



# ROMANIA

March 2014

## FIRST AND SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PROGRAM CONDITIONALITY, AND REPHASING OF THE AVAILABILITY DATES OF PURCHASES; STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ROMANIA

In the context of the first and second reviews under the Stand-By Arrangement and requests for a waiver of nonobservance of a performance criterion, modification of program conditionality, and rephasing of the availability dates of purchases, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 26, 2014, following discussions that ended on February 4, 2014, with the officials of Romania on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on March 11, 2014.
- A **Staff Supplement** of March 21, 2014 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Romania.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Romania\*  
Memorandum of Economic and Financial Policies by the authorities of Romania\*  
Technical Memorandum of Understanding\*  
Ex Post Evaluation of Exceptional Access Under the 2011 Stand-By Arrangement

\*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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### KEY ISSUES

**Stand-by Arrangement (SBA):** A 24-month SBA with access of SDR 1,751.34 million (about €1.98 billion, 170 percent of quota) was approved by the Executive Board on September 27, 2013. The second and third tranches of SDR 194.7 million each (cumulative SDR 584.1 million) would be made available upon completion of the first and second reviews. Balance-of-payments assistance of €2 billion is also available from the European Union (EU). The authorities treat both arrangements as precautionary.

**Program status:** Four of five end-December 2013 quantitative performance criteria and four of five indicative targets were met. The performance criterion on the general government overall balance was missed by a small margin. The 2014 budget provides for gradual fiscal adjustment consistent with EU requirements, while allowing for greater absorption of EU funds. On the structural agenda, a landmark initial public offering of government shares in the state-owned natural gas producer (Romgaz) was concluded and the energy regulator increased energy prices as planned. The privatization of the state-owned freight railway company (Marfa), however, failed. In addition, the end-December indicative target on state-owned enterprise (SOE) arrears was missed.

**Program modalities:** One prior action was established that requires implementation of specific measures to reduce significantly SOE arrears. In addition, five new structural benchmarks and a new indicative target on Marfa's arrears are proposed along with modifications of three other structural benchmarks.

**Staff views:** Staff recommends completion of the first and second reviews and supports the authorities' request for a waiver of nonobservance of a performance criterion, modifications to program conditionality, and rephasing of availability dates. Sound macroeconomic policies have shielded Romania from most of the recent volatility in emerging financial markets. Political risks to program implementation are rising as tension between the government and the president mounts in advance of elections later this year.

Approved By  
**Poul M. Thomsen and  
 Vivek Arora**

Discussions were held in Bucharest during January 21–February 4, 2014. The mission met with President Basescu, Prime Minister Ponta, Deputy Prime Minister and Minister of Public Finance Chitoiu, Minister Delegate of the Budget Voinea, other members of the government, National Bank of Romania Governor Isarescu and his staff, other senior officials, and representatives of political parties, labor and business organizations, and financial institutions. The staff team comprised A. Schaechter (head), J. Ralyea, V. Stepanyan, T. Xu (EUR); J. Bersch (SPR); M. Mansilla (MCM); and I. Razafimahefa (FAD). G. Tolosa and G. Babici (Resident Representative office) assisted the mission. Discussions were held jointly with staff from the European Commission. S. Matei (Senior Advisor to the Executive Director) and World Bank staff attended some of the meetings; European Central Bank staff participated as an observer.

## CONTENTS

<b>INTRODUCTION</b>	<b>4</b>
<b>RECENT ECONOMIC DEVELOPMENTS</b>	<b>5</b>
<b>OUTLOOK AND RISKS</b>	<b>8</b>
<b>PROGRAM POLICIES</b>	<b>10</b>
A. Fiscal Policy: Staying the Course of Adjustment while Managing Risks to Growth	10
B. Monetary and Exchange Rate Policies: Proceed with Caution	13
C. Financial Sector Priorities: Strengthening Banks' Balance Sheets and Supporting the Economy	15
D. Structural Reforms: Better Infrastructure, Better Growth	16
<b>PROGRAM MODALITIES</b>	<b>19</b>
A. Program Conditionality and Monitoring	19
B. Capacity to Repay the Fund	20
C. Ex-Post Evaluation and Update of Safeguards Assessment	20
<b>STAFF APPRAISAL</b>	<b>21</b>
<b>BOXES</b>	
1. Recent Current Account Developments	24
2. Minimum Wage	25
3. The Nonperforming Loan Problem	26
4. Initial Public Offerings	27