Bucharest, September 9, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC, 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The anti-crisis program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB) has continued to play a crucial role in stabilizing the Romanian economy, reversing imbalances, and setting the stage for future sustainable economic growth. Despite these improvements, the recovery will be delayed due to continued weakness in domestic demand, adverse developments in the region, and recent serious flooding. Accordingly, we now project economic growth of around -2 percent in 2010, rebounding to 1½-2 percent in 2011. Inflation is expected to temporarily jump sharply in the third and fourth quarters due to the one-off effects of the recent VAT increase, reaching 7-8 percent at end 2010 before beginning to return to within the National Bank of Romania's target band in the course of 2011. We continue to project a current account deficit of about 5 percent of GDP for 2010.

2. Our performance on the quantitative targets and the structural reform agenda has been strong (Tables 1 and 2).

- *Quantitative performance criteria and indicative targets.* All end-June 2010 quantitative performance criteria were observed, with the exception of that on general government arrears (¶7). As a prior action, we intend to pay down RON 1.9 billion in arrears in the health sector (the largest source of arrears). The indicative target on the financial balance of the largest loss-making SOEs for end-June was also met, but the one on general government current primary spending was missed by 0.15 percent of GDP (which was compensated by lower capital spending). In addition, inflation remained within the inner band of the inflation consultation mechanism throughout the period.

- *Structural benchmarks.* The reform of local government finances was completed ahead of schedule. The discussion of pension reform legislation in Parliament is at an advanced stage, and we expect parliamentary approval by mid-September (prior action). We are making significant progress in preparing implementing legislation for the unified wage law as well as on other structural benchmarks under the program. We also expect to complete the reform of Deposit Guarantee Fund's (DGF's) funding regime by end-September, as programmed.

3. In view of this performance—and of the supplementary and corrective actions outlined in this Letter—we request completion of the fifth review under the Stand-By

Arrangement. We also request a waiver for the end-June performance criterion on general government arrears.

4. We believe that the policies set forth in the letters of April 24, 2009, September 8, 2009, February 5, 2010, June 16, 2010, June 29, 2010, and in this Letter are adequate to achieve the objectives of our economic program, but the government stands ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF and the European Commission (EC) with the necessary information for program monitoring.

Fiscal sector

5. Despite weak economic conditions, we have met the overall deficit target for the first half of the year, largely due to strict expenditure controls and personnel reductions of some 27,000. Our fiscal adjustment effort for the remainder of 2010 will be supported by the recently enacted adjustment package (yielding 4.6 percent of GDP on an annual basis) — which included a 5 ppt. VAT increase, a 25 percent cut in public wages, and a 15 percent cut in most social benefits — along with further reductions in personnel (74,000). Weaker growth prospects are expected to generate some revenue shortfall relative to the program, and we have taken additional measures to prevent the widening of the deficit. In particular, we have cut spending on goods and services by 10 percent on an annualized basis and have advanced some of the provisions of the pension reform legislation that could bring short-term relief. Thus, we are on track to meeting this year's deficit target of 6.8 percent of GDP.

6. For 2011, we remain fully committed to reducing the deficit to 4.4 percent of GDP as targeted under the program. The full year impact of the 2010 measures, as well as continued expenditure restraint, will be sufficient to ensure the achievement of this target. Provided that there are further personnel reductions of at least15,000 by end- 2011, these will also give us room to grant a modest public wage increase during 2011 while meeting the commitment to restrict next year's wage bill to under 39 billion lei (including all forms of compensation, but excluding social security contributions for the military). The implementing legislation for the unified wage law will ensure that the new public wage scale that will be introduced in January 2011 will be consistent with the lower wage envelope. Further savings will be secured through expenditure restraint, the elimination of the 13th salary and of the holiday bonus, a continued freeze in pensions, the elimination of heating subsidies (originally planned for 2010), and the overhaul of the social assistance system expected to yield at least 0.2 percent of GDP (see ¶12). Parliamentary approval of the 2011 budget in line with these commitments and including the 24 percent VAT will be a structural benchmark for mid-December 2010.

7. Our medium-term fiscal strategy remains focused on achieving the 3 percent Maastricht deficit objective by 2012, while ensuring the future stability and predictability of the tax system. Attainment of the 4.4 deficit target next year will facilitate this objective, but continued expenditure restraint will be needed to reduce the deficit while gradually recovering the real value of civil servants' compensation and allowing increased investment co-financed by EU funds to support growth. The soon-to-be released Medium-Term Fiscal Strategy for 2011-13 is an important step in implementing the Fiscal Responsibility legislation and in solidifying our commitment to the Maastricht targets. We will strengthen the recently established Fiscal Council by providing it with adequate funding so as to ensure that its secretariat is fully staffed with appropriately skilled people.

8. Measures to deal with the chronic problem of domestic payment arrears are being taken. At the local government level, the amendments to the local public finance law—that will preclude the accumulation of future arrears at the local level—were enacted by emergency ordinance at end-June, meeting the end-September structural benchmark ahead of schedule. From 2011, local governments will have to include arrears repayment in their budget execution, and will not be able to commit to new expenditures or contract loans until previous obligations are repaid. In the meantime, we have issued an ordinance that allows the local governments to utilize swap agreements to offset mutual debts and partially clear some arrears. At the central level, with most arrears in the health sector, we are implementing a health sector restructuring plan (see LOI of June 16, 2010 and ¶16) and we have allocated RON 1.9 billion in the revised 2010 budget to pay arrears (prior action for this review). To further improve arrear monitoring and control, we remain committed to integrating the accounting reporting system with the Treasury payment system (structural benchmark for end-March 2011); using budget appropriations as commitment ceilings; requiring line ministries to monitor their subordinated units in observing ceilings; and enforcing sanctions against institutions and individuals who breach the ceilings.

9. Recent market turbulence—brought on by uncertainties surrounding the approval of the June fiscal measures and by rising risk perception in the region—led us to temporarily reduce public debt issuance and to gradually make use of the existing financial buffers in the Treasury. With improved market conditions, we expect to return to an upward path in financial buffers to reach about 4 months of fiscal deficit financing and public debt redemptions.

Fiscal reforms

10. We continue our efforts to tackle tax evasion and improve revenue yields. Following a first round of reforms in April, we passed in June an ordinance tackling tax evasion. Among other things, the ordinance provides the authorization to access bank accounts, important for developing indirect audit methodologies on taxation of high net wealth individuals. In line with the IMF technical assistance advice, we plan a draft ordinance on further requirements of taxation of high net wealth individuals by end-August. We will

broaden the definition of income to enable taxation of income from any source not legally exempted and take other measures specified in the LOI of June 16, 2010 and in the IMF technical assistance reports. To further tackle tax evasion, we will engage in discussions with the EC regarding further amendments to domestic taxation. We intend to: (i) request a shift in the VAT mandatory threshold from the EU Council of Ministers to EUR 100,000; (ii) put a floor on VAT voluntary registrants to remove fraudulent claimants; and (iii) reduce threshold for medium taxpayer administration (currently RON 6.7 million). We will expand medium taxpayer administration so that it covers 20 percent of revenues, target the large taxpayer directorate's revenue share at 70 percent, and strengthen tax prosecutions. Our work in streamlining tax administration offices and improving information technology (IT) network will be based on the July 2010 IMF technical assistance mission's recommendations. We will also reform the system of productivity bonuses over the next year (consistent with the implementing legislation to the unified wage law) to limit them only to those directly involved in tax collections and to limit them to sustained improvements in revenues. We will continue to cooperate with the European Commission services to ensure that our legislation is consistent with EU taxation rules.

11. The accelerated absorption of EU Funds is a focal objective of the government. We have already taken measures that should generate a pick-up in absorption this year, by improving tendering and by facilitating access to project co-financing through special guarantee facilities. Looking forward, our efforts will focus on strengthening the administrative capacity of units managing the funds, especially in the transportation sector; modernizing and consolidating the legislative and regulatory framework for public investment; and prioritizing investment to assure sufficient financing for key projects. Specifically, we are committed to: (i) giving priority only to investment projects co-financed with EU funds when initiating new investments; (ii) trimming the existing portfolio of domestically-financed capital projects to focus on priority projects where funding can be fully secured, with other projects discontinued; (iii) strengthening the project appraisal process by requiring private sector review of the bankability of projects; (iv) encouraging private sector participation in projects via outsourcing or public-private partnership arrangements; and (v) ensuring full staffing of project management units and the adequate remuneration of the specialized staff, financed by technical assistance funds.

12. The overhaul of the social assistance benefits will provide an important support to the fiscal adjustment strategy while improving the efficiency of protections to the poorest and most vulnerable member of society. Social assistance spending accounts for close to 4 percent of GDP, but it is poorly targeted and wasteful, benefitting many well-off while often not reaching the needy. We have initiated sweeping reforms of the system (with assistance from the World Bank) that aim at: (i) improving targeting, through the immediate or gradual elimination of programs that are not mean-tested; (ii) streamlining and consolidating benefits provided by different levels of government; (iii) increasing controls over benefit claims; and (iv) capping the maximum benefits per person. Legislation introducing these reforms is expected to be approved by the government by end-October 2010.

13. The government remains committed to improving the performance of public enterprises. The 10 largest loss-making public enterprises met the indicative target for operating losses in the second quarter. However, arrears have continued to increase, suggesting that further measures will be needed to comply with EU conditionality on a quarterly reduction of arrears. The government plans to implement measures to improve the revenue side of these companies (via higher tariffs) as well as cost reductions via personnel cuts and restructuring. The process of winding-up or privatizing state owned enterprises (including Termoelectrica and the cargo rail company) as laid down in the June 2010 LOI is on track. The privatization agency AVAS is preparing the sale of 18 small firms under its full ownership and the minority stakes it holds in at least 150 additional firms by end-2010, but completion of some of the sales will be delayed into 2011.

14. The preparation of implementing legislation for the unified wage law is on track. The legislation is to consist of two parts: an implementing framework law that will introduce the new pay system and specific annual legislation setting wage parameters. The legislation will be costed before submission to parliament to ensure that the 2011 wage bill falls within the agreed RON 39 billion envelope implied by the recent public wage cuts and that the system will observe the agreed limits on the wage bill over time. The legislation will also reform the productivity bonus system (*stimulente*) by folding them into the base wage. We are committed to having the legislation approved by end-October 2010 (structural benchmark), and will agree on the text of the legislation with the International Financial Institutions and the EC before submission to parliament.

15. Passage of the pension reform was somewhat delayed due to a heavy legislative agenda, but we now expect parliamentary approval by mid-September (prior action). The part of this reform cutting special pensions has already been implemented. We have begun auditing disability pensioners to eliminate fraudulent claims. We have suspended early retirements until the new pension law (which discourages early retirements via a larger discount factor) enters into force January 1, 2011. The new pension indexation provisions will enter into effect in 2012, after the 2011 pension freeze expires. We are committed to continuing to phase in the second pillar of the pension system, with the scheduled increase in contributions from 2.5 to 3 percent in 2011.

16. We remain committed to ensuring the functioning of health care system within the 2010 budgetary allocations and to achieving further savings in 2011. On the revenue side, the clawback tax on medical suppliers has been implemented, and the draft law regulating the co-payment system, including a sharp narrowing of exemptions compared with original plans, will soon be approved by parliament so as to enter into effect by January 2011. In order to improve the efficiency of hospital services, the management of many hospitals has been transferred to local authorities. In addition, a ceiling for wage spending equal to 70 percent of hospital costs has been introduced, and orders to cut 95 percent of the 9200 hospital beds originally envisaged have already been submitted, with other slated by mid August. A reference price scheme for selected pharmaceuticals has been established and will

be extended in the coming months. Finally, benchmarking systems are being set up to control pharmaceutical costs and physician service costs.

17. We are preparing a reform of the labor market with the view to addressing existing rigidities and weaknesses. In particular, we are drafting amendments to modernize Labor Code and other labor market legislation to increase the flexibility of the market, reduce informality and tax evasion, and improve the wage negotiation framework. We expect the revised legislation to enter into effect by end-2010.

Financial sector

18. The Romanian banking system has been affected by the protracted recession and registered losses in the first half of the year. Loans classified as doubtful and loss reached 17.8 percent at end-June 2010, while loans more than 90 days overdue classified within loss category were 10.2 percent; further increases are expected in the second half of the year as economic activity remains depressed. Capitalization ratios have come under pressure but, following proactive capital increases by the shareholders, the average capitalization ratio for the banking sector was 14.3 percent at end-June 2010, with all institutions above 10 percent. In particular, the parents of the nine largest foreign banks have maintained a capital ratio above 10 percent and have broadly complied with their commitment to maintain exposures under the European Bank Coordination Initiative (EBCI). In light of the strengthening of Romania's external position, it was agreed to allow a reduction in the exposure commitments of the banks to 95 percent as of end-September 2010.

19. We are committed to continuing to consolidate the safety net to deal with financial distress. We have strengthened the resolution framework for problem banks by supplementing the existing authority of the special administrator to promptly implement a broad range of restructuring measures. We intend to secure parliamentary approval of these amendments by December 1, 2010 (structural benchmark). With technical assistance from the Fund, we will amend the DGF law to allow for the use of resources administered by the DGF (including through guarantees) to facilitate restructuring measures authorized by the National Bank of Romania (NBR) regarding the transfer of deposits, including purchase and assumption transactions, if such use would be less costly than the direct payment of the deposit guarantees. Preparations are on course to increase the coverage ratio for ex ante financing for the DGF to 2 percent. To achieve this, the banks' contribution rate will be increased to 0.3 percent beginning in 2011 and the stand-by credit lines will be eliminated (structural benchmark for end-September 2010). We will also amend the DGF law's governance arrangements to ensure that neither members of the board nor employees of credit institutions participate in the DGF Board (structural benchmark for end-December 2010).

20. For overly indebted households, efforts implemented by banks for a decentralized rescheduling and restructuring have been broadly adequate to address debt service pressures.

We remain committed to supporting financial stability by refraining from promoting legislative initiatives, such as the current draft of the personal insolvency law that would undermine credit discipline. We will seek to maintain the current framework that allows banks to rely on their in-house expertise for the collection of their claims. We will encourage banks to continue their restructuring efforts and will monitor the results closely. We will review the recent ordinance (Ordinance 50/2010) to ensure transparency on interest rates for consumer credit contracts to ensure full compliance with EU law, particularly as regards non-retroactivity.

21. The current provisioning framework is sound and the NBR does not consider that any new prudential regulation in this area is necessary at present. The NBR will continue to consult with the Fund and EC staff before introducing or amending other aspects of the regulatory framework. The NBR and the Ministry of Public Finance remain committed to adopting the necessary legal framework by the end of the program period for implementing comprehensive International Financial Reporting Standards (IFRS), by the beginning of 2012. The NBR has issued the necessary notification to banks of the change, along with a timetable, on July 30.

22. We are committed to reversing recent legislative initiatives that inadvertently infringed on the independence of the central bank and of non-bank financial regulators. The recently enacted package of fiscal adjustment measures included the central bank and the non-bank financial regulatory bodies among the institutions that are subject to the 25 percent wage cut; which undermines their financial independence and breaches Article 130 of the EU Treaty. The ECB has also determined that the associated remittances to the budget of the wage savings constitute prohibited monetary financing of the deficit. We are committed to issuing an ordinance to remove the monetary financing provisions by mid-September, and to tackle the issue of the infringement of central bank independence by end-December.

Monetary and exchange rate policy

23. The recent increase in VAT will lead to a temporary but significant jump in inflation in the remainder of the current year, moving it well outside the NBR's target range. We estimate that the VAT hike, together with planned increases in administered prices and the effects of recent flooding on food prices, could push inflation some 3½-4½ percentage points above the projected path, bringing it to 7-8 percent by end-2010. Barring significant second-round increases, the price-level effects should peter out after mid-2011, allowing the attainment of the end-2011 target of 3 percent ±1 percentage point.

24. While the one-off nature of the VAT-induced price increase does not warrant a monetary policy response, increased vigilance is required to keep inflation expectations in check and stave off possible second-round inflationary effects. The NBR board has decided to pause its easing cycle until the effects of the VAT increase become clearer. Looking

forward, monetary policy will be geared towards reaching the projected disinflation path net of the tax effect.

Program modifications and monitoring

25. The program will continue to be monitored through regular reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. The quantitative targets for end-September and end-December 2010 and continuous performance criteria are set out in Table 1; and the structural benchmarks are set out in Table 2. The understandings between the Romanian authorities and IMF staff regarding the quantitative performance criteria and the structural measures described in this letter are further specified in the attached Technical Memorandum of Understanding.

Sebastian Vladescu Minister of Public Finance	Mugur Isarescu Governor of the NBR

Attachments

Table 2. Romania. Performance for Fifth Review and Proposed New Conditionality

Measure	Target Date	Comment
Prior actions		
1 Repayment of RON 1.95 billion in arrears, most in the health sector		
2 Parliamentary approval of pension reform legislation		
Quantitative performance criteria		
1 Floor on net foreign assets	June, 2010	Met
2 Floor on general government overall balance	June, 2010	Met
3 Ceiling on general government guarantees	June, 2010	Met
4 Ceiling on general government domestic arrears	June, 2010	Not met
5 Non-accumulation of external debt arrears	June, 2010	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	June, 2010	[Not met]
2. An indicative target on the operating balance of ten largest loss-making SOEs	June, 2010	Met
Inflation consultation band		
Inner band	June, 2010	Met
Outer band	June, 2010	Met
Structural benchmarks		
1. Approval of reforms to mitigate fiscal risks from local governments	September 30, 2010	Met in June 2010
2. Passage of implementing legislation for the unified wage law	October 31, 2010	Reset from September 30, 2010
3. Passage of pension legislation	September 30, 2010	Pending (also prior action)
4. Parliamentary ratification of the fiscal measures approved by the government	September 30, 2010	VAT ratification pending
5. Reform of the DGF's funding regime through increase in bank's contribution rates and elimination of stand-by credit lines, and review of DGF governance arrangement	September 30, 2010	Pending
6. Reform tax administration methodology for high net wealth individuals	November 30, 2010	
7. Integrate the accounting reporting system with the Treasury payment system	March 31, 2011	
New Conditionality (Structural Benchmarks)		
1. Parliamentary ratification of amendments to the bank resolution framework	December 1, 2010	
2. Parliamentary approval of agreed 2011 budget	December 15, 2010	
3. Amend deposit insurance legislation to ensure that neither members of the board nor employees of credit institutions participate in the DGF Board	December 31, 2010	reset from September 30, 2010

Attachment. Technical Memorandum of Understanding

September 9, 2010

1. This Technical Memorandum of Understanding (TMU) updates and replaces the TMU dated June 16, 2010. It: (i) defines the variables subject to the quantitative targets specified in the Letter of Intent (LOI); (ii) describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets (Section I); and (iii) provides clarifications for some of the structural conditionality under the program (Section II). As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

2. For the purposes of the program, *the exchange rates* of the Romanian Leu (RON) to the euro is set at RON 3.9852 = €1, to the U.S. dollar at RON 2.8342 = $1, to the Japanese yen at RON 3.1419 = ¥100, and to the pound sterling at RON 4.1169 = £1, the rates as shown on the National Bank of Romania's (NBR's) website as of December 31, 2008. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of December 31, 2008.

3. For the purposes of the program, the *general government* includes the entities as defined in the 2010 budget. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. 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 operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately.

I. Quantitative Performance Criteria, Indicative Ceiling, and Continuous Performance Criteria

A. Floor on the Net Foreign Assets

4. **For program purposes, Net Foreign Assets (NFA) are defined as the NFA of the NBR minus Treasury liabilities to the International Monetary Fund.**

5. **NFA** of the National Bank of Romania (NBR) are defined as the euro value of gross foreign assets of the NBR (including reserve requirements of the commercial banking system held at 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.

6. **Gross foreign assets of the NBR** are defined to include the NBR's holdings of SDRs, the country's reserve position at the Fund, holdings of cash, securities and deposits abroad in convertible foreign currencies. Excluded from reserve assets are: (i) gold and other precious metals; (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), and all credit outstanding from the Fund, but excluding (i) banks' foreign currency deposits against reserve requirements; and (ii) government foreign currency deposits at the NBR. This definition is meant to bring the concept of foreign liabilities closer to the balance of payment definition, on which the targets are based.

Floor on cumulative change in NFA from the beginning of the year (in mln. euros) 1/

	2009	2010 2/			
	December	March	June	September	December
	(Stock)	Actual	Actual	PC	PC
Cumulative change in NFA	20,658	779	-509	-2,000	-2,000
Memorandum Item:					
Gross Foreign Assets	28,418	3,145	1,838	2,100	3000

1/ PC=performance criterion; data for end-month.

2/ Flows in 2010 are relative to end-2009 stock.

8. NFA targets will be adjusted upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection. Program disbursements are defined as external disbursements from official creditors (World Bank and the EC) that are usable for the financing of the overall central government budget. The NFA targets will also be adjusted upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December, 2009 (€7,874 million), measured at program exchange rates.

9. External Program Disbursements – Baseline Projections (in mln. euros)

	2010			
	March	June	September	December
Cumulative flows from end-December 2009	1,000	2,200	2,500	4,100

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

9. The quarterly consultation bands for the 12-month 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 Fund on their proposed policy response before requesting further purchases under the program. In addition, the NBR will conduct discussions with the Fund 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 above.

	2008	2009	2010			
	December (actual)	December (actual)	March (actual)	June (actual)	September	December
Outer band (upper limit)					10.0	10.0
Inner band (upper limit)					9.0	9.0
Center point	*6.3*	*4.7*	*4.2*	*4..4*	*8.0*	*8.0*
Inner band (lower limit)					7.0	7.0
Outer band (lower limit)					6.0	6.0

C. Performance Criterion on General Government Balance

10. The budget deficit will be monitored quarterly through the cash balance of the general government. 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

	(In millions of lei)
End-December 2009 (actual)	-36,101
End-March 2010 (actual)	-8,422
End-June 2010 (actual)	-18,070
End-September 2010 (performance criterion)	-28,200
End-December 2010 (performance criterion)	-34,650

11. The budget deficit will be measured from above the line using the budget execution data. 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.

12. 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 2010, the MoPF will consult with IMF staff.

13. In the event that non-grant revenues exceed those projected under the program, the deficit target will be adjusted downward by one half of the surplus to allow for additional capital spending while reducing the deficit further. The following table shows the accumulated projected non-grant revenue for 2010, to which the actual non-grant revenue will be compared.

Cumulative projected revenue of general government, net of EU funds	(In millions of lei)
End-December 2009 (actual)	151,508
End-March 2010 (actual)	36,355
End-June 2010 (actual)	74, 330
End-September 2010 (projection)	113,900
End-December 2010 (projection)	158,000

14. In the event that current spending in the previous quarter exceeds the indicative target (defined below), deficit target for the next quarter will be adjusted downward by a corresponding amount.

D. 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 non-financial private sector and public enterprises will be limited during the program period. This ceiling may be

adjusted upward by up to RON 4.3 billion relative to the original ceiling of RON 7.7 billion for guarantees for financing the counterpart payments of investment projects financed by the EU or for guarantees on projects cofinanced by the EBRD, IFC, or EIB.

Ceiling on new general government guarantees issued from end-2008 until:	(In billions of lei)
End-December 2009 (actual)	2.2
End-March 2010 (actual)	4.6
End-June 2010 (actual)	5.6
End-September 2010 (performance criterion)	12
End-December 2010 (performance criterion)	12

E. Performance Criterion on Non-Accumulation of Domestic Arrears by the General Government

16. The performance criterion established on the stock in domestic payments arrears of the general government contemplates no accumulation of new arrears and their elimination 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 due date by 90 days (in line with ESA95 definitions for expenditures).

Stock in general government arrears from the end of previous year	(In billions of lei)
End-November 2009 (stock, actual)	1.40
End-March 2010 (actual)	1.76
End-June 2010 (actual)	1.8
End-September 2010 (performance criterion)	0.81
End-December 2010 (performance criterion)	0.48
End-April 2011 (indicative target)	0.00

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

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

G. 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 and one-third of the state budget in the same category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables:

Cumulative change in general government current primary expenditures	(In millions of lei)
End-December 2009 (actual)	85,637
End-March 2010 (actual)	32,749
End-June 2010 (actual)	66,974
End-September 2010 (indicative target)	99,500
End-December 2010 (indicative target)	131,500

H. Monitoring of Public Enterprises

19. As of 2009, the Ministry of Public Finance, the Ministry of Labor and Social Protection, and other pertinent institutions have implemented a monitoring system of public enterprises. During the program period, information will be provided to document that sanctions—decline in remuneration and dismissal of management according to Ordinances 37/2008 and 79/2008—are imposed if the budgets and company targets for restructuring are not observed.

20. The quarterly indicative target for 2010 will be set on the aggregate operating balance (earnings before interest and tax), net of subsidies, of the following public enterprises: (1) C.N. Cai Ferate CFR; (2) S.N. Transport CFR Calatori; (3) CN a Huilei; (4) SC Termoelectrica; (5) C.N. de Autostrazi si Drumuri Nationale; (6) S.C. Metrorex; (7) S.N. de Transport Feroviar CFR Marfa S.A.; (8) SC Electrocentrale Bucuresti; (9) Societatea Comerciala Electrificare CFR S.A.; and (10) S.C. Administratia Nationala a Imbunatatirilor Funciare. The data shall be reported with operating results by firm. The targets for September 2010 and December 2010 will be -3000 and -4000, respectively.

I. Reporting Requirements

21. Performance under the program will be monitored from data supplied to the IMF by the NBR and the MoPF as outlined in Table 1. The authorities will transmit promptly to the IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Romania: Data Provision to the IMF

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts	Monthly, on the 25th day of the following month
Quarterly final data on general government accounts	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	Quarterly, no later than 45 days past the test date
Total accounts payable and arrears of the general government	Preliminary monthly, within the next month. Quarterly, within 55 days
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 will be reported to the IMF staff within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date
From 2010, the operating balance, profits, arrears, and personnel expenditures of 10 largest public enterprises by total expenditures	Quarterly, within 55 days
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

To be provided by the National Bank of Romania

NFA 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 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

II. Structural Conditionality: Specifications

A. Public Wage Legislation

22. Following the unified public wage law approved in October 2009, an implementing legislation will be approved before end-October 2010 that will abide by the following principles:

a. It will ensure the respect of the quantitative targets for the public wage bill included in the unified public wage law and the proposed changes will be fully costed.

b. It will ensure that new salary grading structure is simplified and that pay will be linked based on job responsibility and qualification. The established new pay system will be benchmarked on private sector wages (through a salary survey) to ensure that public pay is broadly aligned with actual labor market conditions, within affordability constraints.

c. The regulation would phase in a limit of 30% on non-wage personnel expenditures and caps on individual bonuses for non-military personnel. For the purpose of this law, "stimulus" payments will be treated as bonuses.