

SUPPLEMENTAL MEMORANDUM OF UNDERSTANDING

(Fourth addendum to the Memorandum of Understanding)

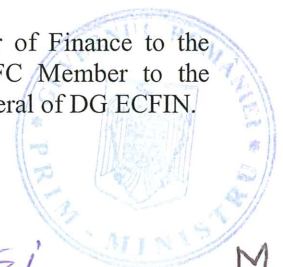
BETWEEN

THE EUROPEAN UNION and ROMANIA

SUPPLEMENTAL MEMORANDUM OF UNDERSTANDING
(Fourth addendum to the Memorandum of Understanding)
between
THE EUROPEAN UNION and ROMANIA

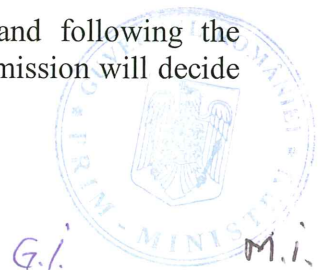
1. On 6 May 2009, the Council of the European Union adopted Decision 2009/459/EC to make available to Romania medium-term financial assistance of up to EUR 5 billion. On 16 February 2010, the Council amended this Decision to address the impact on programme targets of the larger than expected recession. The assistance is provided as a medium-term loan under the balance of payments facility of Member States (based on Article 143 of the Treaty on the Functioning of the European Union (the "Treaty") and Regulation No 332/2002). The EU assistance for Romania comes in conjunction with IMF support through a Stand-By-Arrangement (SBA) of SDR 11.4 billion (around EUR 12.95 billion), approved on 4 May 2009. Additional multilateral support of EUR 2 billion comes from the World Bank (EUR 1 billion) and the EIB and EBRD (EUR 1 billion).
2. The Memorandum of Understanding ("the Memorandum") laying down the economic policy criteria linked to each disbursement as well as the reporting and monitoring conditions of the loan was signed on 23 June 2009. Implementation of the fiscal, financial sector and structural reform measures foreseen in the Memorandum should enable the economy to withstand short-term liquidity pressures while improving competitiveness and supporting an orderly correction of imbalances in the medium term, hence bringing the economy back onto a sound and sustainable footing. The first instalment of EUR 1.5 billion was disbursed on 27 July 2009 following the signature of the Loan Agreement of 23 June 2009. Four other instalments were scheduled over the period covered by the remainder of the programme.
3. Between October 2009 and February 2011, the Commission services carried out review missions to assess progress made with respect to the specific conditions attached to these further instalments under the EU financial assistance programme. These were joint missions with IMF and World Bank staff. Based on the findings of these missions and after having consulted with the Economic and Financial Committee, the economic policy criteria for disbursement of the second to fourth instalments of the EU loan were considered to have been broadly fulfilled and the corresponding instalments of the Loan were disbursed.
4. In the meeting of the Economic and Financial Committee on 10 January 2011, the Romanian Member requested a precautionary EU medium-term financial assistance for Romania.¹ The precautionary assistance would ensure a continuation of the reforms launched under the current EU medium-term financial assistance and thereby reassure foreign investors, market participants and other relevant stakeholders. It would again be a joint assistance with the International Monetary Fund (IMF), i.e. Romania intended to request a new Stand-by Agreement with the IMF, however refrain from drawing on the available resources (precautionary

¹ The request was later formalized by two letters sent by the Romanian Minister of Finance to the Commissioner for Economic and Monetary Affairs, and by the Romanian EFC Member to the Secretariat of the Economic and Financial Committee as well as to the Director General of DG ECFIN.



arrangement). Therefore, the Commission services conducted a further mission together with the IMF and World Bank staff from 25 January 2011 to 8 February 2011 to discuss the finalisation of the current EU assistance and the possible policy conditions of the requested precautionary EU assistance.

5. To allow for a smooth transition to the new precautionary EU assistance and to ensure a full synchronisation with the IMF assistance provided in parallel, the parties mutually agreed to bring forward the intended disbursement of the fifth and final instalment of the current EU assistance, previously programmed to end in early May 2011.. Consequently, the implementation of some of the policy conditions laid down in the previous third addendum to the Memorandum of Understanding needed to be accelerated, while some policy conditions will be carried over to the new precautionary assistance, as specified in the annex to this fourth Supplemental Memorandum of Understanding. Parties mutually agreed that disbursement of the fifth and final instalment of the EU loan under the current EU assistance programme (EUR 150 million) would depend on a successful implementation of this reduced set of policy actions, to be verified in March 2011.
6. The following conditionality for the disbursement of the fifth instalment of the EU loan have already been fulfilled by the Romanian authorities: (i) approval and publication by the Ministry of Finance of a medium term debt management strategy for the period 2011-2013; (ii) amendment of government ordinance 39/1996 regarding the setting up and operations of the Deposit Guarantee Fund in the banking system; (iii) amendments aimed at clarifying the damage compensation regime for creditors of banks placed under special administration to ensure an effective implementation of the recently amended legislation on the resolution of credit institutions in financial distress; (iv) enactment of the law on the independence of the non-banking financial sector regulators.
7. The conditions that will be reviewed before the disbursement of the fifth instalment of the EU loan are specified in the Annex to this fourth Supplemental Memorandum of Understanding.
8. There are also a number of conditions whose fulfilment cannot be verified at a significantly earlier stage and will therefore be carried over to the expected follow up precautionary assistance programme. These concern: i) the approval of the means-tested co-payments system in the health care sector; ii) local government arrears; iii) restructuring plans for state-owned enterprises; iv) completion of the second stage of the functional review; and v) measures being taken to improve the absorption of EU funds.
9. The Memorandum and the three previous Supplemental Memoranda (including their annexes) remain valid and in force, unless explicitly amended in this fourth Supplemental Memorandum.
10. Disbursement of the remaining instalment under the programme is conditional on the Romanian authorities implementing measures in line with this fourth Supplemental Memorandum. These measures must be fully consistent with the EU Treaty.
11. Based on the fulfilment of conditions in the Memorandum and following the consultation of the Economic and Financial Committee, the Commission will decide



on the release of the fifth instalment of EUR 150 million subject to the signature of the fourth Supplemental Memorandum by the parties and its entry into force and the implementation of the measures spelled out in Annex 1 (section "Issues to be reviewed and, where appropriate, further actions to be taken before disbursement of fifth instalment of the EU loan").

12. The Romanian authorities commit to consult the staff of the Commission before adopting new measures that may have implications for the objectives of the programme. In particular, they will consult in a timely manner and provide all necessary information regarding any measures and reforms that may have an impact on fiscal developments.
13. The Annex forms an integral part of this fourth Supplemental Memorandum.
14. All notices in relation with the fourth Supplemental Memorandum shall validly be given if in writing and sent to:

For the European Union

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

For the Prime Minister

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

For the Ministry of Public Finance of Romania

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

For the National Bank of Romania

National Bank of Romania



Lipscani Street, 25

Bucharest 030031

Fax No.: +40 21 312 62 60

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



G.I.

M.i.

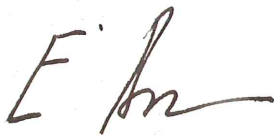
Done in Brussels on *April 8th, 2011* and in Bucharest on *APRIL 1st, 2011* in five originals in the English language.

ROMANIA

Represented by

Emil Boc

The Prime Minister



Gheorghe Ialomițianu

Minister of Finance



Mugur Isarescu

Governor of the National Bank of Romania



EUROPEAN UNION

Represented by

EUROPEAN COMMISSION

Olli Rehn

Member of the European Commission



ANNEX 1 SPECIFIC ECONOMIC POLICY CRITERIA

(Amendments to Annex I of the Memorandum of Understanding and to Annex 1 of the first, second and third Supplemental Memoranda of Understanding, respectively)

In view of the continuous nature of some reform areas and the request by the Romanian authorities for precautionary EU medium-term financial assistance to start in May 2011, a number of reform measures will be carried over to the new Memorandum of Understanding to be concluded between the European Union and Romania. On the other hand, since the period for the implementation of measures previously agreed ahead of the disbursement of the final fifth instalment of the EU loan has been shortened, the specific economic policy criteria spelled out in the Annex I to the Memorandum and Annex 1 to the first, second and third Supplemental Memoranda shall be reduced to the following actions to be taken before the disbursement of the fifth instalment of the EU loan. The Commission will check in March 2011 if the prior actions have been met, and after consultation of the Economic and Financial Committee, will decide upon the disbursement of the fifth instalment of EUR 150 million of the EU loan.

Issues to be reviewed and, where appropriate, further actions to be taken before the disbursement of the fifth instalment of the EU loan

A: Fiscal consolidation

- Budget execution for 2011 on track to reach the 4.4% of GDP target in cash terms (below 5% of GDP in ESA terms) and providing an adequate basis for attaining the 2012 fiscal target of a general government deficit below 3% of GDP (ESA).
- Continue to ensure that the public wage bill in 2011 does not exceed RON 39 billion in 2011 (excluding the payment of social security contributions for the military worth RON 1.6 billion under the new pension law).
- Prevent re-emergence of arrears in the health-care sector based on effective measures being in place to address their root causes.

D: Structural reforms

- Submission of a multi-annual performance agreement between the Ministry of Transport and the implementing agencies. The agreement must take into account, and be in line with, the government's medium-term fiscal strategy.



G.I.

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