target for 2013 of 2.5% of GDP was met (preliminary data). Preliminary ESA estimates also show that the deficit target of 2.6% is achievable (final data will only be available in the Spring Eurostat notification). For 2014, the ESA and cash deficit target is 2% + 0.2% adjuster for co-financing = 2.2%. Budget for 2014 targeting this deficit is in place, and the 0.1% gap due to 3-months delay in excise duties should be covered (government memorandum was passed in February). The budget for 2015 to be drawn up in late 2015 will have to cater for the final adjustment to Romania's MTO of a structural deficit of -1% in 2015.

B: Fiscal governance and structural fiscal reform

No.	Measures	Current assessment
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.	i) There are some initiatives running counter with the principles of the Unified Wage Law, but the MOPF was informed of our disagreement with them. The possibility to introduce "stimulente" was not removed from the law and in theory could still allow ANAF to set them up. (iv) Partly compliant so far – the payment delays were reduced, but the 2013 use of the cash allocation for Directive 7 was not fully used. According to authorities, the impact in ESA should be off-set by other positive developments. For 2014, the last payment should be done in February.
3	(i) Strengthen the fiscal governance framework. (ii) Ensure the implementation and enforcement of the Fiscal Compact provisions, as well as adherence to best practice in terms of fiscal governance. (iii) Strengthen the Fiscal Council's capacity to contribute to the improvement of fiscal policy. Increase its role in	i) in progress (ii) The updated Fiscal Responsibility Law (FRL) was approved. A report assessing compliance with the FRL for 2011-2013 will

No.	Measures	Current assessment
	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.	be prepared by mid-February 2014. (iii) in progress.
4	(i) Further strengthen multi-annual budgetary planning. (a) Improve the content of the Fiscal Strategy, inter alia by increasing transparency regarding assumptions and including an analysis of fiscal risks and liabilities. (b) Ensure that the line ministers are involved in the medium-term budget planning process, by designing and implementing procedures for internal coordination arrangements. (ii) Improve the database for budget planning. (iii) 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.	(i) (a) due for next Fiscal Strategy, to be passed in July 2014. (i) (b) Current procedures are being assessed. (ii) To improve internal reporting on budget assumptions, a government memorandum will be prepared. (iii) MoPF still needs to clarify internal responsibility for the estimation of the structural deficit. Quality of fiscal impact assessments at LMs not regularly verified, institutional setting to be improved.
5	(i) 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. (ii) Set up a list of prioritised investments based on a sound cost/benefit analysis at central government level. (iii) 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. (iv) A milestone will be the government's approval of an updated list of priority investments before the end of 2013.	(i) Good steps in this direction regarding central-government investments. Investments co-financed by the central level do not seem to be prioritized properly, while the local investments are not subject to the prioritization exercise. (ii) A list is in place, but cost-benefit analysis is not used yet. (iii) The unit is functional and has made good progress, which should continue, in particular with re-appraisal of projects with time and cost overruns and a proposal to discontinue some projects. (iv) The list of updated priority projects was included in the budget and will be provided to us.
6	i) 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. ii) A crucial milestone on this path is the rollout of the web based application at the MoPF and at least one	i) In progress ii) The application was rolled-out for the

No.	Measures	Current assessment
	additional unit at both the central and local government levels by end-January 2014.	MoPF, Ministry of Communication and District 6 of Bucharest. Levels of active usage and functionality of the application are not yet sufficient (IMF proposed to re-set structural benchmark to end-April).
7	i) Establish a regular flow of fiscally-relevant data to the Ministry of Public Finance. ii) A protocol will be set up, also to guide reporting obligations to the European Commission (Commission) and the International Monetary Fund.	i) Not all data is regularly received as detailed in the TMU, in particular EU funds related fiscal data. The authorities highlight that the underlying problems are solved now. ii) To improve internal reporting on budget assumptions, a government memorandum will be prepared.
8	(i) Improve tax collection by implementing a comprehensive tax compliance strategy, in line with the respective World Bank project. (ii) In particular, define a services catalogue for the taxpayers by July 2014. (iii) Further, improve the VAT reimbursement procedure by reviewing the criteria for ex-ante control, (iv) increase the e-filing rate for the tax returns for companies from 89% to 93% and improve the filing compliance by mid-2015.	i) in progress, tax compliance strategy in place, World Bank project has started. ii) in progress, consultant to start work in March 2014 and catalogue to be finished in July 2014. iii) Legislation is currently being drafted with a view to change thresholds for ex-ante and ex-post control. (iv) with a current rate of about 90%, the target of 93% e-filing rate for all companies is not yet met.
9	(i) 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. (ii) 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.	Not compliant - This target has been missed partly due to limited arrears reduction at all three railway companies (subsidiaries included). Total arrears amounted to 7.2 billion lei, of which 2.6 billion lei on the balance sheets of the railway companies. (ii) Compliant

C: Public debt management

No.	Measures	Current assessment
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	Auction calendar was published at the end of 2013. MoPF notified that first draft of DMS would be available by early-March.

No.	Measures	Current assessment
	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.	Compliant so far. Financing buffer covered (more than) four months of 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).	On track, NBR is currently in testing phase and first auctions via new system are expected in March.
13	Introduce, by end-September 2014, an electronic trading platform to monitor transactions in the secondary market.	Delays in implementation expected due to complexity of the issue. Discussions with Bloomberg are completed and MoPF is currently soliciting a bid from Reuters.
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.	Non-deal road shows will be organised in Asia (CN, HK, SG, JP) in Q1-2014 and conference calls and meetings with potential investors, notably from Europe, who have not been approached yet; MoPF created an official page on Bloomberg.
15	Enlarge, as of end-2013, the investor base and facilitate the access of individuals to government securities.	MoPF decreased individual value of RON denominated T-bills and T-bonds (from RON 10000 to RON 5000) starting with Oct. 2013 and decreased denomination of domestically–issued euro-denominated bonds from EUR 10000 to 5000 with beginning of 2014.
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.	Early warning: MoPF notified that deadline (end-September) to put legal and operational framework in place is likely to be missed and related conditionality will be met only in 2015.
17	Establish, by end-2014, involvement of the Treasury in a central counterparty (CCP) clearing house.	MoPF favours Polish model (KDPW_CCP). Financial supervisory authority is in the lead and is currently analysing the issue.

D: Financial sector regulation and supervision

No.	Measures	Current assessment
18	(i) 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. (ii) 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. (iii) Subsequently to the amendments to the banking law, the NBR will amend the internal procedures for bridge-banks by end-2013. (iv) The NBR will also continue updating its contingency planning on an on-going basis as well as the bank-by-bank contingency plans.	(i) In progress; ii) –iii) partially compliant; the new state aid rules will be taken on board by end-September 2014, as the authorities committed in the new MEFP to frontload the transposition of the EU bank recovery and resolution directive; (iv) In progress.
19	(i) 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. (ii) 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.	(i) In progress. (ii) Compliant.
20	(i) 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. (ii) The NBR has collected supervisory data on restructured loans, including loans to SOEs, on a quarterly basis by end-September 2013. (iii) 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.	(i) On-going; further progress has been made following the data reporting by banks on restructured loans. (ii) **Compliant** [albeit with some delays] (iii) **Compliant** [albeit with some delays].
21	(i) 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: (a) the adequacy of IT systems to deal with impaired assets; (b) the NPL work-out strategies of banks; (c) the	(i) - (ii)Compliant.

No.	Measures	Current assessment
	restructuring/rescheduling policies applied by banks. (ii) The analysis of the banks' IT adequacy will be finalised by end-2013. (iii) In a second phase, on-site inspections in the remaining banks will take place until end-March 2014. (iv) In consultation with the Commission and the IMF, an NPL resolution action plan will then be agreed by end-May 2014.	
22	(i) 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. (ii) 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.	(i) In progress; the covered bonds legislation will be adopted by ordinary law. (ii) **Compliant** - New "Prima casa" programme is only denominated in RON.
23	(i) 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. (ii) 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. (iii) 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. (iv) 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.	(i) **Compliant** so far. (ii) Partially compliant – the shareholders have not been extensively consulted as the legislation was rapidly adopted by the Government at the beginning of October 2013. (iii) In progress.
24	(i) 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	(i) **Compliant** but further progress is warranted - GEO 94/2013 was published in GO 643/18.10.2013.

No.	Measures	Current assessment
	amended by end-September 2013 to comply with international best practices, in particular regarding the size of the managing and 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: (ii) will swiftly complete the integration of the former three supervisory authorities for securities, insurance and pensions while ensuring the smoothing functioning of supervisory activities; (iii) 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; (iv) will further enhance transparency and public accountability by ensuring an adequate public disclosure of all fees and commissions charged to the supervised entities; and (v) 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.	(ii) - (iv) In progress. (v) In progress; the end-September 2013 deadline was not observed.
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.	In progress.

E: Structural reforms

No	Measures	Current assessment
	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.	Compliant, albeit with some delays. The Commission services are currently reviewing the progress reports received in early January 2014.
27	Establish a central delivery unit in line with the World Bank project by December 2013 to improve the government-wide policy prioritisation, implementation	Compliant, albeit with some delays as the World Bank signed the contract only at end-January 2014. The financial request for the

No	Measures	Current assessment
	and coordination with particular reference to the implementation of the EU Council's country-specific recommendations not covered in this assistance programme.	delivery unit project was approved by the Managing Authority in December 2013. The project includes one post that will follow up on the CSRs not included in the MoU.
	Product markets	
28	Preserve the achievements of previous two programmes and implement outstanding measures agreed under those programmes:	
	(i) 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 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.	(i) Compliant – electricity and gas roadmaps related to price de-regulation are on-track.
	(ii) continue the development of gas and electricity trading platforms;	(ii) To strengthen the gas trading platforms that are currently less developed, the energy regulator is preparing a legislative amendment that would make sales of 20% of gas obligatory on the two currently-existing gas trading platforms.
	(iii) continue the unbundling of energy transmission and dispatch operators;	(iii) Close to compliance - the unbundling of transmission system operators in electricity and gas is being somewhat delayed due to the government re-shuffle.
	(iv) improve cross-border integration of energy networks and provide for security-of-supply measures.	(iv) While there is some progress in the area of gas interconnections, progress in cross-border integration of electricity networks has been slow.
	Preserve the achievements of the previous two programmes and implement outstanding policy commitments in the transport area:	
	(v) 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;	(v) Deadline missed but close to completion. Provisions on performance schemes related to delays are to be included in this year's access contracts.
		(vi) Deadline missed but close to completion. The activity contract for 2014 is to include a provision on incentives for

No	Measures	Current assessment
	(vi) introduce incentives for infrastructure manager to reduce unit costs and charges in CFR Infrastructure by end-2013;	infrastructure manager to reduce unit costs. (vii) Compliant so far - Restructuring measures have been defined but not yet implemented
	(vii) 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;	(viii) Deadline missed.
	(viii) further amend the formula for calculation of the PSO to give more weight to passenger-train kilometers travelled starting in January 2014.	
	Business environment	
29	(i) 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. (ii) Develop a common methodology for impact assessments including the "SME test"' and establish a quality control mechanism by mid-2014. (iii) Implement pilot projects in four selected ministries by end-2014.	(i) Deadline missed but good progress is expected due to WB TA. The adoption of the new 'Better regulation strategy' that should be more detailed on implementation of impact assessments is delayed. (ii) There is a delay in the implementation of common methodology commitment but new timeline has now been defined by the WB TA.
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 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.	(ii) The commitment cannot be verified as the SGG is still working on quantification of the simplification process.
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	(i) Deadline missed but progress is expected. The draft amendment submitted to the SGG, follow-up unclear.

No	Measures	Current assessment
	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.	Deadline missed but authorities are optimistic that Parliament can be convinced not to water down the law. The draft of the law on 'service invention' was send to the Parliament. It has now passed the Senate and reached the Chamber of deputies. Backtracking from the spirit of the original proposal should be avoided.
33	(i) To improve access to finance for SMEs, extend the duration of the Mihail Kogălnicianu 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. (ii) 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. (iii) 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%. (iv) 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.	(i) Compliant. New scheme has been put in place.
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	A delay of several months is reported due to decisions of the Swiss government but project is on-going. The project is now expected to be adopted in May 2014; the tendering process for the selection of the contractor should be completed by end

No	Measures	Current assessment
	companies assisted in 2014 than in 2013.	2014. Pilot export centres will be set up by in Q1 2015, thus the government will miss the deadline of the MOU of end-2014. Early wanting: No budgetary resources have not been allocated in 2014 budget for trade counsellor schemes and EU funding is not secured, so high probability of non-compliance.
	Labour markets and pensions	
35	Preserve the achievements of the previous two programmes, in particular by 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.	A World Bank study was submitted by the authoritiesby end-2013. Yet it does not specify the options retained by the government and the plans for their implementation including compensatory budgetary measures.
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.	Non-compliant: delay of several months. While the government has proposed the equalisation, the legislation was not enacted by end-2013; it is currently in the parliament.
	State-owned enterprises	
38	(i) Continue the corporate governance reform of state-owned enterprises (SOEs).	(i) Partially compliant
	(ii) 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.	(ii) Partially compliant
	(iii) The Fiscal Council plans a report on the operations of SOEs and their fiscal implications.	(iii) Compliant - The report has been published in September.
	(iv) All SOEs should submit their 2014 budgets one month after the approval of the state budget.	(iv) Not compliant –Only 5 out of 247 SOEs had submitted their budget to MoFP by

No	Measures	Current assessment
	(v) 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. (vi) Appoint a supervisory board by end-November 2013 for Hidroelectrica in accordance with GEO 109/2011 (SOE Corporate Governance law).	early February (v) Not compliant – The 2014 budget for CFR Calatori did not include any cost reduction through downsizing. CFR Infrastructura did not even have a restructuring plan or 2014 budget yet. The 2014 budget for CFR Marfa provided for downsizing of the company and is in line with the conditionality. The total operating loss for 2013 of -2.2 billion lei for the railway companies including subsidiaries is just in line with the floor set at -2.3 billion lei. (vi) Compliant – The board has been appointed on 30 November 2013, with all appointees selected from the shortlist compiled by the executive search firm.
39	Ensure the sale of stakes in Romgaz, Hidroelectrica, Oltenia, Nuclearelectrica, Electrica and CFR Marfã as specified in the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).	Partially compliant - IPO's of Nuclearelectrica and Romgaz completed. Major obstacles remain for the IPOs of Electrica and Oltenia, but the timelines are in line with the MEFP and TMU. Hidroelectrica is back in insolvency after a court decision; the IPO is postponed until the company exits insolvency again. Majority privatisation of CFR Marfa postponed to May 2015.
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.	Not compliant – The government adopted GO 26/2013 to which we cannot agree. Negotiations on-going to implement changes in line with best practices. A number of **next steps** were agreed during the winter review mission: (i) the finance ministry will shortly send a note /memo to all line ministries to propose revised (lower) limits for the SOEs board members and GSM remuneration; (ii) the authorities will seek to shortly design an SOE remuneration policy based on international best practices, possibly with the WB support; and (iii) to increase transparency and public disclosure, the SOEs will be requested to publish on their website and the finance ministry's website the composition of their boards [and the remuneration received by the boards' members].

No	Measures	Current assessment
	Healthcare sector	
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 consultations to ensure a timely implementation of the legislative process.	Compliant
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.	Partially compliant– i) By end-February 2014 the NHIH will have paid off any remaining outstanding payments towards the pharmaceutical sector, thereby completing the implementation of the EU Late Payment Directive; ii) adding new drugs on reimbursement list worth minimum 590 million lei may jeopardize current claw-back system; iii) Distributing of the health cards delayed to end-2014.
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.	Partially compliant – Package defined, but no progress on establishing private health insurance.
44	The authorities will prepare a comprehensive health strategy covering also the revenue side together with the MoPF by end-2013.	Partially compliant – Strategy defined, but not covering revenue side after 2014.
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.	Compliant - Shift envisaged of up to 1 million inpatient hospital care admissions to ambulatory care settings over a period of 4 years. Reduction of 6,000 hospital beds defined in the National hospital bed plan over the period 2014-2016.
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	Partially compliant – Delays on several measures. Some measures not started even after deadline, such as changing profit

No	Measures	Current assessment
	evidence and impact assessments of the reform proposals.	markups for pharmaceutical wholesalers.
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.	Compliant.

F: Monetary policy

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

Price stability and reserve management

No.	Measures	Current assessment
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.	Compliant so far - The NBR conducted discussion with the Commission staff after lower limit of inflation band crossed.
49	Authorities to confer with Commission staff if reserve losses exceed EUR 600 million in any given day.	Compliant so far.

ANNEX 6
List of abbreviations

ANRE	National Energy Regulatory Authority
BET	Bucharest Exchange Trading
BG	Bulgaria
BoP	Balance of Payments
CA	Current Account
CDS	Credit Default Swap
CF	Cohesion Fund
CZ	Czech Republic
DGF	Deposit Guarantee Fund
DMO	Debt Management Office
DPL/DDO	Development Policy Loan with a Deferred Drawdown Option
EA	Euro Area
EAFRD	European Agricultural Fund for Rural Development
EBCI	European Bank Coordination Initiative
EC	European Commission
EDP	Excessive Deficit Procedure
EMTN	European Medium Term Notes
ERDF	European Regional Development Fund
ESA	European System of Integrated Economic Accounts
ESF	European Social Fund
EU	European Union
FDI	Foreign Direct Investment
FR	Functional Reviews
FRL	Fiscal Responsibility Law
FX	Foreign Exchange
GDP	Gross Domestic Product

GSG	General Secretariat of the Government
GVA	Gross Value Added
HICP	Harmonised Index of Consumer Prices
HU	Hungary
IFRS	International Financial Reporting Standards (www.ifrs.org)
ILO	International Labour Organisation
IMF	International Monetary Fund (www.imf.org/external/country/rou/index.htm, www.fmi.ro)
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LoI	Letter of Intent
MEFP	Memorandum of Economic and Financial Policies
MIP	Macroeconomic Imbalances Procedure
(S)MoU	(Supplemental) Memorandum of Understanding
MTO	Medium Term Objective
NBR/BNR	National Bank of Romania/ Banca Naţională a României (www.bnr.ro)
NIIP	Net International Investment Position
NIS	National Institute of Statistics
NMS	New Member States
NPL	Non-Performing Loans
OP	Operational Programme
PC	Conservative Party / Partidul Conservator
PL	Poland
PNDI	National Programme for Infrastructure Development / Programul Naţional de Dezvoltare a Infrastructurii
PPP	Public-Private Partnership
PSC	Point of Single Contact
PSD	Social Democrat Party / Partidul Social Democrat

RAS	Romanian Accounting Standards
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
RON	ROmanian New lei (leu/lei)
SA	Seasonally Adjusted
SAPARD	Special Accession Programme for Agriculture and Rural Development
SBA	Stand-by Arrangement
SCF	Structural and Cohesion Funds
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
TFP	Total Factor Productivity
TMU	Technical Memorandum of Understanding
UDMR	Democratic Union of Hungarians in Romania / Uniunea Democrată Maghiară din România
UNPR	National Union for the Progress of Romania / Uniunea Naţională pentru Progresul României
WB	The World Bank (www.worldbank.org)
YOY (y-o-y)	Year-on-year