LETTER OF INTENT

Bucharest, February 28, 2012

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

Ms. Margrethe Vestager Hansen
Minister for Economic Affairs and the Interior
Slotsholmsgade 10-12
1216 Křbenhavn K
Denmark

Dear Mr. Rehn,
Dear Ms. Vestager Hansen,

1. The Council of the European Union (Council Decision 2011/288/EU of 12 May 2011) decided to make precautionary medium-term financial assistance of up to EUR 1.4 billion available to Romania to support the continuation of the economic, fiscal and financial system reforms started under the previous Balance-of-Payments program (2009-2011) as well as necessary structural reforms to increase the resilience and growth potential of Romania's economy.

2. We reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU) and the World Bank (WB). The track record to date continues to be strong. We continue our efforts on a large and difficult structural agenda. Though further progress is needed in some areas, we are committed to additional actions described in the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU). Our achievements in economic stabilization and reforms are bearing fruit, as economic growth recovered in 2011 after two years of decline. The recovery remains vulnerable to difficulties in international financial markets and economic weakness in the euro area, so continued firm policy implementation and maintenance of fiscal, monetary and financial sector buffers are required to safeguard against risks.

3. In the MEFP, we set out our plans to further advance towards meeting the objectives laid out in our macroeconomic program. We stand ready to take additional measures as appropriate to

ensure achievement of its objectives. We intend to continue to treat the program as precautionary.

4. We will consult with the IMF and European Commission (EC) before modifying measures contained in this Letter and the attached program documents or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the EC with the necessary information for program monitoring.

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

Sincerely,

/s

Bogdan Alexandru Drăgoi
Minister of Public Finance

/s

Mugur Constantin Isărescu
Governor of the National Bank of Romania

Attached: Memorandum of Economic and Financial Policies (MEFP); Technical Memorandum of Understanding (TMU).

Romania: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Romania's economic recovery continues, but the outlook has weakened due to deteriorating conditions elsewhere in the Europe. Indicators suggest 2011 growth was around 2½ percent, higher than previously anticipated due to an exceptional domestic harvest and strong exports. CPI inflation fell to 3.1 percent in December, as the harvest put significant downward pressures on food prices. For 2012, we now expect growth of around 1½-2 percent. The slowdown in Europe will constitute a major drag on the recovery, but it will be partly offset by increased EU-funds absorption and the gradual recovery of domestic demand. Continued firm policy implementation is required to safeguard against downside risks, as there remain significant vulnerabilities to adverse developments in international financial markets and the euro area. Inflation is projected to stay within the central bank's target band in 2012, although upward risks remain. The current account deficit should stabilize at around 4-4½ percent of GDP, reflecting improved trade performance.

Fiscal Policy

2. For 2011, we achieved a cash deficit of 4.2 percent of GDP, successfully staying within the target of 4.4 percent of GDP. In the fourth quarter, tax revenues overperformed, reflecting a gradual recovery in the labor market and enhanced tax collection efforts. We also reduced public employment by another 20,000 positions, bringing the wage bill below 7 percent of GDP. The implementation of reforms to pensions, including auditing invalidity pensions and tightening eligibility conditions, has produced a significant reduction in the number of invalidity pensioners. The decline in unemployment and streamlining of inefficient social benefits programs have reduced social assistance spending. In August, we also improved the legislation to provide heating allowances for the segments of most vulnerable population while eliminating central government heating subsidies. The overperformance in tax revenues and a tight control on wage bill spending allowed us to allocate some resources to clear arrears and unpaid bills in SOEs and the health sector. Other resources were reallocated to capital expenditures and transfers for funding EU-funded projects.

3. For 2012, we remain committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP with a budget cash deficit of 1.9 percent of GDP (2.1 percent of GDP including spending under the National Development and Infrastructure Program (PNDI)). Although the economic outlook has weakened, the favorable effects of higher tax yields last year should generate sufficient revenues to keep us on track to reach our target, although sustained expenditure restraint will be required. Public wages will remain frozen in the public sector as well as pensions. However, if economic conditions permit we will consider budget modifications later in the year in line with the Fiscal Responsibility Law. Public employment reductions will continue with the policy of replacing only 1 out of 7

employees; however, we will implement it with more flexibility to relieve bottlenecks from staff shortages. Savings in the capital budget will be generated by eliminating low-performing projects and by reduced national co-financing of EU-funded projects, as permitted under EU regulation 1311/2011 for member states under an IMF/EU program. The implementation of a clawback tax will help ensure non-accumulation of arrears in the pharmaceutical industry. Restructuring of public enterprises included in the general government will also be crucial to achieving the 2012 target. Budgetary transfers have been made contingent on the approval of viable restructuring plans for SOEs. Means-testing of social benefits programs is also expected to continue generating savings.

4. Arrears and unpaid bills of the general government (excluding SOEs) have continued to decline. Arrears now stand below 0.2 percent of GDP (almost entirely in local governments). In SOEs monitored under the program, arrears have fallen in the fourth quarter of 2011 by some 0.8 percent of GDP to 2.6 percent of GDP.

- In the ***health sector***, arrears in registered bills have now been completely eliminated unregistered bills revealed during the stocktaking exercise by end-2011 have been fully recorded in the system and scheduled for payment. The implementation of the clawback tax should help preclude accumulation of new arrears in the health sector.

- At the ***local government level***, arrears decreased in 2011, but the trend could be speeded up. Improved enforcement and monitoring of the 2010 changes to the local public finance law (LPGFL) should enable further reductions in the stock of arrears. To this end, line ministries shall conclude multi-year co-financing contracts for each of the local government projects in their portfolio by March 2012, within the ceilings approved by the state budget law and the Fiscal Strategy 2012-14. Simultaneously, line ministries will carry out prioritization of the respective projects and upload relevant data in a capital investment database.

- For ***SOEs***, we are making progress in reducing arrears in monitored companies through swap operations, payments, and other financial operations. Together, we anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 5 to 6 billion (1 percent of GDP) in the second half of 2012.

- The next phase in the integration of the accounting reporting system with the ***Treasury payment system*** is underway, including the commitment control and reporting module for all levels of government. The design of the system will be finalized by end-April 2012 and the tendering process with the software provider will be launched by mid-May 2012. This system will help control spending commitments to avoid future arrears.

- Over the next two years the ***period for paying bills submitted*** to the central government and social security system will be gradually reduced. EU directive 7 in this area will be transposed into Romanian law on a timely basis. Towards this end, we will seek to use revenues from the clawback tax to begin shortening the period for paying bills submitted for pharmaceuticals by end-June.

- To prevent possible future arrears due to unfunded contracts, we will ensure that any commitments made at the **central government** level for multiannual capital projects are fully budgeted in the medium term budgetary framework. Contracting for multiannual investment projects will be undertaken consistent with these multiannual commitment allocations.

5. We continue our efforts to prepare and implement comprehensive reforms of the healthcare system. A draft framework law for the reform presented in January was withdrawn for reconsideration in light of significant public objections, but we aim to produce a revised draft by end-June, with public debate between July and September and parliamentary approval slated by end-October. The reform will aim to address the persistent budgetary shortfalls in the healthcare system and enhance service quality. Over the medium-term, given that public healthcare spending in Romania is among the lowest in the EU as a share of GDP, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy, while factoring in the challenge of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services, and to raise additional resources.

6. To address health sector financial imbalances, we are committed to implementing key healthcare measures even before the comprehensive framework legislation is complete:

- In light of the problems in the design of the ***copayment law*** that was recently approved in Parliament, we will revise the copayment, basing it on a modest flat rate. We shall approve the revision by emergency ordinance by mid-April 2012 for implementation shortly thereafter.

- To control expenditures and ensure efficiency gains in the short term, we will prepare, by mid-April 2012, and implement by end-June, a ***negative list of health services and drugs***, based on the outcome of the technical assistance offered by the National Institute for Health and Clinical Excellence, that will include (i) revised lists of reimbursed drugs and (ii) a reduction in hospitalization periods and implement the national hospital bed plan. We will also create the legal framework for the Health Technology Assessment and initiate its implementation. We will also adjust the National Health Programs in order to match the new basic package of services.

- We will monitor aggregate ***hospital budgets*** to ensure that they are consistent with the expenditure programmed in the general government budget. Moreover, we will take all necessary actions to avoid new arrears. For hospitals under the responsibility of local governments, the health care reform legislation will include provisions to facilitate monitoring by the Ministry of Health.

- We will continue implementation of a ***new healthcare IT system***. We have initiated the auditing of patient registries, which will be completed by end-2012. We will begin distributing new health cards to all participants by end-April, which will help control fraud and abuse in the system and better monitor spending commitments. We have signed a contract for the acquisition of a new electronic prescription module for the National Health Information System, and the system is expected to operational by end-May 2012. These mechanisms will help ensure that future spending remains within allocations.

7. We will seek to improve the efficiency of the tax system building on recommendations of IMF technical assistance. Specifically, these measures will include (i) simplification of depreciation schedules for fixed assets; (ii) simplification of declaration and payment of capital gains taxes; (iii) simplification of the deduction mechanism for personal income taxation; (iv) development of a strategy for revision of the property tax base; and (v) development of a plan for adjustment of excise tax rates to preserve real value.

8. The Government will establish through the Strategic Planning Committee the public policy priorities, which will be sustained by the medium-term Fiscal Strategy. The government has created an interministerial group coordinated by the Center of Government to follow up on the implementation of the action plans for the functional reviews. We are making progress in implementing the action plans derived from the functional reviews and we have submitted the first set of progress reports in January. Over the coming months we will take further steps in implementing priority activities with the support of the IFIs, as agreed in the recently signed MOU with EIB and the WB. We will report on the progress of these activities in the second set of quarterly progress reports due by mid-April. The Center of Government will begin to develop indicators that would help measure the intermediate outcomes derived from progress on the action plans. In addition, the government will approve an annual work plan of significant legal and policy proposals requiring approval up to end-2012, based on input from line ministries.

9. Local market conditions for public debt financing have improved so far in 2012, and we took advantage to increase our debt issuance to further build our buffers. We are also continuing efforts to build the yield curve by extending the maturity of our domestic bond issuances with the issuance of a 15-year bond. On the external side, after a postponement due to difficult market conditions in late 2011, we successfully issued a US$1.5 billion 10-year dollar-denominated bond in January with a favorable rate, and plan to return to the external market again in 2012, as market conditions permit in accordance with the debt management strategy. To facilitate improved access to external financing, we will step up outreach efforts to the international investment community. We will continue efforts towards consolidating the fiscal buffers (including World Bank DPL-DDO financing) maintaining our objective of four months of gross financing needs to protect government finances against unforeseen external shocks. The interest paid on

these financial buffers represent a necessary cost for insurance against shocks. We have improved our debt management strategy and will undertake a project with support of the World Bank to strengthen the debt management office.

10. Although we have made some progress in absorbing EU funds, further efforts are still required to meet our goal of absorbing an additional €6 billion during 2012: €3.5 billion from Structural and Cohesion Funds and another €2.5 billion from Agricultural, Rural Development and Fisheries Funds. We are monitoring the implementation of the May 2011 Priority Action Plan and have submitted two progress reports to the European Commission. In order to significantly boost absorption this year, we have identified high priority projects, strengthened the capacity of managing authorities, and taken steps to reduce procedural bottlenecks. In particular, we have submitted for review an updated priority action plan to the Commission including measures to increase transparency. We have also adopted a Code of Conduct for the personnel working with EU funds, and in order to ensure its effective implementation, a monitoring mechanism is currently under preparation and it shall be adopted by the end of February. To strengthen the capacity of managing authorities (including for agricultural funds), 100 vacant and 211 newly-added positions (through redistribution within the approved limit of positions at the level of the main budgetary institutions) will be filled by June 2012. We have also limited the time to process reimbursement claims to beneficiaries to 45 working days across all managing authorities. To enhance the technical expertise of managing authorities, we have already signed MOUs with the EIB and the WB for providing technical assistance, in accordance with the rules applicable to technical assistance projects, and a new MOU will be signed with the EBRD by end-March. We will ensure sufficient cash allocations for funding of investment projects financed by the EU, such that no arrears are accumulated.

11. We are making progress in compiling an investment portfolio of all government projects to ensure proper monitoring and prioritization of projects. This portfolio will be used to evaluate projects to focus on those where funding can be fully secured within a medium-term horizon (e.g., 3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. We have identified 14 projects, representing more than 10 percent of the total project value, which will be discontinued. We will further improve the investment portfolio database to include coverage to state budget cofinanced projects at the local government level and strengthen monitoring of the PNDI projects by the capital monitoring unit of the Ministry of Public Finance (MOPF) (end-March, 2012). The Ministry of Regional Development and Tourism (MRDT) and the Ministry of Environment and Forest (MEF) are committed to ensure that execution spending under the PNDI does not exceed RON 1.0 billion in 2012 (RON 820 million for MRDT and RON 180 million for MEF) and RON 1.0 billion in 2013. In addition, the authorities overseeing public private partnerships (PPPs) commit to joint reporting by mid-April 2012 on the functioning of their working arrangements. The medium term fiscal strategy underpinning the convergence program to be submitted to the EU will specify the yearly amounts allocated for spending under the PNDI, and the total authorization for contracts under the PNDI will be adjusted accordingly.

12. Improving tax administration and fighting tax evasion are crucial elements of our strategy to increase revenue. We are making progress on a comprehensive reform of ANAF. Among the key developments are the following:

- We have revised provisions of the Fiscal Code to facilitate, under certain conditions, the cancellation of registration for VAT purposes for firms. We are implementing our plan to reduce ***the number of taxpayers registered for VAT*** purposes by 20 percent between September 2011 and 2012 using administrative measures.
- With regard to ***High Net Wealth Individuals*** (HNWI), the tax compliance strategy is being strengthened. Based on the risk analysis procedure adopted in September 2011, individual taxpayers will be selected for tax verification. Towards this end, we have accelerated data analysis and are seeking access to new databases in order to start tax verifications of individuals by mid-2012. We are seeking financing for acquiring an IT tool to be used in risk analysis and to cover training costs on indirect audit methods.
- We passed the **government decision on ANAF restructuring** and closed 141 regional offices to reduce collection costs and reduced staff by 8 percent since end 2010. We aim to increase the capacity and efficiency of the administration further, including through an IMF FAD TA and World Bank support. Furthermore, we will prepare and have approved (by end-2012) a multiannual project with the World Bank for modernizing tax administration. We will approve by government memorandum an action plan containing the main measures and deadlines, which will undergird the modernization of tax administration.
- We have decreased the number of large taxpayers under the supervision of the ***large taxpayer directorate*** to 2000 beginning in 2012.
- We have adopted a ***compliance risk strategy*** in accordance with best practices in September 2011. We established a department in charge of risk assessment, which is now operating. We will implement further measures in order to prevent any difficulties, which could appear when the reverse charge derogation for cereals will expire.
- We are planning expansion of ***e-filing and further simplification of tax forms*** and the number of payments required with a view to providing a one-stop shop for tax declaration and payments. In December, 87 percent of all tax returns filed to ANAF were using the new e-filing facilities, which have been extended to all taxpayer categories and for the main administrated tax liabilities.
- By July 2012 we will finalize the takeover of social contribution collections from natural persons, who are required to be insured.

Financial Sector

13. Provisioning for impaired assets, as well as developments in the euro area, continued to weigh upon the Romanian banking sector during the fourth quarter. The sector as a whole recorded a loss equivalent to 1.4 percent of average equity over the year. The ratio of non-performing loans to total loans ended the fourth quarter at 14.1 percent, marginally lower by 0.1 percentage points than the previous quarter, mainly due to a rise in lending to the corporate sector. Total provisions at end-December were sufficient to cover 99.5 percent of non-performing loans. Supported by new capital injections of RON 1.6 billion, the banking system remained well-capitalized with an average capital adequacy ratio of 14.5 percent at end-December.

14. To help mitigate the rise in impaired loans and improve the efficiency of bank balance sheets, we will by end-June ensure that the tax treatment of bank receivables sold to Romanian firms is neutral. In addition, in allowing banks flexibility to extend loan restructurings, the NBR will closely monitor bank practices to ensure that the loan-loss provisioning and the assessment of risk credit of restructured loans continue to remain prudent and in line with good international practices. The authorities will also undergo an assessment by the World Bank of the arrangements for insolvency and creditor rights in spring 2012. Amendments were adopted in January 2012 to the bank resolution legislation to introduce bridge bank and other stabilization powers for dealing with failing banks, as well as to strengthen arrangements to augment quickly the resources of the Deposit Guarantee Fund (DGF). In addition, the authorities have taken steps to strengthen institutional arrangements, and coordination, between financial safety net participants. The DGF has joined the National Committee for Financial Stability (NCFS), and a joint working group overseen by the NBR's banking supervision department has been established between the NBR and the DGF. An MOU will be signed by the NBR and the DGF by end-February, which will ensure that the DGF is given sufficient early warning and information on potential problem institutions to enable it to prepare to meet its obligations effectively. Going forward, the NBR along with the DGF will finalize the intra- and inter-agency procedures for deploying the bank resolution powers, including bridge bank and purchase and assumption powers. These will build upon experience available from other EU countries, which have recently adopted these powers, and will continue to be reviewed and be revised in light of experience, including lessons from the crisis simulation exercise to be undertaken in spring 2012. The NBR, DGF, and MOPF will at the highest levels review and approve the operational preparedness and arrangements by end-April 2012. The law amending the Law 503/2004 on the bankruptcy of insurance undertakings will be enacted by end-April 2012. We will continue to consult with the IMF and EC staff before introducing or amending other aspects of the regulatory framework and avoid adopting legislative initiatives, such as the current draft of the personal insolvency law or proposals for the debt collecting law, which could undermine debtor discipline.

Monetary Policy

15. Headline inflation fell to 3.1 percent in December, closing within the central bank's inflation target band for the second year since adopting the inflation targeting regime in 2005. The decline of inflation was mainly driven by food price deflation owing to an exceptional harvest, the disappearance of the first round effect of the VAT hike, in addition to a decline in core inflation. For 2012, given the weak domestic demand and muted pressures on global food and energy prices, inflation is likely to stay within the Central Bank's target band of 3 ± 1 percent. Amid the abating inflationary pressures, we have lowered the policy rate by 75 basis points in three steps since November. Monetary conditions remain appropriate. The impact of the rate cuts on the exchange rate and capital flows has so far been limited. However, upside risks remain, including additional adjustment of administered prices, a possible rebound of domestic food prices, and exchange rate depreciation pressures. The ongoing instability in international financial markets and the attendant risks of excessive exchange rate volatility and reduced capital flows, together with inflation risks, mean that a continued prudent monetary policy stance is required supported by a consistent macroeconomic policy mix. We will maintain banks' reserve requirements ratios unchanged in the coming months and will act judiciously on the monetary policy rate. We will also continue regular repo operations as needed to ensure adequate liquidity in the banking system.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

16. We are making progress on our plans for major reforms in the transport and energy sectors to enhance economic growth in Romania. In the ***transport sector***, we are developing a new general transport strategy and master plan for Romania, which will balance increasing demand and available fiscal means, ensure complementarities between the different transport modes, and define priorities for medium- and long-term investment. Expenditure cuts and arrears clearance schemes have improved the financial position of SOEs in the transport sector. We will continue to seek additional measures to raise revenues and reduce costs (including through the application of standard costs). We are finalizing plans for a government-guaranteed loan or budgetary resources to clear CFR rail infrastructure arrears to energy providers by end-June 2012 and thereby realize significant savings through the cancellation of penalties. These efforts will be complemented by the development by end-March 2012 of ways to improve revenue generation and management of the real estate of the various transport sector SOEs, possibly through the establishment of a special real estate company. In addition, we will immediately initiate steps to reconstitute the boards of directors and hire private management in SOEs as required by the Corporate Governance Law of November 2011. Finally, we have closed 1,000 kilometers of underutilized rail line bringing the total network under management of CFR closer to our goal of 15,500 line kilometers.

17. For the ***energy sector***, we plan to enhance the pricing and regulatory framework by undertaking the following steps[1]:

- We have drafted legislation to transpose the EU 3rd Energy Package into Romanian legislation. The draft provides for an appropriate unbundling regime and the definition of vulnerable consumers. Before approval we will consult with the European Commission staff and agree with the World Bank and IMF on amendments to ensure full financial and operational independence of the energy regulator (ANRE). Though somewhat delayed compared to our original plan, we will approve the legislation on electricity by emergency ordinance by end-March 2012 and submit it to Parliament for approval. For gas, the legislation will be prepared by end-April 2012.

- We remain committed to achieving full functioning of energy markets to ensure proper incentives for energy investments and improvements in energy efficiency crucial for future economic growth. We will now start implementing the earlier agreed phasing out of regulated prices in electricity, in full compliance with EU regulation. By February 22, 2012, we will send to the European Commission, World Bank, and the IMF the English translation of the electricity roadmap including all relevant specifications, particularly measures to protect vulnerable consumers and ensure competition. As soon as fully agreed with the IFIs, we will approve the roadmap for electricity by government memorandum (prior action) and include it in the draft law mentioned above.

- In the ***electricity sector***, the process will begin with an adjustment of 5 percent in the regulated prices to non-residential and residential tariff customers later in 2012. ANRE will then progressively increase the share of electricity sourced from the deregulated market by the electricity supply companies for their non-residential customers, starting with 15 percent in September 2012 and reaching 100 percent by end-2013. Regulated prices to non-residential consumers will be removed from January 1, 2014. The pass-through mechanism for electricity purchases by the distribution companies provided for in the electricity supply regulation will be applied. For households, non-regulated tariffs will be phased in beginning in 2013 and finishing by 2017.

- In the ***gas sector***, we will prepare by end-April 2012 (in consultation with the oil and gas industry) a draft package of tax, royalty and regulatory measures for the oil and gas sector. The package will cover oil and gas exploration, oil and gas production, gas storage, and gas distribution and supply. The package will include a roadmap for the gradual removal of regulated prices to non-residential and residential consumers and measures to protect vulnerable consumers. In parallel, we will accelerate the ongoing negotiations on the Inter-Governmental Agreement (IGA) with Russia and will also strive to take steps to diversify our gas supply.

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[1] If EU infringement procedures require faster action, we will comply with their requirements.

We are committed to developing a gas trading platform. Towards this end, we will name a system operator by April 1, 2012, with an aim of beginning operations on January 1, 2013. Finally, we are fully aware that a parliamentary override of the presidential veto of the gas export ban law could lead to the suspension of the program, as it contravenes basic principles of the EU single market. We will actively seek to avoid such an override.

- The process to terminate all bilateral ***energy contracts*** of SOEs concluded outside of OPCOM has started. Those that cannot be terminated in the short term are currently being renegotiated to ensure that the duration will not be extended, quantities are reduced, prices are adjusted as permitted to market conditions, and terms of the contracts published. In addition, the Ministry of Economy, supported by the Ministry of Justice (within its legal competencies) will assess options to terminate all existing bilateral contracts and will inform the IFIs about our findings by end-February 2012. New bilateral contracts will continue to be made transparently and non-discriminatorily through OPCOM (electricity) and other competitive procedures (gas) and terms of the contracts will be published. As soon as the new gas trading platform is operational, bilateral gas contracts will be traded through it.

- The Ministry of Administration and Interior, together with the Ministry of Public Finance, will ensure prompt application of Emergency Ordinance 69/2011. We will prepare by end-March 2012 a report on final end-consumer prices for district heating compared with those recommended by the regulator and those budgeted by municipalities, including information on actual payments. This will allow us to assess whether recent legal changes have improved the financing of the district heating system in Romania.

State-Owned Enterprises

18. We continue to implement measures to improve the performance of SOEs. Preliminary data indicate that we met the fourth quarter indicative targets on the operating balance and arrears in key companies. While we have achieved major improvement in some companies, more substantial measures remain to be taken. Most restructuring plans for the central government SOEs have been submitted, but the quality of these plans varies. By mid-February 2012 line ministries will send revised plans to the MOPF in accordance with guidance given by staff concerning aim and content of these plans for all entities with more than 20 employees or a turnover of more than RON 1 million in 2010.

19. On privatization, our goal remains to offer minority and majority stakes in a series of companies over the coming months. We will seek professional advice on the overall strategy and streamline the administrative framework for privatizations with the aim of attracting the best advisors and achieving the highest possible price in a market-friendly manner. As noted in our last Letter of Intent, the transaction consultants will have the task of drafting evaluation reports, and recommending and justifying the offer price of the shares in view of a successful closing transaction. Our planned privatization actions are as follows:

- The first group of companies to be offered by end-April 2012 includes: i) Oltchim (sale of remaining public shares to strategic investor), ii) Transelectrica (SPO of a 15 percent stake plus a later capital increase of about 12 percent), iii) Transgaz (SPO of a 15 percent stake); and iv) Cuprumin (full privatization).

- The second group of companies includes i) Posta Romana (minority stake), ii) Romgaz (IPO of a 15 percent stake), iii) Electro Serv (majority privatization of company created by the merger of Transilvania Sud, Transilvania Nord, and Muntenia Nord), and iv) Tarom (IPO of 20 percent). Appointment of transaction advisors for this group will be completed by April 2012.

- The third group comprises i) Hidroelectrica (IPO of 10 percent to increase capital); ii) Electrica Serv (majority privatization of all remaining regional companies); iii) Nuclearelectrica (IPO of at least 10 percent via capital increase); iv) S.C. Electrica Furnizare S.A. (including the supply activity transferred from SC Electrica SA, majority privatization); and v) CFR Marfă (majority privatization). Appointment of legal advisors for this group will be concluded by end-April 2012.

- The following companies will be offered for privatization by end-December 2012/early 2013: (i) the new energy producer Hunedoara, to be created by April 2012 by merging the power plants in Paroşeni and Mintia and the four viable mines of CNH (majority privatization), (ii) the new energy producer Oltenia to be created by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni (majority privatization), and (iii) Elcen Bucuresti (majority privatization).

20. In addition to the privatizations, we continue preparations to resolve the financial situation of Termoelectrica. Valuable assets will be extracted or be sold and the remaining part of the company will be placed into voluntary liquidation (end-April 2012).

21. We have begun to implement the requirements of our general corporate governance law, the passage of which marked a significant improvement in the framework for SOE corporate governance in Romania. In the Ministry of Economy, we have solicited and received bids for a firm to assist in the process of selecting private management for key SOEs that remain under majority government ownership. New management teams and board members will be selected by end-April 2012 to take office as soon as legally possible thereafter. In cases where significant minority stakes are to be sold, this timetable may be adjusted to allow for participation of the new minority shareholders. For SOEs under the Ministry of Transport and Infrastructure the corresponding process will be started by end-February. We remain firmly committed to increasing the number of SOEs with private management in the course of 2012.

Other Structural Reforms

22. We are continuing implementation of labor market and social assistance reforms approved in 2011. The new Social Dialogue Code will begin to take effect this year, as an

agreement has now been reached among social partners regarding the sector definitions of collective contracts. We will continue the consultation with International Labor Organization (ILO) to ensure that the new Social Dialogue Code respects core ILO conventions. The Social Assistance Law, which aims to streamline social benefits and improve the efficiency of social protection, was approved by the parliament. We are now working on the secondary legislations of the social assistance. Recently implemented legislation has already shown a positive impact. The new Labor Code has contributed to employment recovery and increased the share of fixed-term contracts. The enforcement of the new pension law has dramatically reduced the number of early retirements and the fraud rate of handicapped pension applications; however, a deficit remains in the pensions system.

23. We are committed to improving entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. In this regard we have eliminated in early February 2012 undue barriers for opening large surface retail stores.

Table 1. Romania: Quantitative Program Targets

	2010	2011					2012			
	Dec Actual	March Actual	June Actual	Sept Actual	Dec Prog.	Dec Prelim.	March Prog.	June Prog.	Sept Indicative	Dec Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-500	-457	0	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,953	-23,837	-3,100	-6800	-8500	-12210
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.13	0.11	0.10	0.10	0.09	0.08	0.06	0.04	0.02
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	14.0	6.5	14.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	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)	...	...	...	...	5.7	...	4.1	4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	4.7	...	3.1	3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	*3.7*	3.1	*2.1*	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	2.7	...	1.1	1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	1.7	...	0.1	0.4	1.9	1.2
IV. Indicative Target										
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei)	131,938	30,670	62,578	94,133	130,700	128,317	32,000	64,800	96,350	130,850
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs. 4/ (as defined in TMU (bn. lei))	-6.8	-0.7	-1.8	-2.4	-4.0	-2.0	-1.5	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei)) 4/	17.9	19.2	19.7	18.5	15.9	14.9	17.0	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.80	0.75	0.70	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 5/	...	...	...	...	...	...	200	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ Cumulative flows relative to previous year end stock. 2011 December target is adjusted down from 500 million to -500 million reflecting the delayed Eurobond issurance.
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011).
4/ Adjusted indicative targets for end-September and end-December in 2011, reflecting the merger of SOEs under monitoring.
5/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Fourth Review

Measure	Target Date	Comment
Prior Action		
1 Approve a roadmap for the deregulation of electricity prices as specified in the MEFP.	5 days before the board date	
Quantitative performance criteria		
1. Floor on net foreign assets	Dec. 31, 2011	Met
2. Floor on general government overall balance	Dec. 31, 2011	Met
3. Ceiling on central government and social security domestic arrears	Dec. 31, 2011	Met
4. Ceiling on general government guarantees	Dec. 31, 2011	Met
5. Non-accumulation of external debt arrears	Dec. 31, 2011	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Dec. 31, 2011	Met
2. Floor on operating balance of key SOEs	Dec. 31, 2011	Met
3. Ceiling on stock of arrears of key SOEs	Dec. 31, 2011	Met
4. Ceiling on stock of local government arrears	Dec. 31, 2011	Met
Inflation consultation band		
Inner band	Dec. 31, 2011	Met
Outer band	Dec. 31, 2011	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Partially Met
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Partially Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services.	Dec. 31, 2011	Partially Met
4. Design measures to reduce registration of small VAT payers by 20 percent by end-September 2012(compared to end-September 2011).	Dec. 31, 2011	Met
5. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	Partially Met
New Structural Benchmarks		
1. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	Jun.30,2012	