FOR AGENDA

EBS/92/79

CONFIDENTIAL

May 5, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Romania - Staff Report for the 1992 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1992 Article IV consultation with Romania and its request for a stand-by arrangement in an amount equivalent to SDR 314.04 million. Draft decisions appear on pages 24 and 25.

This subject is tentatively scheduled for discussion on Friday, May 29, 1992.

Mr. M. S. Khan (tel. 736-9315) or Mr. Clifton (ext. 8796) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ROMANIA

Staff Report for the 1992 Article IV Consultation and Request for Stand-by Arrangement

Prepared by the European I Department

(In consultation with other Departments)

Approved by Jacques Artus and Joaquín Ferrán

May 4, 1992

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I. Introduction

A staff team visited Bucharest during October 31-November 7, 1991 to conduct the Article IV Consultation discussions. These discussions were continued during a staff visit in February 3-12, 1992, and during a Use of Fund Resources mission in March 23-April 2, 1992. 1/ The missions met with President Illiescu, Prime Minister Stolojan, Ministers Danielescu (Economy and Finance), Bercea (Budget), Constantinescu (Industry), Fota (Trade and Tourism), Marculescu (Agriculture and Food Industry), and Popescu (Labor), and with Governor Isarescu of the National Bank of Romania, as well as with other senior officials.

On April 11, 1991, the Executive Board approved a 12-month stand-by arrangement for Romania in an amount equivalent to SDR 380.5 million or 72.7 percent of quota (EBS/91/29, 3/1/91, and Sup. 2, 4/1/91). The stand-by arrangement had attached to it an external contingency mechanism (ECM) with a maximum amount of contingency financing of SDR 130.9 million or 25 percent of quota; the ECM was not triggered.

Following approval, Romania made a first purchase of SDR 130.9 million, equivalent to its first credit tranche. The second purchase of SDR 62.4 million took place after the Executive Board waived the non-observance of the end-April performance criterion on net international reserves (NIR) on June 28, 1991 (EBS/91/102, 6/21/91). The third purchase of SDR 62.4 million took place after the Executive Board waived the non-observance of the end-June performance criteria on net domestic assets (NDA) and NIR at EBM/91/107 on August 2, 1991 (EBS/91/117, 7/15/91 and Sup. 1, 7/31/91) and the completion of the mid-term review. The fourth purchase of SDR 62.4 million was made in mid-November following the observance of the end-September performance criteria. As described below, the end-December 1991 performance criteria were not observed, and the last purchase of SDR 62.4 million could not be made.

In addition to the stand-by arrangement, on March 15, 1991, at EBM/91/38, the Executive Board approved Romania's request for compensatory financing, under Section V of the compensatory and contingency financing facility (CCFF) decision, of SDR 209.4 million (40 percent of quota). After approval of the stand-by arrangement, a second purchase of SDR 38.3 million (7.3 percent of quota) was made. These purchases were made in respect of an excess in oil import costs of SDR 247.7 million for the 12-month period ended June 1991, calculated using estimated data for six months (January-June 1991) of the excess year (see EBS/91/29, 3/1/91).

1/ Staff members participating in some or all of the missions were Messrs. Khan (Head-RES), Clifton (EUR I), Feldman (ETR), Mendonça (EP-EUR I), and Offerdal (FAD) with, as assistants, Mrs. David (RES), Mrs. Kiuru (EUR I), and Mrs. Virgo (TRE). The missions were assisted by Mr. Maciejewski, Senior Resident Representative. World Bank staff members attended many of the meetings. Mr. Posthumus, the Executive Director for Romania, participated in the February mission and Mr. Tanase in the November and April missions.

In March 1992 (EBS/92/51, 3/17/92), Romania and the Executive Board were informed that the final calculations related to the CCFF purchases gave rise to an expectation of a prompt repurchase of SDR 153.4 million (29.3 percent of quota). Subsequently, Executive Directors were informed on April 30 that Romania was unable to complete the prompt repurchase within the 30-day limit. The staff has received assurances from the authorities that Romania will complete the repurchase expectation as soon as possible through all possible means.

Romania is under the standard 12-month cycle; the last Article IV consultation was concluded at EBM/90/150 (October 15, 1990) on the basis of SM/90/183 (9/17/90). Romania continues to avail itself of the transitional arrangements of Article XIV; the last Article XIV consultation was completed on a lapse-of-time basis in December 1991 on the basis of SM/91/243 (12/17/91). On March 16, 1992, the Government of Romania consented to the proposed quota increase and accepted the proposed third amendment to the Articles of Agreement.

In the attached letter to the Managing Director dated May 4, 1992 and the accompanying Memorandum on Economic Policies, the authorities are requesting a new 10-month stand-by arrangement for SDR 314.04 million (60 percent of quota); the proposed annual access would be 72 percent of quota. This paper presents the request and reports on the 1992 Article IV consultation discussions. The projected Fund position during the period of the arrangement is presented in Table 1 and the schedule of purchases under the proposed arrangement in Table 4. Relations with the Fund are presented in Appendix II and those with the World Bank in Appendix III.

The authorities also intend to request, once the repurchase expectation on the earlier drawing under the CCFF is met, a purchase under the CCFF in an amount equivalent to SDR 76.8 million (14.7 percent of quota), on the basis of an oil excess for the year ending in September 1991. 1/ This request, for which the present paper presents background, was initiated prior to the date of expiration of the oil element (December 31, 1991) and thus falls under the transitional provisions of the CCFF decision (paragraph 60). The expected request would be discussed along with the request for a new stand-by arrangement, and a draft decision on the new compensatory financing request would be circulated for Board approval on a lapse-of-time basis, once the repurchase expectation has been met.

After the repurchase expectation is met and the expected purchase is made, Romania's total purchases outstanding under the CCFF would be SDR 171.1 million (32.7 percent of quota). Total Fund credit outstanding would amount to SDR 803.2 million (153.5 percent of quota) by end-February 1993 if all purchases under the proposed stand-by are made as scheduled.

1/ In the absence of meeting the repurchase expectation, the CCFF provisions on double compensation would eliminate any compensable excess.

II. Recent Developments and Performance Under the 1991 Stand-By 1/

The authorities' macroeconomic adjustment program for 1991 aimed at: stabilizing the price level after the elimination of price controls; moving toward a viable balance of payments situation, including an adequate buildup of external reserves; and limiting the fall in real GDP. Although significant progress was made in liberalizing the economy, because of the difficult external environment and the shortfall in external financing the main stabilization objectives of the 1991 program--particularly with regard to inflation and international reserves--could not be achieved.

The original 1991 program assumed zero real GDP growth, which was subsequently revised to a negative 5 percent for the mid-term review. This revision was mainly on account of the effects of the disorganization of the economic system, the collapse in CMEA trade, and the shortfall in external financing. Continuing problems in these areas and a fall in agricultural production led to a decline in GDP now estimated at 13 percent for 1991.

As regards inflation, the original program targeted the end-of-year rate of inflation at 15 percent per annum. While the program revision in June maintained this target, the projected increase in the average price level was raised from 120 to 163 percent on account of the greater-than-expected price jumps following two rounds of price liberalization. The increase in the average price level during 1991 was 161 percent; however, monthly inflation accelerated to about 10 percent per month late in the year, and in January 1992 reached nearly 20 percent, reflecting to a large extent the sharp depreciation following the unification of the exchange rate and an accommodating credit policy. The price level in December 1991 was 223 percent above its level a year earlier.

Exports and imports during 1991 were significantly less than originally projected. Especially notable was the virtual collapse of trade with the U.S.S.R., mainly due to a sharp drop in the demand for Romanian products. Supply disruptions, including labor problems, shortages of imported inputs, and financing constraints, also affected a number of exporters. The current account deficit in 1991 was US$1.4 billion compared to US$2.4 billion projected at the mid-term review. Exceptional financing from the G-24 in 1991 amounted to only US$250 million compared with a programmed US$1 billion, and took the form of a loan from the BIS to bridge to the first tranche of an EC loan which was disbursed in January 1992. In addition, other capital inflows fell short of programmed amounts. However, at the time of exchange rate unification, the authorities introduced a 100 percent surrender requirement. In this context foreign currency deposits of state-owned enterprises in the domestic banking system were converted into lei, resulting in a decrease in the foreign exchange liabilities of the banking system. In sum, the decline in net international

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1/ See the accompanying paper, Romania--Recent Economic Developments, for further details.

reserves of the banking system was US$822 million in 1991, compared with a programmed decline of US$600 million.

The expansion of domestic credit from the banking system was kept under strict control through September 1991. However, the combination of weak financial discipline in enterprises and a tight monetary policy led to a rapid build-up of inter-enterprise payments arrears. Starting in October the National Bank of Romania (NBR) began to allow an expansion of bank credit to enterprises to resolve the problem of inter-enterprise arrears, and in December, a law was enacted by Parliament, referred to as the global compensation, calling for an additional expansion of bank credit to clear these arrears. The gross amount of credit extended under the scheme was lei 1,777 billion (equivalent to around 50 percent of GDP) representing arrears to other enterprises and the state; net credit amounted to lei 426 billion. All payments under the scheme were made by overdrafts from special "compensation accounts" and the same accounts were also debited with all payments received by enterprises. Thus the transformation of the gross amounts of credit extended to the net amount took place automatically. As many enterprises that were net creditors of other enterprises were net debtors to the banking system, much of the net credit extended under the scheme went initially to reducing overdrafts to banks, and the rest into deposits. The authorities estimate that the money supply increased by about lei 150 billion on account of this operation, compared to an end-December money supply, prior to the operation, of lei 884 billion. The combination of the earlier increase in credit and the expansion under global compensation resulted in an increase in net domestic assets (NDA) during 1991 of lei 522 billion compared to a programmed lei 96 billion; the end-December performance criterion on NDA was accordingly breached by a wide margin. In February 1992 the authorities sterilized the liquidity injected by the global compensation scheme, most importantly through the introduction of a 10 percent minimum reserve requirement on deposits.

On an accrual basis, fiscal performance during 1991 was stronger than programmed. Some difficulties arose in tax collections during the last quarter of 1991 due to blockages in the payments system. The estimated outturn on a cash basis for 1991 was a deficit for the consolidated general government as defined for program purposes of lei 54.1 billion, or 2.6 percent of GDP, compared to a programmed deficit of lei 50.2 billion (2.4 percent of GDP). However, after the global compensation operation was completed in January 1992, all outstanding tax arrears from the previous year were cleared. The deficit for the consolidated general government after this adjustment only amounted to lei 16.2 billion (0.8 percent of GDP). The Unemployment Fund and some other extra-budgetary funds were not included in the definition of the general government in the 1991 program. Since these funds recorded substantial surpluses in 1991, the balance of general government would also have been in surplus (of lei 0.7 percent of GDP), if these were included.

III. Policy Discussions and Program for 1992

At the conclusion of the 1990 Article IV consultation with Romania, Executive Directors welcomed the authorities' decision to embark upon a bold program of transformation of the economy toward a market-based system and endorsed the authorities' decision to accelerate the reform program. Directors noted with concern the substantial decline in output that had occurred in 1990 and the large and growing domestic imbalances that were mirrored in the convertible-currency current account deficit. Given the difficulties in obtaining external financing, this deficit had been financed by a drawdown of international reserves. Directors felt that unless those trends were reversed in the immediate future, the reform process could be jeopardized, as the authorities would be tempted to maintain controls, or even to reimpose those that had already been abolished. Directors therefore urged the authorities to exercise firm control over the growth of credit, to put into place a fiscal policy to arrest the deterioration in the budget, and to restrain the rise of wages and incomes. Directors emphasized the importance of absorbing excess liquidity and accelerating price liberalization in order to reduce macroeconomic imbalances and correct relative price distortions. In their view the swift imposition of financial discipline in the economy was all the more imperative given the importance of attracting external financial assistance. Finally, Directors encouraged the authorities to pursue the liberalization of the restrictive trade and exchange system and move toward a market-related exchange rate system.

During the present consultation discussions and stand-by negotiations, the policy discussions were held against the background of the important economic, legal, and institutional changes that have taken place in the economy since the last consultation.

1. Objectives of the program

The authorities' macroeconomic program for 1992 aims to: (a) halt the decline in real economic activity; 1/ (b) lower the rate of inflation sharply from around 15 percent per month in the first two months of the year to 1.5 percent per month by year-end; 2/ and (c) increase international reserves by US$500 million to reach about 1.7 months of imports by year end.

To achieve these objectives, the authorities intend to: maintain prudent fiscal and monetary policies and an appropriate interest rate policy; ensure wage restraint through a tight incomes policy; and follow a flexible exchange rate policy. These stabilization policies will be

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1/ Given the decline in activity which occurred throughout 1991, halting the fall in output in early 1992 would imply that real GDP would still be about 5 percent lower in 1992 than in 1991.

2/ The inflation target implies that the average price level in 1992 would be 180 percent above its 1991 level; prices in December 1992 would be 115 percent above December 1991.

complemented by structural policies designed to make the economy more efficient and productive. Structural reform measures will include further price liberalization, privatization, financial discipline through restructuring state enterprises, and continuing reforms in the financial sector and fiscal area. The details of the adjustment program, including these and prospective measures, are described below.

2. Fiscal policy and the social safety net

The authorities are determined to continue with a tight fiscal stance in 1992, and thus intend to limit the deficit to 2 percent of GDP. 1/ While this is a slight deterioration from the 1991 level (using comparable definitions of general government), it nevertheless represents a considerable adjustment effort. In the absence of the revenue measures being put in place and strict controls on expenditures, the decline in real GDP would result in a fiscal deficit of around 4-5 percent of GDP. The major portion of the deficit will be financed through bank credit; 2/ ceilings on the expansion of bank credit to the government are a performance criterion.

A number of structural tax reforms were introduced from the beginning of 1992. The turnover tax now comprises only 5 rates, compared to the more than 20 rates in effect last year. The profits tax was changed from a highly progressive rate schedule of more than 60 brackets, to only 2 rates of 35 and 45 percent. To further bolster the fiscal adjustment effort, the authorities will implement by mid-year the long-delayed agricultural income tax. 3/ The authorities are committed to introducing a simplified VAT by the beginning of 1993, 4/ and a global income tax at the beginning of 1994. Overall, it is expected that thee measures will partially contain the decline of tax revenues as a percent of GDP.

Recognizing the downside risk to this fiscal target the authorities have developed a comprehensive list of contingency measures to ensure that fiscal policy remains on track. These contingency measures include expansion of some existing taxes, such as indexation of the base for local property taxes, which are currently set in fixed amounts, increasing the effective excise rates on alcoholic beverages, tobacco and gasoline, and possibly increase profits tax rates. Preparations are also underway to move the collection of turnover taxes on imported goods from the first point of domestic sale to the customs level. A final measure to counter the downside

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1/ This deficit figure does not include the revenues generated from clearance of 1991 tax arrears.

2/ The authorities will endeavor to issue lei 10-15 billion in Treasury bills in the second half of the year.

3/ A presumptive tax, based primarily on the fertility of agricultural land.

4/ The authorities intend to initiate the VAT with a high exemption threshold to limit administrative costs.

risk to the budget is a relatively sophisticated system of "flash" reporting (at five days intervals) of revenue from the major taxes to facilitate, if needed, the timely tightening of expenditure policies.

Total expenditures from 1991 to 1992 are programmed to decrease by 0.7 percent of GDP from 1991 to 1992, split equally between current and capital expenditures. Increased transfer payments due to higher unemployment are expected to be largely offset by reduced outlays on goods and services. The authorities will implement a two-stage scheme (on May 1, and September 1, 1992) to reduce consumer subsidies by 25 percent in each stage relative to their level in January-April. However, subsidy payments (relative to GDP) are expected to remain almost unchanged from 1991 to 1992 because of the pickup in agricultural production. 1/ The authorities are committed to eliminate most consumer subsidies in 1993, and plan a phased reduction of enterprise subsidies. The Government is planning a significant simplification of child benefits later this year; the 20 percent tax credit granted to all parents will be removed and the cash benefit for children will be converted to a fixed amount per child, and substantially increased. Finally, the authorities are undertaking a comprehensive public investment review in coordination with the World Bank.

The social safety net is designed to minimize the burden of the transition on the most vulnerable groups of the population. Welfare entitlement include, among others: maternity, sickness, and disability benefits; cash grants for parents of young children; and education scholarships. Expenditures on these benefits amounted to around 1.4 percent of GDP in 1991, and a similar amount has been budgeted for 1992. There is also a comprehensive pension system, funded primarily by a payroll tax, and a system of unemployment benefits, also funded by a separate payroll tax. Outlays on unemployment benefits have been substantially less than anticipated in 1991, but as unemployment rises in 1992 (to 14 percent), and because unemployment benefits were extended from six to nine months in the fall of 1991, the unemployment Fund will go into deficit (of 0.4 percent of GDP).

3. Monetary policy

Monetary policy will be the primary nominal anchor for the program for 1992 and, in conjunction with fiscal and wage policies, will seek to contain inflationary pressures resulting from selective price adjustments and liberalization, exchange rate movements, and external shocks. To achieve the reduction in inflation that is being sought, the monetary program is based on conservative projections of the demand for money. Thus, the aim is to limit the rise in broad money (in domestic currency terms) to 88 percent during 1992, which is consistent with an increase in the price level of

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1/ Most of these subsidies are paid to agricultural producers.

115 percent. 1/ On this basis the income velocity of money would increase from 3.1 in December 1991 to 3.5 in December 1992, which was the level of velocity in November 1991 before the global compensation operation took place and by which time the monetary overhang is assumed to have been eliminated. The credit program for 1992 is designed to be consistent with this monetary growth and the targeted increase in NIR. Thus, the increase in NDA will be 67 percent of the end-1991 stock of broad money. Ceilings on the expansion of NDA are a performance criterion. With the programmed increase in NDA, it is projected that credit to the non-government will grow by 78 percent during 1992. 2/

The NBR has moved to indirect methods of monetary control and away from bank-specific credit ceilings. In this regard, it is implementing the steps recommended by recent Fund technical assistance missions; reserve requirements and auctioning refinance credit have already been introduced. In order to increase the effectiveness of credit policy and to ensure that past losses of enterprises are not a burden on the financial system, Parliament adopted in February 1992 a law requiring that unserviceable debts to the banking system from prior to 1991 be replaced with special public debt accounts that are to be repaid by, inter alia, sales of state assets and the recovery of outstanding claims of enterprises.

To improve the efficiency of credit allocation and to provide incentives for financial savings, the authorities intend to rely on a flexible interest rate structure and to ensure that interest rates reflect market conditions. In 1991 some institutional rigidities, primarily concerning the Savings Bank (SLB), kept interest rates from responding to market forces. To increase directly the cost of funds for banks, the NBR raised its basic refinance rate in several steps to 28 percent per annum in January 1992; as a result bank lending rates moved from an average of 10-11 percent in April 1991 to 27-38 percent in February 1992. However, interest rates remained highly negative in real terms. The authorities intend to raise the basic rediscount rate to above the level of inflation in the most recent month for which data are available. Once it is clear that inflation is on a downward path, the interest rate would be set to ensure that it is positive in real terms with respect to expected inflation for the following 12-months.

In addition, the authorities intend to promote the demand for domestic financial assets, and to improve the functioning of domestic markets, particularly by making the SLB more responsive to market forces through restructuring. For now the authorities will require the SLB to pay positive

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1/ The program targets assume that cumulative inflation through March is 41 percent, through June 73 percent, through September 101 percent, and through December 115 percent.

2/ Most of this growth comes after the unwinding of the global compensation is completed in the first quarter and as external financing inflows lead to a build-up of medium- and long-term foreign liabilities.

real interest rates on term deposits. The largest commercial bank in Romania has begun to issue certificates of deposit and another bank is also preparing an issue. The interest rates on these instruments will also be increased to match those offered by the SLB.

4. Pricing and incomes policies

At the end of 1990 the Government began a major price liberalization program. In three steps, taken in November 1990, April 1991 and July 1991, the Government liberalized most prices in the economy. 1/ By the third quarter of 1991 the share of free prices in the total value of sales had risen to 83 percent for consumer products, 88 percent for the capital and intermediate goods, and 70 percent for raw and basic materials.

In November 1991 a further modification of the price regulations took place following exchange rate unification. Immediate increases in the prices of energy products (except some energy items for household use) were implemented to pass through the price effect of unification. However, to prevent monopoly producers of intermediate products from using their market power to raise prices excessively, the Government adopted Decision 776 which established rules for the setting of prices, allowable commissions and markups, and price ceilings for 35 basic raw materials (equal to international prices). Nevertheless, as part of a SAL, the World Bank intends to limit the scope and application of Decision 776. In the meantime, the authorities will proceed to liberalize in accordance with a specific schedule the remaining administered prices of 16 consumer products.

Incomes policy is the other main nominal anchor in the authorities' program, and a tax-based incomes policy along with an indexation/ compensation scheme has been implemented to restrain wages. The tax-based incomes policy applies to all state and private commercial enterprises, with the exception of enterprises with a majority of foreign ownership. This policy establishes punitive taxes (of up to 500 percent) if the total wage bill of an enterprise exceeds a reference wage bill. To moderate demands for wage increases, the Government adopted in November 1990 a wage compensation policy, whereby workers received a flat monthly wage supplement tied to the increases in consumer prices. On September 1, 1991, in agreement with trade unions, this policy was substituted by a forward-looking wage indexation scheme, by which forecasted inflation is used to adjust the wage level. The indexation coefficient being used since November 1991 is 0.5, 2/ and it will be adjusted periodically in consultation with trade unions depending partly on the deviation of actual inflation from that projected in the previous period; in any event, the Government will press to keep wage increases below the projected rate of inflation.

1/ For additional details see EBS/91/29 and EBS/91/117 (including Supplement 1).
2/ Since January 1, 1992, the coefficient has been applied to the reference wage bill instead of individual wages.

5. Exchange and trade policies

The exchange market in Romania was unified on November 11, 1991 and the formerly pegged official rate of lei 60 per U.S. dollar was abolished (Chart 1). This action left the exchange rate to be determined by market forces at the fixing in the interbank foreign exchange market, where the NBR and authorized commercial banks could participate. Foreign exchange bureaus could also participate in the foreign exchange interbank market through their authorized correspondent banks. 1/ The new system introduced in November required 100 percent surrender of foreign exchange receipts to the banking system for reasons of enhancing the development of the foreign exchange market; state-owned enterprises were required previously to surrender 50 percent of their foreign exchange receipts at the then official rate of lei 60 per U.S. dollar.

Partly as a consequence of delays in external financing the NBR and Romanian commercial banks were faced with a severe foreign exchange shortage in the first three months of 1992. In an effort to hold to the price scenario for wage negotiations, the NBR maintained the exchange rate at an overvalued level, forcing individual banks to ration foreign exchange. In circumstances of an overvalued exchange rate and negative real interest rates, export surrender was very limited while importers were experiencing delays in obtaining foreign exchange from the banking system. Meanwhile, in an effort to stem capital flight the NBR issued regulations that abolished access by the foreign exchange bureaus to the interbank market, and placed limits on purchases of foreign exchange by individuals through foreign exchange bureaus. This action led to the emergence of a wide spread between the bureau and interbank rates, giving rise to a multiple currency practice. Nevertheless, Romania managed to remain current on its external obligations in very difficult circumstances.

Recognizing the need to take urgent remedial actions and maintain their open trade and payments policy, the authorities have decided to change certain aspects of the exchange system. The exchange rate is to be determined in the interbank market by the interaction of supply and demand using a return to a classical fixing procedure, operating on a daily basis. 2/ The Government will allow the foreign exchange bureaus full access to the interbank market, thereby eliminating the multiple currency practice. The authorities indicated that foreign exchange intervention would be limited to smoothing operations and that external reserves would not be used to support an unsustainable exchange rate level; in any event, large-scale intervention by the NBR will not be consistent with the

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1/ These bureaus have been allowed since August 5, 1991, and include private sector operators.

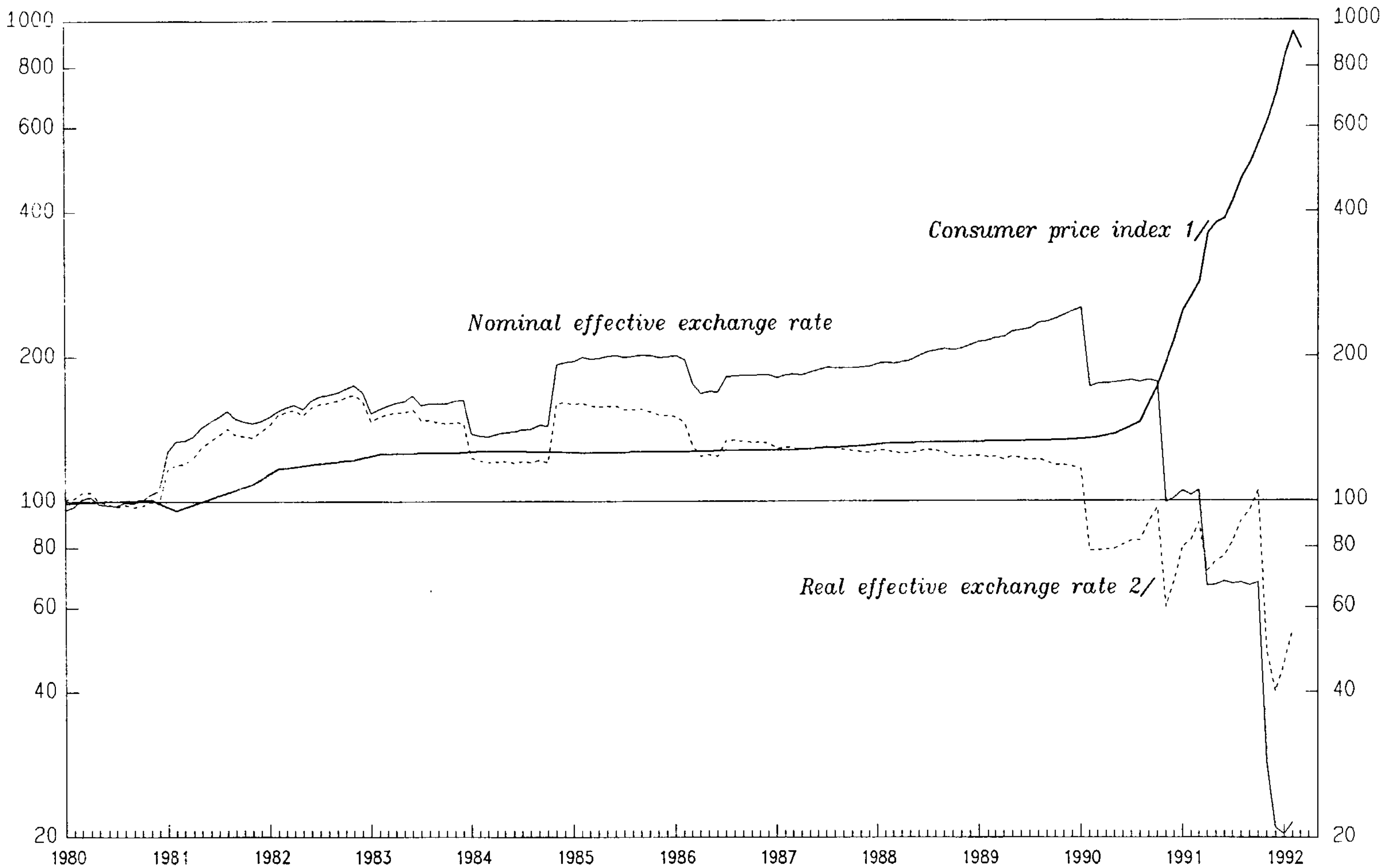
2/ It is envisaged that an NBR staff member will centralize buying and selling orders announced by open outcry and adjust the exchange rate in iteration until supply-demand balance.

CHART 1

Romania

Effective Exchange Rates and Consumer Prices

(1980=100)



Source: IMF, Information Notice System

1/ Seasonal adjusted.
2/ Trade-weighted index of nominal exchange rate deflated by seasonally adjusted consumer prices; increase indicates appreciation.

achievement of the NIR targets of the program. It is expected that the exchange rate will initially depreciate sharply.

Romania has also continued to liberalize its exchange system. All restrictions on invisible payments and transfers, including limitations on travel allowances and on the repatriation of profits, dividends and income, have now been eliminated. Romania's remaining exchange restrictions maintained under Article XIV are the restrictions arising under bilateral payments agreements with certain Fund members and the restrictions that remain pending the settlement of certain balances owed by Romania under the now defunct CMEA arrangements.

The trade measures for 1992 aim to build on the progress already made in liberalizing the trade system. In this regard, as described in more detail in the Memorandum on Economic Policies, a new tariff code considered more appropriate for Romania's adjustment strategy went into effect in early January 1992. All export quotas are to be eliminated by mid-1992, except for goods subject to price controls and subsidies, as well as a few products that are considered strategic items; as price controls and subsidies are eliminated so will the corresponding quotas. The Government will also eliminate by mid-year virtually all licensing requirements for import and exports.

6. Privatization, enterprise restructuring, and financial discipline

The Romanian authorities regard the privatization of state-owned assets as essential for building a market-based economy, strengthening the financial discipline of enterprises, and improving their productivity and efficiency. To this end, the Government has embarked on a massive program of privatization. This program involves a number of elements including transferring to the private sector, through sales or leases, state-owned equipment and structures, enterprises, housing, as well as land held by agricultural cooperatives. Some 6,000 state enterprises have been converted into commercial enterprises since September 1990. The remaining state enterprises (about 320), operating in sectors considered strategic and called "regies autonomes", will be converted into commercial enterprises later, except for natural monopolies, such as utilities.

In August 1991, the Parliament enacted a sweeping privatization law for the commercial enterprises. The share capital of each enterprises will be transferred in the proportion of 30 percent to five Private Ownership Funds (POFs) and 70 percent to the State Ownership Fund (SOF), which are to be established by July 1, 1992. Starting in May the certificates of ownership of the POFs will be distributed in bearer form, free of charge, to about 16.5 million Romanian citizens. These certificates can be traded in the stock market, which is in the process of being established, exchanged for shares in the commercial enterprises, or transformed into shares of mutual funds that will substitute the POFs after five years. The SOF is obliged to sell enterprises so that its holding of share capital is reduced by at least

10 percent per year. The SOF and each of the POFs are expected to reach agreements on management responsibilities, by which the POFs would be in charge of the restructuring and privatization of small- and medium-size commercial enterprises, while the SOF would be in charge of large enterprises. The privatization law also provides for the possibility of commercial companies selling up to 75 percent of the total value of their assets (shops, restaurants, hotels and tourist units, and other commercial units that can be organized and operated independently). Sales of around 4,400 commercial units began in February 1992, and a total between 400 and 800 are expected to be sold by mid-year.

In regard to private sector activity more generally, as of February 1992, 256,753 authorizations for private activity had been issued; of these, 97,408 were for private commercial enterprises, and the remaining were for private individuals or family partnerships. Of the commercial enterprises, 9,476 were joint ventures with foreign capital. It is estimated that about 20 percent of GDP is now generated by the private sector.

As a further component of its privatization strategy, the authorities have embarked on a program of selling state-owned housing units to the population. Out of a total stock of more than 2 million houses built by state companies, more than half have been sold to their tenants. In addition, the authorities have established a land reform program by which about 80 percent of all the agricultural land will be transferred to the private sector by end-1992. Presently about half of the arable land and 41 percent of the total agricultural land has been transferred to the private sector.

The price liberalization and economic reform measures underway will enable enterprises to make market-based decisions using profitability criteria. In the meantime, the Government is determined to enforce financial discipline on enterprises and prevent the re-emergence of inter-enterprise arrears. In this regard, several measures will be taken, including the establishment of a system to monitor the financial situation of enterprises on a monthly basis, early application of bankruptcy procedures, and the passage of a law by Parliament to combat the moral hazard problems that stemmed from the global compensation scheme. 1/

7. Energy policy

Currently, all energy prices are at world levels except for natural gas, which is about 30 percent below world prices, and some household energy prices. In the period 1990-91 the cumulative increase in the price of gasoline was 1,350 percent, diesel fuel 1,185 percent, heavy oil 800 percent, crude oil 1,100 percent, and natural gas 965 percent. As described in the attached Memorandum on Economic Policies (paragraph 27),

1/ For additional details see the attached Memorandum on Economic Policies, paragraph 32.

these prices are to be reviewed at least on a monthly basis to be kept in line with world prices (adjusted for the exchange rate and including all processing costs and taxes), and the prices of natural gas and energy products for household use will be brought gradually to world price parity.

The authorities' medium- and long-term energy policy is the same as described in EBS/91/29, with the following modification. The nuclear power plant investment project at Cernavoda, which is being built with Canadian technology, will be down-sized and funding discontinued for four units pending the completion of a satisfactory economic viability study. The ongoing rehabilitation program in the power sector, and the thermal- and hydro-power projects under construction by RENEL (the national electric energy enterprise) are expected to help to sustain electricity output.

IV. Balance of Payments Developments and the Medium-Term Outlook

1. Balance of payments in 1992

Romania's program for 1992 will have to be implemented in a difficult environment, and in framing the program the authorities expressed their desire to use conservative financing assumptions so as to avoid the risks associated with a potentially underfinanced program. After the severe import compression in 1991, the program provides for import volume to be about flat in the face of an expected decline in real economic activity, with some recovery of imports expected primarily for food and energy in addition to investment-related goods. The volume of exports is assumed to grow by 5 percent as the adjustment effort takes hold and significant gains in competitiveness through exchange rate and trade policy are achieved, despite the continued weak demand from the ex-CMEA countries and production difficulties. Taking into account these projections, in addition to little change in the terms of trade facing Romania, the merchandise trade deficit is assumed to be US$1.2 billion in 1992 compared with US$1.4 billion in 1991, while the current account deficit would narrow to US$1.3 billion from US$1.4 billion.

Official financing for the 1992 program is to come from several sources. The World Bank has indicated its intention to disburse US$450 million in the form of a Critical Imports Loan, a Health Sector Loan, and a SAL; US$330 million of this amount was originally scheduled to be disbursed in 1991. Bilateral project financing of US$100 million has been identified based on signed contracts. On the basis of indications by the EBRD and EIB, their disbursements are estimated at US$70 million. Another US$737 million is from disbursements on G-24 commitments made in 1991 (including US$100 million in cofinancing of the World Bank's SAL) of which about US$500 million had been made by mid-April. 1/

1/ US$250 million of this amount served to repay the 1991 bridge loan from the BIS that was unwound in January 1992.

For private capital inflows, suppliers' credits (mostly for investment-related goods) are projected to increase by US$300 million in 1992--well within existing commitments from export guarantee agencies--while direct investment increases substantially to US$200 million. 1/ Short-term credits (net, and including errors and omissions) are expected to decline, reflecting in part a reduction in outstanding balances in U.S. dollars with the former U.S.S.R.

The stock of international reserves had fallen to US$226 million at the end of 1991, a level, equivalent to less than three weeks of imports, which is clearly inadequate. 2/ Consequently, one of the priorities of the 1992 program is to restore these international reserves to at least US$726 million, or about 1.7 months of imports. Targets for the minimum increase in net international reserves will be a performance criterion. Meeting this objective, after taking into account the repurchase because of the overcompensation under the oil element of the CCFF, implies an overall financing need of US$664 million. This need is expected to be met from purchases from the Fund in an amount equivalent to US$484 million (with access of 50 percent of quota in 1992 under the proposed stand-by arrangement, and a new purchase under the oil element of the CCFF that could provide another 14.7 percent of quota), and financing of US$180 million from the G-24. Indications are that the required G-24 financing is likely to materialize, as some creditors already have given positive signals. In addition to information received from individual creditors during the March mission to Bucharest, country representatives at the EC/G-24 Brussels Network meeting on April 15, 1992, while not in a position to specify exact amounts, did indicate that the request for Romania was reasonable. The next EC/EC-24 Brussels Network meeting for Romania that is scheduled to be held on May 15 should indicate pledged amounts; the EC is likely to provide funds for about half the required G-24 financing. The staff's view is that we will have adequate financing assurances by the time of the Board meeting, given the indications received and what can be expected at the upcoming G-24 meeting.

1/ The Memorandum on Economic Policies describes the Government's efforts to attract foreign direct investment.

2/ These reserves are defined as the gross liquid reserve assets of the NBR (including US$100 million in gold) plus net assets of the commercial banks, with a downward adjustment of around US$250 million for the NBR liability incurred from the BIS bridge loan.

2. <u>The medium-term outlook</u>

It is important to note that the degree of uncertainty that attaches to medium-term projections for Romania continues to be greater than usual, given the extent of major policy shifts and the magnitude of the transformation that is taking place, both in Romania and in the ex-CMEA area overall. The medium-term scenario, in line with the authorities' policy priorities, targets a broadly sustainable external current account and an accumulation of reserves to the equivalent of more than three months of merchandise imports from 1994 onwards. The medium-term scenario, however, points to the need for additional external financing if these objectives are to be met, as suggested by the financing gaps that persist throughout the projection period.

The medium-term balance of payments is set in a framework whereby the economy moves steadily but gradually to a growth rate of 5 percent a year in 1996-97, with gross fixed domestic investment also increasing steadily and reaching 24.5 percent of GDP in those years (Table 10). As the use of foreign savings is projected to fall in the medium-term, this higher level of investment would be financed by the domestic savings effort. At the same time, consumption is projected to decline from about 80 percent of GDP in 1992 to 77 percent by 1997, while real per capita consumption is expected to rise steadily. The fiscal position is projected to strengthen steadily to reach balance in 1997, reflecting the introduction of the new taxes in 1993 and 1994, and gradual elimination of most subsidies.

The path of the external current account is based on the structural transformation of the economy, improved price incentives, and tight financial policies. Export volume growth is expected to improve steadily, from 5 percent in 1992 to 10 percent a year in 1996-97. Projected import growth is related to GDP growth; the income elasticities of demand for import volume are assumed to fall from around 2¼ in 1993 to about 1.2 in 1996-97, as the expected effects of exchange and trade liberalization are completed and pent-up demands taper off. In this scenario, assuming little change in the terms of trade, the external current account deficit declines from 7.5 percent of GDP in 1992 to 5.6 percent in 1997. Direct foreign investment is assumed to increase steadily, by US$100 million per year to reach US$700 million in 1997. The authorities' efforts to open up the economy to such investment, the potential to absorb large amounts of direct investment, and the low starting point, support this projection.

Medium- and long-term capital inflows are projected to grow on average by US$200 million per year after 1993. Thus, projected inflows are

US$1.7 billion in 1993, and rise to US$2.5 billion in 1997. 1/ The projected inflows from multilateral institutions include World Bank lending of US$400 million a year in 1993-94, rising to US$500 million in the later three years; lending operations of the EBRD and EIB are assumed to increase from US$100 million in 1993 to US$300 million in 1997. Lending from bilateral sources is expected to take the form of both project lending and suppliers' credits (mainly guaranteed export credits for imports of investment goods), increasing on average by about US$100 million per year to US$1.2 billion in 1997. The projections assume moderate increases in lending from private sources to US$300 million in 1996-97.

As Romania had repaid by 1989 its entire medium- and long-term debt, and borrowing in 1991-92 was relatively small, except from the Fund, sizable payments do not begin to appear until 1995, given the grace period on many credits. Projected amortization payments (excluding Fund repurchases) rise to US$0.4 billion in 1995 and then to US$0.9 billion in 1996-97, compared with less than US$0.1 billion in 1993-94. However, the projections broadly indicate a tendency of the debt service and debt-to-GDP ratios to stabilize by the latter two years.

3. Capacity to service obligations to the Fund

Romania will face significant risks in achieving medium-term viability, and the medium-term outlook contains financing gaps throughout the period. The envisaged current account deficits, although declining in terms of GDP from 1993 on, would be relatively large, which underscores Romania's need for continued access to external finance from many sources in response to strong implementation of the reform program. In terms of technical indicators, the debt service ratio increases to around 26 percent of exports of goods and services in 1996 before falling to 21 percent in 1997 as Fund repurchases fall significantly, while the ratio of external debt to GDP grows to around 40 percent in 1995-97 (Table 9).

Risks stemming from nonpayment of debt service are reduced, however, by the fact that the medium-term outlook calls for international reserves to rise quickly, increasing to almost 3 months of imports by end-1993 and then rising again and remaining around 3½ months of imports from 1994 on. It should nevertheless, be noted that the Fund's position is vulnerable in view of Romania not meeting the repurchase expectation and the uncertainties inherent in the medium-term and the large share of the debt service that is due to multilaterals. Capital inflows in the out-years are not assured, and

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1/ It is to be noted that inflows in 1993 are about US$0.5 billion higher than those in 1992 when G-24 financing is excluded. This increase reflects US$0.2 billion in higher project financing (based on projects currently being negotiated), US$0.2 billion in increased borrowing from commercial banks (from virtually zero before and in line with the authorities' borrowing plans), and US$0.1 billion in higher suppliers' credits (within existing commitments).

the authorities must stand ready to adjust policies should shortfalls in these inflows occur.

Technical indicators of the debt-service burden stemming from Fund purchases (Table 9) show that in 1995, the peak year of debt servicing to the Fund, repurchases and charges would amount to SDR 321 million, equivalent to 61 percent of quota, 20.5 percent of international reserves, and about 32.5 percent of total debt service obligations, all of which are relatively high; payments due to the Fund in 1995 would be about 6.5 percent of current account receipts. By 1997, however, these ratios would fall, to 24 percent, 6.4 percent, 9.3 percent and 1.9 percent, respectively. Furthermore, in the three years that follow, debt servicing to the Fund would fall to SDR 65.5 million (12.5 percent of quota), SDR 46.4 million (8.8 percent of quota) and SDR 9.5 million (1.8 percent of quota), respectively; these amounts would represent about 1 percent, ½ percent and virtually zero percent of receipts from goods and nonfactor services.

On the basis of a continued commitment on the part of the authorities to the adjustment process, and assuming reasonable levels of access to external financing on appropriate terms, it continues to be expected that in the medium-term Romania will be current in its financial obligations to the Fund. 1/

V. Compensatory Financing under the Oil Element of the CCFF

The Government of Romania intends to request, once the repurchase expectation on an earlier drawing under the CCFF is effected, a new purchase of SDR 76.8 million (14.7 percent of quota) under Section V of the Decision on the CCFF (Decision No. 8955-(88/126), adopted August 23, 1988 as amended). The new purchase would be with respect to an excess in oil import costs for the excess year ended September 1991, for which actual data are available for the full 12-month period, and would take into account double compensation arising from earlier purchases.

Using the actual data through September 1991, a compensable import cost excess of SDR 147.2 million is indicated (Table 11). The relevant calculations are based on WEO projections for crude oil and natural gas prices (as of end-March 1992) as well as projections developed in collaboration with the authorities during the mission in March 1992 of import volumes for the two post-excess years (October 1991-September 1993). As described above, Romania will have SDR 94.3 million outstanding under the

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1/ Under the centrally-planned regime, Romania incurred arrears to the Fund in 1986. A complaint under section K-1 was issued in August 1986, and the arrears were cleared in November 1986. Arrears were also incurred to the World Bank in 1986-87. Until the recent purchases under the CCFF and the 1991 stand-by arrangement, Romania had not used Fund resources since January 1984. Debt to the World Bank had been pre-paid in full by July 1989.

oil element of the CCFF, once the repurchase expectation of SDR 153.4 million under the earlier drawing is effected. In order to avoid double compensation in accordance with paragraph 7 of the CCFF decision, 75 percent of this outstanding amount (reflecting the 9-month overlap between the October-September excess year under the current request and the July-June excess year under the previous request) has been subtracted to arrive at the net compensable amount of SDR 76.8 percent of quota (14.7 percent of quota). Actual data are used for the full excess year, compared to using six months of estimated data for the previous requests. Price and volume data for the excess year are therefore known and no expectation of a prompt repurchase could arise from the proposed new purchase. 1/

The import costs excess of SDR 147.5 million is comprised of an excess of SDR 86.1 million on account of net oil imports and an excess of SDR 61.4 million on account of natural gas imports, both fully attributable to higher import prices. The prices of crude oil and natural gas in the 1991 excess year (year ended September 1991) were significantly higher than in 1990 (by 13.9 and 49.0 percent, respectively), notwithstanding the fact that since January 1991 oil prices have declined significantly. Prices for both crude oil and natural gas in the two post-excess years are projected to be substantially lower than their 1991 average.

Import volumes contracted sharply during the excess year, in line with the decline in economic activity, the closing of energy intensive plants, and shortfalls in external financing. Import volumes are projected to pick up during 1992 and into 1993 from the extremely low levels in the last half of 1991, reflecting projected larger amounts of external financing and growing economic activity (mainly in 1993). However, on the basis of the excess years ending in September, the quarterly projections imply import volumes for the first post-excess year as a whole that decline when compared to the excess year; volumes then increase significantly in the second post-excess year.

The recent developments in Romania's export earnings and balance of payments are described earlier in this report and in the Memorandum on Economic Policies. As shown in Table 11, a substantial shortfall is calculated in exports (excluding oil and re-exports) for the year ended September 1991. Because this shortfall arose largely from a major and permanent change in the economic regime, it is not proposed that the CCFF request include compensation for this export shortfall, the same approach taken in the first request by Romania and in requests by other countries in Eastern Europe. Romania's energy policies are described in Section III.7 of

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1/ A detailed description of Romania's energy sector and developments in petroleum imports before 1991 was provided in EBS/91/29. Because the excess year and the two corresponding pre-excess years for the current request almost coincide with those described in that document, this section concentrates on developments in the excess and later years.

this report, which underscores the Government's policy of fostering greater energy efficiency through appropriate pricing.

At the time of Romania's previous request for compensatory financing under the oil element of the CCFF, the Executive Board agreed that Romania met the test of cooperation under paragraph 49 (c)(i) of the CCFF decision. Shortfalls in external financing during 1991 (totaling more than US$1 billion) were largely responsible for some performance criteria not being observed, for which waivers were granted, 1/ and the resulting low level of foreign exchange reserves prevented the authorities from effecting the prompt CCFF repurchase. Nevertheless, the authorities are committed to continuing their policy to restructure the economy while maintaining financial stability in support of which a stand-by arrangement is being proposed. In addition, the repurchase is expected to take place shortly.

VI. Prior Actions, Performance Criteria, Review, and Schedule of Purchases

The authorities are committed to taking the following actions by the time the proposed arrangement is approved by the Executive Board: a substantial increase in interest rates and the submission to Parliament of a draft law to improve enterprise financial discipline.

The quantitative performance criteria for monitoring performance under the proposed arrangement are: (i) quarterly floors for the cumulative change in net international reserves in convertible currencies of the banking system; (ii) quarterly ceilings on the cumulative change in the net domestic assets of the banking system; (iii) quarterly ceilings on the cumulative change in net bank credit to the general government; and, (iv) quarterly ceilings on the contracting or guaranteeing of new medium- and long-term external debt by the public sector. The proposed performance criteria are presented in Table 3 and the schedule of purchases in Table 4.

Progress under the program is to be reviewed before October 15, 1992. Thus, the third purchase under the arrangement will be subject to observance of the end-September performance criteria and completion of the midterm review. This review will focus on the pace of structural reforms, especially in the areas of enterprise reforms, price liberalization, privatization, and financial sector reforms (see Memorandum on Economic Policies, paragraphs 26 through 32). Monetary and fiscal policy performance, wage developments, interest rate behavior, external financing, and the functioning of the exchange market will also receive attention.

1/ As discussed previously, end-December performance criteria on NDA and NIR were not observed and Romania was not able to make the last purchase under the arrangement.

VII. Staff Appraisal

The Government of Romania is committed to a strategy of reform designed to rapidly transform the economy into a market-based system. Towards this end, the Government has developed and implemented a wide-ranging legal and institutional framework to establish the central role of private ownership and decision-making. In this new environment the role of the Government is expected to be reduced substantially, in contrast to the virtually absolute control it exercised over the economy prior to 1990. Recognizing that macroeconomic stability is essential to its reform program, the Government adopted in 1991 an adjustment program aimed at correcting and containing domestic and external imbalances.

The achievements of the reform program to date have been impressive. Most prices have been liberalized and controls apply now only to a small list of products considered essential in the consumption basket of the population. All quantitative restrictions on imports have been removed, and only relatively low tariffs are employed to protect domestic industries. Enterprises and labor are free to determine wages through collective bargaining although, for stabilization purposes, the Government can restrict overall wage increases. The financial system has been deregulated and banks are free to operate within the normal supervisory and regulatory limits defined by the NBR. All citizens have been given the right to establish businesses, to compete freely in the market, and to acquire, retain, and dispose of property. Finally, the Government has been proceeding rapidly in transferring state assets--farmland, housing, and shares in state enterprises--to the population.

There was less success on the stabilization front. Output and the stock of international reserves were much lower, and the rate of inflation much higher, than had been expected. Domestic factors, in particular the continuing disorganization of the economic system and an inability to restructure the enterprise sector, were partly responsible for this result, but the economy was also hit hard by the collapse of CMEA trade and by difficulties in trade with Middle East countries in the wake of the Gulf crisis. Also, there were significant delays and shortfalls in external financing. Program policies, even though conditioned on a more favorable international environment and adequate external financial support, were adhered to for most of the year. Eventually the economy could not absorb the strains and the Government was forced to ease policies, thereby leading to a breach of the end-December performance criterion on NDA; the shortfall of external financing contributed to the non-observance of the end-December performance criteria on NIR.

The Government is determined to achieve macroeconomic stability, both as an end in itself and to provide the appropriate foundation for its continuing reform efforts. As such, and drawing on the experience of 1991, it has designed a strong and comprehensive adjustment program for 1992 that is designed to contain the decline in real GDP, lower the rate of inflation sharply, and rebuild international reserves.

A strict fiscal policy will be a cornerstone of the Government's attempt to achieve macroeconomic stability and to build credibility for its program. Thus, the budget for 1992 aims to keep the deficit below 2 percent of GDP. This target will represent a substantial effort, since revenues are expected to be affected adversely by the decline in real GDP and there will be significant pressures on expenditures. The staff supports the Government's fiscal objectives, and attaches importance particularly to its readiness to implement a set of contingency revenue measures in order to protect these objectives. At the same time, subsidies remain higher than the level called for on social safety net grounds. The staff agrees with the Government's plan to reduce both consumer and enterprise subsidies over the course of the program period, and to replace these with a well-targeted system of transfers to protect the most vulnerable groups, although it would urge the authorities to move faster in this direction.

Monetary policy will serve, along with wage policy, as the main nominal anchor in the system to bring down inflation sharply. The staff considers the Government's target of a monthly rate of inflation of 1-2 percent by the end of 1992 as difficult but necessary. To achieve this target, and on the assumption that velocity would initially rise further, the Government will conduct its monetary program to keep the growth of money significantly below the evolution of nominal income. Monetary policy will no longer be conducted through bank-specific credit ceilings; instead, the Government will rely in 1992 on indirect methods of monetary control. The staff supports this shift in operating procedure, which is consistent with a market-oriented approach towards monetary policy.

On April 1, 1991, the Government deregulated all interest rates as part of the financial system reform. In spite of these reforms, interest rates subsequently showed little movement, and remained highly negative in real terms. This is largely due to the fact that the Savings Bank has exploited its monopoly position as a deposit-taking institution and has remained reluctant to increase interest rates. The staff agrees with the Government that restructuring of the Savings Bank to make it more responsive to market forces is necessary; in the meantime, direct intervention to move interest rates upward is in order.

The exchange system after unification in November 1991 has not been functioning as envisaged. The lack of foreign exchange reserves has created expectations of sharp depreciations of the interbank rate, with the attendant adverse impacts on the price level, wages, and capital flows. To protect the economy from extreme volatility, the Government in the last few months has maintained the exchange rate administratively. This policy has contributed to the emergence of a wide spread between the rates in the foreign exchange bureaus and the interbank market. Recognizing that the current exchange rate policy is not sustainable, the Government has decided to return to the auction system, and furthermore allow foreign exchange bureaus full access to the interbank market. This change should eliminate the dual exchange system and the ensuing multiple currency practice and will likely imply a large depreciation of the interbank rate initially. In view of the clear timetable for the elimination of this multiple currency practice, the staff recommends its temporary approval under Article VIII. The staff believes that the initial depreciation is a cost that will need to be absorbed by the economy, and that a single floating rate with intervention limited to smoothing operations is the appropriate system in Romania's current circumstances and one that is consistent with the maintenance of an open trade and payments policy. In this context, the staff further welcomes the authorities' decision to eliminate most export quotas by mid-year.

Wage policy is the second main nominal anchor to control inflation. The authorities are determined to keep wage increases in check and have reached agreement with trade unions on a forward-looking wage indexation policy. The coefficient of indexation has been initially set at 0.5, but will be adjusted periodically over the year in consultation with the trade unions. In addition, a tax-based incomes policy is being pursued, setting punitive taxes (reaching a maximum of 500 percent) on enterprises when the wage bill exceeds a reference wage bill that takes into account the economic performance of each enterprise.

One of the lessons of 1991 was that enterprise reform is the key to both the successful transformation of the economy and the achievement of macroeconomic stability. Unfortunately, enterprise restructuring has not been as rapid as hoped and financial discipline of enterprises was lax in 1991. Under the global compensation law enacted by Parliament in December 1991, banks were instructed to expand credit to clear inter-enterprise arrears that had been rapidly built up during the year, causing the breach of the performance criterion on net domestic assets for end-December 1991. It is important to note, however, that the NBR sterilized most of the liquidity injected into the economy as a result of the global compensation scheme in the early part of this year. In addition, the Government has submitted a draft law to Parliament to impose strong financial discipline on enterprises; firms can be declared insolvent if they do not meet their obligations within 30 days, and must reach an arrangement with their creditors or be subject to bankruptcy proceedings. The staff believes that passage and enforcement of this law is essential to reduce the moral hazard problems stemming from the global compensation. Furthermore, it supports the Government's intention to establish, with support from the World Bank, a system to monitor the financial situation of enterprises on a monthly basis, including inter-enterprise arrears. The authorities regard privatization of state-owned enterprises as the best approach to enterprise reform, and the capital of commercial enterprises is in the process of being transferred to the public via the Private Ownership Funds.

In framing the program for 1992, the Government has adopted conservative external financing assumptions so as to avoid the risks associated with a potentially underfinanced program and a repetition of the problems experienced with delays and shortfalls in 1991. As a result of stronger adjustment measures, the need for exceptional financing has been reduced from US$1 billion in 1991 to US$180 million in 1992. A request has been made to the G-24 by the Government, and efforts are underway to secure firm commitments for this amount. Given the achievements to date on the reform front, and the ambitious adjustment and reform plans of the authorities, Romania is clearly deserving of international support.

The staff considers the adjustment program for 1992 ambitious yet essential if Romania is to establish a stable macroeconomic environment. If implemented properly it should achieve the basic objectives the Government has set itself. For this reason, the staff recommends approval of Romania's request for a 10-month stand-by arrangement in the amount of SDR 314.04 million (60 percent of quota). Given the overall strength of the program, the upfront measures on interest rates and financial discipline being undertaken, and the corrective policy adjustments in relation to the non-observance of end-December 1991 performance criteria, the staff considers the proposed access and the phasing of purchases to be appropriate. It is unusual, but permissible given that the nonfulfillment of the expectation does not represent an overdue obligation to the Fund, for the Board to consider a request for further use of Fund resources while a repurchase expectation remains outstanding. The delay in the repurchase can be explained by Romania's very low level of international reserves which stemmed, in large part, from shortfalls of disbursements from official financing that had been committed for 1991. The authorities have given assurances that Romania will complete the repurchase expectation as soon as possible through all possible means. The staff expects that the repurchase expectation will be met no later than June 30, 1992.

The authorities also intend to request, following completion of the repurchase expectation of the overcompensation on an earlier drawing under the oil element of the CCFF (SDR 153.4 million, 29.3 percent of quota), financial support under the CCFF in an amount equivalent to SDR 76.8 million (14.7 percent of quota), on the basis of an oil excess for the year ending September 1991. This excess is beyond the authorities' control and temporary in nature, and Romania is following appropriate energy and macroeconomic policies meets the test of cooperation; accordingly the staff would support the authorities' intended request for compensatory financing under paragraph 49(c)(i) of the CCFF decision.

It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

VIII. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

1. 1992 Consultation

a. The Fund takes this decision relating to Romania's exchange measures subject to approval under Article VIII, Section 2(a) and 3 and in concluding the 1992 Article XIV consultation with Romania, in the light of the 1992 Article IV consultation with Romania conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

b. Romania's restrictions on payments and transfers for current international transactions are maintained under the transitional arrangements of Article XIV, Section 2 as described in EBS/92/79, and SM/92/--, except that the multiple currency practice arising from the dual exchange market system is subject to approval under Article VIII, Sections 2(a) and 3. In the circumstances of Romania, the Fund approves the multiple currency practice until October 15, 1992, and encourages Romania to eliminate the remaining exchange restrictions maintained under Article XIV, including the restrictive features of bilateral payments agreements with Fund members, as soon as circumstances permit.

2. Stand-by Arrangement

a. The Government of Romania has requested a 10-month stand-by arrangement in an amount equivalent to SDR 314.04 million.

b. The Fund approves the stand-by arrangement set forth in EBS/92/79.

c. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 1. Romania: IMF Position
During Period of the 1992 Stand-By Arrangement 1/

	1992			1993
	May-June	July Sept.	Oct.-Dec.	Jan.-April
	(In millions of SDRs)			
Transactions under tranche policies				
Purchases 2/	157.02	52.34	52.34	52.34
Transactions under special facilities 3/				
Purchases	76.80	--	--	--
Repurchases	153.40	--	--	--
Total Fund credit outstanding (end of period)	646.22	698.56	750.90	803.24
Under tranche policies	475.12	527.46	579.80	632.14
Under special facilities 3/	170.10	170.10	170.10	170.10
	(In percent of quota)			
Total Fund credit outstanding (end of period)	123.47	133.47	143.47	153.47
Under tranche policies	90.78	100.78	110.78	120.78
Under special facilities 3/	32.69	32.69	32.69	32.69

Source: Staff estimates.

1/ Projections.
2/ All purchases are from ordinary resources.
3/ Compensatory financing under the oil element of the CCFF.

Table 2. Romania: Quantitative Performance Criteria
Under the 1991 Stand-by Arrangement 1/

	April 30, 1991		June 30, 1991		September 30, 1991		December 30, 1991	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual
	(In millions of lei)							
Cumulative increase in net domestic assets of the banking system 2/	27,800	20,747	52,100	61,956	101,000	99,005	96,000	522,049
Cumulative change in net credit of the banking system to the general government 2/3/	4,800	-5,981	7,400 4/	2,780	23,200 4/	7,500	43,200 4/	16,282
Cumulative change in nonbank financing of the general government 2/	--	--	--	--	--	--	7,000	--
	(In millions of U.S. dollars)							
Minimum cumulative change in net international reserves in convertible currencies of the banking system	--	-698	-200	-852	-1,150	-1,105	-600	-822
Contracting or guaranteeing by the public sector of new external debt 2/								
1-5 years maturity	2,500	200	2,500	632	2,500	863	2,500	863
1-12 years maturity	3,500	200	3,500	650	3,500	881	3,500	1,578

Sources: EBS/91/29 (3/7/91); and data provided by the Romanian authorities.

1/ Cumulative changes relative to December 31, 1990. All definitions as in Attachment to EBS/91/29 (3/7/91).
2/ Ceiling.
3/ Excluding bank holdings of government bonds issued to replace unserviceable bank loans outstanding as of end-December 1990.
4/ To be reduced by any cumulative (relative to end-December 1990) borrowing from domestic non-bank sources in excess of lei 7,000 million.

Table 3. Romania: Quantitative Performance Criteria
Under the Proposed Stand-By Arrangement 1/

	Dec. 1991 Est. stock	1922 June	September	December
Cumulative change in the net domestic assets of the banking system (in billions of lei) 2/3/	1,010	524	723	694
Change in net bank credit to general government (in billions of lei) 2/ 3/	-82	3.8	25.5	110.0
Change in net international reserves of the banking system (in millions of U.S. dollars) 3/ 4/	-89	26	151	476
Contracting or guaranteeing of 1-12 year external debt (in billions of U.S. dollars) 2/ 3/	...	3.5	3.5	3.5
Contracting or guaranteeing of 1-5 year external debt (in billions of U.S. dollars) 2/3/	...	2.5	2.5	2.5

Source: Program projections.

1/ Definitions and adjustments to the performance criteria are described in the appendices to the Memorandum on Economic Policies.
2/ Ceiling.
3/ Cumulative flow from December 1991.
4/ Floor.

Table 4. Romania: Schedule of Purchases
Under the Stand-By Arrangement

Amount	Scheduled Availability Date	Conditions Necessary for Purchase 1/
SDR 157.02 million	Early June, 1992	Board approval of stand-by arrangement
SDR 52.34 million	On or after August 15, 1992	Compliance with quantitative performance criteria as of June 30, 1992
SDR 52.34 million	On or after November 15, 1992	Compliance with quantitative performance criteria as of September 30, 1992 and completion of program review
SDR 52.34 million	On or after February 15, 1993	Compliance with quantitative performance criteria as of December 31, 1992

1/ Apart from standard performance criteria and other conditions specific in the stand-by arrangement, including criteria on the exchange and trade system and the clause on arrears to the Fund.

Table 5. Romania: Selected Economic Indicators

	1989 Actual	1990 Actual	1991 Initial Program	1991 Revised Board	1991 Latest Estimates	1992 Program
			(Percentage change)			
GDP at constant prices	-5.8	-7.4	--	-5.0	-13.0	-5.0
Consumer/retail prices (end of period)	...	...	103.5	160.0	222.8	115.0
Consumer/retail prices (average) 1/	0.9	4.7	121.5	162.9	161.1	180.0
Real wage (average)	3.1	5.6	-25.0	-25.0	-14.2	...
(end of period)	...	...	...	...	-11.8	...
			(In thousands)			
Unemployment (end of period)	...	...	...	...	337.5	1,500
(unemployment rate)	...	...	...	...	2.9	14.0
			(Percentage of GDP)			
Fiscal Balance						
Balance 2/	8.4	0.1	-1.5	-2.4	-2.6	-2.0
Revenues 2/	51.1	37.7	28.1	29.3	32.4	33.5
Expenditures 2/	42.7	37.6	29.6	31.7	35.0	35.5
			(Percentage change)			
Broad Money	5.6	17.3	15.0	15.0	94.4 3/	88.1
			(In billions of U.S. dollars unless otherwise indicated)			
Imports 4/	3.4	5.4	7.0	6.2	4.9	5.1
Exports 4/	6.0	3.6	5.4	3.9	3.5	3.9
External current account 4/	2.9	-1.7	-1.7	-2.4	-1.4	-1.3
(percent of GDP)	13.1	-8.0	...	...	-6.7	-7.5
Gross external debt 4/	0.8	0.9	3.2	3.2	1.8	3.9
Foreign exchange reserves 5/	2.0	0.5	1.0	0.8	0.2	0.7
(in months of merchandise imports) 4/ 5/	6.9	1.1	1.7	1.5	0.5	1.7
			(Percentage change)			
Nominal effective exchange rate (end of period)	13.9	-25.8	...	...	-79.3	...
Real effective exchange rate (end of period)	-3.7	-38.4	...	...	-40.7	...
Currency/$US dollar (end of period)	14.5	34.7	...	...	189	...

1/ Weighted average of prices of goods and services sold by the state enterprises and cooperatives and prices at the free peasant markets through end-1990; CPI after.
2/ General government; excluding the counterpart of the writeoffs of unserviceable loans to state enterprises and cooperatives against government bank deposits in 1989 and 1990; values for 1991 and 1992 are not directly comparable because of changes in program definition.
3/ At constant end-1990 exchange rates.
4/ Convertible currencies.
5/ Including commercial banks, net of their short-term liabilities.

Table 6. Romania: Summary of General Government Finances, 1990-92

(In percent of GDP)

	1990	1991 Initial program	1991 Revised program	1991 Estimated Outturn Old def. 1/	1991 Estimated Outturn New def. 2/	1992 Programmed
Total revenue	37.7	28.1	28.8	32.4	35.1	33.5
Tax	35.4	26.1	28.2	31.5	34.2	33.3
Nontax	2.0	1.9	0.6	0.6	0.6	0.5
Capital and grants	0.3	--	--	0.3	0.3	0.1
Total expenditures	37.6	29.6	31.2	35.0	36.2	35.5
Current expenditures	29.7	22.8	25.6	30.6	31.8	31.4
Goods and services	11.7	8.4	10.9	13.3	13.7	12.0
Interest payments	--	0.5	0.4	--	--	0.1
Subsidies and transfers	18.0	14.0	14.3	17.3	18.1	19.3
Transfers 3/	10.8	9.5	8.5	10.0	10.8	12.1
Subsidies	7.2	4.5	5.8	7.3	7.3	7.2
Capital expenditures	7.8	2.6	3.2	4.4	4.4	4.0
Other expenditures	0.1	4.1	2.4	--	--	--
Lending minus repayments	--	--	--	--	--	--
Overall balance	0.1	-1.5	-2.4	-2.6 4/	-1.1	-2.0
Financing	-0.1	1.5	2.4	2.6	1.1	2.0
Domestic bank	-0.1	1.1	2.1	2.6	1.1	2.0
Domestic nonbank	--	0.4	0.3	--	--	--
Foreign	--	--	--	--	--	--
Memorandum items:						
Overall balance including debt writeoffs 5/	-27.0	-1.0	--	--	--	--
Balance on extrabudgetary funds included in 1992 program	--	--	--	1.5	--	-0.4

Sources: Data provided by the Romanian authorities; and program projections.

1/ Definition of consolidated general government used in 1991 program; includes central and local government, social security fund, and supplementary pension fund.

2/ Expanded definition of consolidated general government used for 1992 program; includes also Unemployment Fund, Research Fund, Health Fund, and Education Fund.

3/ Expenditures of the social insurance fund and the supplementary social insurance fund for the state sector, including pensions. Other social insurance funds are outside the budget.

4/ Deficit on cash basis. After adjustment for clearance of tax arrears in 1991 following global compensation, the fiscal deficit equals 0.8 percent of GDP.

5/ Writeoffs of unserviceable bank loans to state enterprises and cooperatives against government deposits, in 1990.

Table 7. Romania: Monetary Survey 1990-92

	1990	1991	March 1992	June 1992	Sept. 1992	Dec. 1992
				Projection 1/		
	(In millions of lei at end of period)					
Net international reserves 2/	40	23	23	48	103	240
Net domestic assets	474	1,010	1,296	1,533	1,733	1,703
Of which:						
Credit to non-government	684	1,375	1,437	1,913	2,235	2,447
Net credit to government 3/	-65	-82	-112	-78	-56	28
Medium and long-term foreign liabilities	--	-18	-74	-233	-339	-650
Broad Money	514	1,033	1,318	1,582	1,836	1,944
	(Percentage change related to broad money from end of preceding year)					
Net domestic assets	...	106.8	27.7	50.7	70.0	67.1
Of which:						
Credit to non-government	...	134.4	6.0	52.1	83.3	103.8
Net credit to government 3/	...	3.9	-2.9	0.4	2.5	10.6
Broad money	...	100.8	27.6	53.1	77.0	88.1
	(End of period)					
Velocity of broad money 4/	2.2	3.1	3.4	3.5	3.5	3.5

Source: National Bank of Romania and program projections.

1/ Foreign currency amounts converted into lei at accounting exchange rates.
2/ Including the counterpart of resident foreign currency deposits.
3/ Program definition under the 1992 SBA.
4/ Estimated/projected nominal GDP divided by broad money.

Table 8. Romania: Balance of Payments, 1989-92

(In millions of U.S. dollars)

	1989 1/	1989 2/	1990 1/	1990 2/	1991 3/4 Prog.	1991 3/ Est.	1992 Prog.
Trade account	-509	2,559	-1,601	-1,743	-2,253	-1,357	-1,193
Exports, f.o.b.	4,522	5,965	2,406	3,364	3,900	3,533	3,895
Imports, f.o.b.	5,031	3,406	4,007	5,107	6,153	4,890	5,088
Services	159	305	-3	87	-140	-12	-155
Freight/insurance	47	24	-23	-208	-154	-149	-147
Travel, net	45	87	-15	18	10	-1	10
receipts	80	87	47	59	100	101	121
payments	35	--	62	41	91	102	112
Interest income	56	24	23	137	-75	-8	-68
receipts	62	119	32	142	40	81	51
payments	6	95	9	5	115	89	119
Other services	11	170	-18	139	79	146	50
Current account	-350	2,864	-1,598	-1,656	-2,393	-1,369	-1,348
Capital account	181	-1,510	1,069	10	793	547	1,644
DFI	--	--	--	-18	100	37	200
MLT	-4	-1,703	-22	80	930	261	1,807
Receipts	88	26	--	33	840	133	1,757
IBRD	--	--	--	--	330	--	450
Other multilateral	--	--	--	--	--	--	70
Bilateral	88	--	--	33	100	--	837 5/
Banks	--	--	--	--	100	--	--
Official suppliers' credits	--	26	--	--	310	133	400
Payments	92	1,646 6/	4	--	30	13	50
Bilateral	92	...	4	--	30	13	50
Other	--	...	--	--	--	--	--
Other MLT, net	--	-83	-18	47	120	141	100
Short term, net 7/	185	193	1,091	-52	-237	249	-363
Exceptional financing	--	--	--	--	1,000	0	180
Overall balance	-169	1,354	-529	-1,646	-600	-822	476
Financing	169	-1,354	529	1,646	600	822	-476
Reserve assets	--	-1,111	--	1,646	-500	-188	-500
IMF	--	-243	--	--	815	805	265
IBEC and other balances	169	--	529	--	285	205 8/	-241

Sources: Data provided by the Romanian authorities; program projections; and staff estimates.

1/ Transactions in transferable rubles (converted at the cross-commercial rate) and under bilateral payments agreements.
2/ Transactions in convertible currencies.
3/ Excluding transactions in 1991 to settle the outstanding liability position with IBEC.
4/ 1991 program is as reported in EBS/91/117 (7/15/91) and Supplement 1 (7/31/91).
5/ Includes US$737 million from 1991 commitments of the G-24.
6/ Including prepayments not broken down by creditor.
7/ Including errors and omissions.
8/ Includes US$250 million in budge financing from the BIS that would be considered part of meeting the US$1 billion in exceptional financing that had been programmed.

Table 9. Romania: Balance of Payments, 1990-97

(In billions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Current account	-1.7	-1.4	-1.3	-1.4	-1.6	-1.7	-1.7	-1.6
Trade account	-1.8	-1.4	-1.2	-1.2	-1.3	-1.3	-1.2	-1.0
Exports	3.6	3.5	3.9	4.4	4.9	5.6	6.5	7.5
Imports	5.4	4.9	5.1	5.6	6.2	6.9	7.7	8.5
Services account	0.1	--	-0.2	-0.2	-0.3	-0.4	-0.5	-0.5
Receipts	0.7	0.8	0.8	0.9	1.1	1.3	1.4	1.6
Payments	0.6	0.8	0.9	1.1	1.4	1.6	1.9	2.1
Capital account	0.1	0.5	1.6	1.8	2.0	2.2	2.0	2.1
Direct investment	--	--	0.2	0.3	0.4	0.5	0.6	0.7
Medium- and long-term	0.1	0.3	1.8	1.5	1.6	1.7	1.4	1.4
Receipts	0.1	0.3	1.9	1.7	1.8	2.3	2.5	2.5
Payments	--	--	-0.1	-0.1	-0.2	-0.6	-1.1	-1.1
Short term, net	0.1	0.2	-0.4	--	--	--	--	--
Financing gap	--	--	0.2	0.1	0.1	0.1	0.2	--
Overall balance	-1.6	-0.8	0.5	0.5	0.6	0.7	0.5	0.5
Financing	1.6	0.8	-0.5	-0.5	-0.6	-0.7	-0.5	-0.5
Assets	1.6	-0.2	-0.5	-0.6	-0.5	-0.3	-0.1	-0.4
Liabilities	--	1.0	--	0.1	-0.1	-0.4	-0.4	-0.1
IMF, net	--	0.8	0.3	0.1	-0.1	-0.4	-0.4	-0.1
purchases	--	0.8	0.5	0.1	--	--	--	--
SBA	--	0.5	0.4	0.1	--	--	--	--
CF	--	0.4	0.1	--	--	--	--	--
repurchases	--	--	-0.2	--	-0.1	-0.4	-0.4	-0.1
Other	--	0.2	-0.2	--	--	--	--	--
Memorandum items:								
Reserves/imports (in months)	1.1	0.6	1.7	2.9	3.5	3.7	3.5	3.7
Debt/GDP ratio (in percent)	3.7	9.9	23.2	30.3	35.8	38.9	39.8	40.5
Debt service ratio (in percent)	0.1	2.4	8.3	5.2	9.7	20.1	25.6	20.8
Indicators of debt service to IMF								
In percent of exports of goods and nonfactor services	--	0.9	5.8	1.7	2.7	6.5	5.5	1.9
In percent of total debt service due	--	36.1	69.8	32.6	27.3	32.5	21.6	9.3
In percent of official reserves	--	16.3	36.7	6.7	8.5	20.5	19.1	6.4

Sources: Data provided by the Romanian authorities; and program projections

Table 10. Romania: Medium-term Macroeconomic Framework, 1989-97

	1989	1990	1991 Prel.	1992	1993	1994	1995	1996	1997
				Projections					
					(Percentage changes)				
Real GDP	-5.8	-7.4	-13.0	-5.0	2.0	3.0	4.0	5.0	5.0
Real consumption	-1.8	9.5	-11.6	-0.1	1.9	3.0	3.4	3.6	3.7
Real consumption per capita	-2.3	9.2	-11.5	-0.3	1.7	2.7	3.2	3.4	3.5
Consumer prices	0.9	4.7	161.1	180.5	43.7	10.0	5.0	5.0	5.0
					(In percent of GDP)				
Consumption	68.7	74.4	77.2	79.6	79.5	79.4	79.0	78.0	77.0
Gross domestic savings	31.3	25.6	22.8	20.4	20.5	20.6	21.0	22.0	23.0
Government	26.0	7.9	1.8	2.0	2.1	2.6	3.0	3.6	4.0
Nongovernment	5.3	17.7	21.0	18.4	18.4	18.0	18.0	18.4	19.0
Net foreign savings	-4.6	8.7	6.6	7.1	6.6	6.5	6.0	5.2	4.1
Gross domestic fixed investment	29.6	20.0	19.1	20.0	22.6	23.7	24.4	24.6	24.6
Change in stocks	-2.9	14.3	10.3	7.5	4.5	3.4	2.6	2.6	2.5
Government revenue	51.1	37.7	32.4	33.5	33.5	33.0	32.5	32.0	32.0
Government expenditure	42.7	37.6	35.0	35.5	35.5	34.5	33.5	32.5	32.0
Government balance	8.4	0.1	-2.6	-2.0	-2.0	-1.5	-1.0	-0.5	0.0
Exports 1/	19.5	14.5	17.2	21.6	22.6	23.5	24.7	25.8	27.1
Imports 1/	15.6	22.8	23.8	28.2	28.9	29.7	30.3	30.7	30.8
Trade balance 1/ 2/	3.8	-8.7	-6.6	-6.6	-6.3	-6.2	-5.6	-4.8	-3.7
Current account 1/ 2/	4.7	-8.3	-6.7	-7.5	-7.4	-7.5	-7.2	-6.7	-5.6
Memorandum item:									
ICOR (4-year moving average)					10.2	7.1	5.7	4.8	4.9

Sources: Data provided by the Romanian authorities and by staff estimates.

1/ Converted at the average official exchange rate in 1989 and 1990.

2/ Including bilateral payments agreements and transferable ruble transactions, through 1990; the value for the current account differs from the net foreign savings because of the net factor income.

Table 11. Romania: Compensatory Financing Request--
Determination of Amount of Compensation

(Values in SDRs millions)

	Years Ending September				
	Actual			Projected	
	1989	1990	1991	1992	1993
Net imports of petroleum and natural gas	923.0	1,530.5	1,267.3	819.4	1,058.8
Net imports of crude petroleum	627.7	1,168.4	856.7	523.2	677.2
Natural gas	295.3	362.1	410.6	296.2	381.6
Oil import costs excess			147.5		
Crude petroleum			86.1		
Natural gas			61.4		
Gross compensable amount			147.5		
Less: Double compensation			70.7 1/		
Net compensable amount			76.8		
Memorandum items:					
Export earnings	7,604.6	4,620.4	2,503.5	2,780.1	3,177.5
Calculated shortfall			1,281.7		
Volume index					
Crude petroleum	103.8	155.4	100.0	74.8	95.4
Natural gas	121.2	131.5	100.0	88.2	116.3
Price index (in SDRs)					
Crude petroleum	70.6	87.8	100.0	81.7	82.9
Natural gas	59.3	67.1	100.0	81.8	79.9

Sources: Data provided by the Romanian authorities; and staff estimates and projections.

1/ Equals 75 percent of the previous purchase (total SDR 247.7 million) net of the prompt repurchase (SDR 153.4 million).

Table 12. Romania: Selected Social and Demographic Indicators

	1980	1985	1989	1990	1991
Population characteristics					
Total population (millions)	22.2	22.7	23.2	23.2	23.2
Population growth rate	0.7	0.4	0.4	0.2	-0.1
Number of employed persons (millions)	10.4	10.6	10.9	10.8	10.9
Population density per sq. km.	93.5	95.7	97.5	97.7	97.6
Life expectancy at birth (years)					
Women	71.8	72.7	72.4	72.7	72.7
Men	66.7	66.8	66.5	66.6	66.6
Population death rate (percent)	1.04	1.09	1.07	1.06	1.09
Infant mortality (under 1 year)	29.3	25.6	26.9	26.9	22.7
Food, health, and nutrition					
Calorie intake (calories per day)	3,259	3,057	2,949	3,067	...
Population per physician	678	567	552	555	550
Population per hospital bed	114	112	112	112	108
Access to safe water (percent of population)					
Rural	29.9 1/	...	...	16.1	16.5
Urban	78.1 1/	...	...	77.4	78.0
Access to electricity (percent of dwellings)					
Rural	88.1 1/	...	...	96.2	97.0
Urban	99.6 1/	...	...	99.7	100.0
Education					
Percent of population between 15-18 in school	77	75	85	74	73
Primary school enrollment (percent)	...	96	97	94	94
GDP per capita (US$ at commercial exchange rate for exports)	2,446	1,337	1,563	1,237	1,112

Source: Data provided by the Romanian authorities.

1/ Values for 1981.

Romania--Fund Relations

(As of March 31, 1992)

I. Membership status

(a)	Date of Membership	December 15, 1972
(b)	Status	Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

		(Millions of SDRs)	(Percent of quota)
(a)	Quota	523.4	100.0
(b)	Total Fund holdings of currency	1,089.2	208.1
(c)	Fund credit	565.8	108.1
(d)	Reserve tranche position	--	--

III. Stand-By Arrangements and Special Facilities

(a) Stand-by arrangements during the last ten years:

(i) One-year stand-by arrangement approved on April 11, 1991 in the amount of SDR 380.5 million. Thus far SDR 318.1 million has been drawn. In association with the stand-by, a contingency element under the CCFF up to a maximum of SDR 130.9 million was also approved on the same date. Thus far, none of the contingency financing has been utilized.

(ii) Three-year stand-by arrangement approved on June 15, 1981 in the amount of SDR 1,102.5 million of which SDR 817.5 million was utilized. The arrangement was canceled effective January 31, 1984.

(b) A CCFF under the oil import element was approved in two parts on March 15, 1991, and April 11, 1991 amounting to SDR 247.7 million. The entire amount was utilized.

IV. SDR Department

		(Millions of SDRs)
(a)	Net cumulative allocation	75.95
(b)	Holdings	0.11

V. Financial Obligations Due to the Fund

See the attached Table 13. In the period 1985-88 Romania experienced intermittent delays in settling its obligations to the Fund. On December 21, 1988 and February 28, 1989 Romania made voluntary advance repurchases for the remainder of its obligations to the Fund at that time.

(B) Nonfinancial Relations

VI. Exchange Rate Arrangements: Effective November 11, 1991 the exchange market in Romania was unified, and the exchange rate is determined daily in the interbank foreign exchange market. The National Bank of Romania and the authorized commercial banks can participate in this market. On March 31, 1992, the exchange rate was lei 198 per U.S. dollar. The exchange rate system is described by the authorities as a managed float. There are no restrictions on payments and transfers for current international transactions except for those related to repatriation of dividends and income, liberal payments agreements and outstanding IBEC/CMEA balances.

VII. Past Decision: The last Article IV consultation was concluded on October 15, 1990. Romania is on a 12-month consultation cycle. The following decision was taken by the Board on October 15, 1990.

1. The Fund takes this decision in concluding the 1990 Article XIV consultation with Romania, in the light of the 1990 Article IV consultation with Romania conducted under Decision No. 5392-(77/63), adopted April 23, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Romania continues to maintain comprehensive restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in SM/90/183. The Fund encourages Romania to apply these restrictions in a liberal manner and to continue to reduce its reliance on restrictive features of bilateral payments agreements with Fund members.

The last Article XIV consultation was concluded in December 1991; on a lapse-of-time basis the following decision was adopted by the Board:

1. The Fund takes this decision in concluding the 1991 Article XIV consultation with Romania.

2. Romania maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in SM/91/243 (12/17/91). The Fund encourages Romania to eliminate as quickly as possible these restrictions.

VIII. Resident Representative

Mr. Maciejewski assumed his post as senior resident representative of the Fund in Bucharest in March 1991.

IX. Technical Assistance

The attached Table 14 provides information on technical assistance activities in Romania.

Table 13. Romania: Projected Payments to the Fund as at March 31, 1992

(In millions of SDR's)

	Overdue	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Beyond	Total
A. Obligations from Existing Drawings													
1. Principal													
a. Repurchase	--	--	--	136.4	282.9	146.4	--	--	--	--	--	--	565.8
b. ESAF/SAF Repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. TF Obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and Interests 1/	--	35.5	47.7	46.2	29.9	10.2	5.1	5.0	5.0	5.0	5.0	--	195.0
Total Obligations 2/	--	35.5	47.7	182.6	312.8	156.6	5.1	5.0	5.0	5.0	5.0	--	760.8
(percent of quota)	--	6.7	9.1	34.8	59.7	29.9	0.9	0.9	0.9	0.9	0.9	--	145.3
B. Obligations from Prospective Drawings													
1. Principal													
a. Repurchases	--	153.4	--	-88.0	-17.7	136.5	108.6	54.5	39.2	4.3	--	--	390.8
b. ESAF/SAF Repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. TF Obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and Interests 1/	--	3.4	16.6	19.0	26.1	21.9	11.9	5.9	2.0	0.1	--	--	107.2
Total Obligations	--	156.8	16.6	-69.0	8.4	158.4	120.5	60.4	41.3	4.4	--	--	498.1
(percent of quota)	--	29.9	3.1	-13.1	1.6	30.2	23.0	11.5	7.8	0.8	--	--	95.1
C. Cumulative (Existing and Prospective)													
1. Principal													
a. Repurchases	--	153.4	--	48.3	265.1	283.0	108.6	54.5	39.2	4.3	--	--	956.6
b. ESAF/SAF Repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. TF Obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and Interests 1/	--	38.9	64.3	65.2	56.1	32.1	17.0	10.9	7.1	5.1	5.0	--	302.3
Total Obligations 2/	--	192.3	64.3	113.5	321.2	315.1	125.7	65.5	46.4	9.5	5.0	--	1,259.0
(percent of quota)	--	36.7	12.2	21.6	61.3	60.2	24.0	12.5	8.8	1.8	0.9	--	240.5

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchase in the GRA, and on current interest rates for SAF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

2/ Overdue obligations (if applicable) will be settled in full at close of business April 1, 1992.

Table 14. Romania: Technical Assistance, 1990-92

Department	Subject/Identified Need	Action	Timing	Counterpart
CBD/LEG	General assessment; financial sector legislation	Mission	October 1990	NBR
CBD/LEG	Banking supervision; foreign exchange operations	Mission	Nov./Dec. 1990	NBR
CBD	Modernization of functions and operations of NBR	Mission	Jan./Feb. 1991	NBR
CBD	Action plan for NBR modernization	Mission	March 1991	NBR
CBD	Review of action plan for NBR modernization	Mission	July/August 1991	NBR
CBD	Modernization of the monetary management system; money market development; banking supervision; clearing and payment system	Mission	December 1991	NBR
CBD	Payment system	Consultants' visit	April 1992 1/	NBR
CBD	Foreign exchange issues; banking supervision	Mission	April/May 1992 1/	NBR
CBD	Review of action plan for NBR modernization	Mission	June 1992 1/	NBR
CBD	Review of action plan for NBR modernization	Mission	October 1992 1/	NBR
FAD	General assessment	Mission	September 1990	MOEF
FAD	VAT	Mission	Oct./Nov. 1990	MOEF
FAD	Income tax system	Mission	December 1990	MOEF
FAD	Budgetary forecasting methods; contingency measures; tax reform	Mission	May/June 1991	MOEF
FAD	Tax administration: VAT and global income tax	Mission	February 1992	MOEF
FAD	Tax administration	Mission	August 1992 1/	MOEF
ETR	Exchange and trade system reform	Mission	January 1991	NBR
ETR	Exchange system reform	Mission	February 1991	NBR
ETR	Exchange system reform	Mission	June 1991	NBR
ETR	Exchange system reform	Mission	September 1991	NBR
STA	General assessment	Mission	February 1990	NBR/NCS
STA	The statistical system and economic reform	Mission	September 1991	NBR/NCS
STA	Balance of payments statistics	Mission	April 1992 1/	NBR

1/ Planned.

Romania--Relations with the World Bank

Romania's contacts with the World Bank were limited during the 1980s. Lending was discontinued in 1982, and economic and sector work stopped in 1985. In 1987, Romania initiated discussions that led to prepayment of its US$1.8 billion indebtedness to the World Bank in 1989.

The Romanian authorities resumed contacts with the Bank in January 1990. World Bank missions focusing on financial sector reform, enterprise reform, and issues related to the social safety net visited Romania during the spring and summer of 1990. In October-November 1990, the first Bank economic mission since 1985 visited Romania to assess macroeconomic developments and undertake sectoral reviews of industry, agriculture, and infrastructure, as well as of the energy, financial and social sectors. The Bank also began the process of discussing sectoral priorities for lending. In February 1991, Bank missions visited Romania to develop a technical assistance program and prepare loans for the financing of imports of spare parts critical for production in 1991, and the financing of technical assistance in the area of infrastructure. The technical assistance and critical imports loan was approved in June 1991, and a Health Sector Rehabilitation loan was approved in October, 1991. Preparation of a Structural Adjustment Loan is in progress.

Three interlinked sectoral projects to promote private sector activity and the transition to a market economy are to be appraised in coming months: (a) the Private Farmer Support Project (PFSP); (b) the Private Sector Development and Enterprise Reform Project (PSDER); and, (c) the Financial Sector Modernization Project (FSM). Projects are also being contemplated in energy, education and transportation.

Romania: Stand-by Arrangement

Attached hereto is a letter and annexed Memorandum dated May 4, 1992, from the Minister of Economy and Finance of Romania and the Governor of the National Bank of Romania, requesting a stand-by arrangement and setting forth (i) the objectives and policies that the authorities of Romania intend to pursue for the period of this stand-by arrangement; and (ii) understandings of Romania with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Romania will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement, in accordance with the following provisions:

1. For the period of 10 months from May --, 1992, Romania will have the right to make purchases from the Fund in an amount equivalent to SDR 314.04 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 157.02 million until August 15, 1992, the equivalent of SDR 209.36 million until November 15, 1992, and the equivalent of SDR 261.7 million until February 15, 1993.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Romania's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in a ratio of 1 to 2 until purchases under this arrangement reach a total of SDRs 205,300,000 with borrowed resources thereafter, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Romania will not make purchases under this arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(1) the limit on the cumulative change in net credit of the banking system to the consolidated general government referred to in paragraph 20 and Appendix I of the annexed Memorandum; or

(2) the limit on the cumulative change in net domestic assets of the banking system referred to in paragraph 23 and Appendix II of the Memorandum; or

(3) the limit on the cumulative change in net international reserves referred to in paragraph 37 and Appendix III of the Memorandum; or

(4) the limit on contracting or guaranteeing of new 1-12 year external debt or the sublimit on contracting or guaranteeing of new 1-5 year external debt, referred to in paragraph 39 and Appendix IV of the Memorandum,

has not been observed; or

(b) after November 14, 1992, until the review referred to in paragraph 40 of the Memorandum has been completed; or

(c) during any period of the stand-by arrangement, if Romania:

(1) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(2) introduces or modifies multiple currency practices; or

(3) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(4) imposes or intensifies import restrictions for balance of payments reasons.

When Romania is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Romania and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Romania will not make purchases under this stand-by arrangement during any period of the arrangement in which it has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase or pursuant to Decision No. 9331-(89/167) as amended.

6. Romania's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility; or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Romania. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Romania

and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Romania, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Romania will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Romania shall pay a charge for this arrangement in accordance with the decisions of the Fund.

10. (a) Romania shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those related to repurchase as Romania's balance of payments and reserve position improves.

(b) Any reduction in Romania's currency held by the Fund shall reduce the amount subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

The value date of a repurchase in respect of a purchase financed with borrowed resources under this arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchases will be completed not later than seven years from the date of purchase.

11. During the period of the stand-by arrangement, Romania shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Romania or of representatives of Romania to the Fund. Romania shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Romania in achieving the objectives and policies set forth in the attached letter.

12. In accordance with the authorities' letter, Romania will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed, or because he considers that consultation of the program is desirable. In addition, after the period of the arrangement and while Romania has outstanding repurchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Romania's balance of payments policies.

Bucharest

May 4, 1992

Dear Mr. Camdessus,

The Government of Romania has been implementing a comprehensive program of economic reform since 1990. This program was supported by a one-year stand-by arrangement with the Fund that began in 1991 and has benefitted from Fund technical assistance. We are very appreciative for both. Considerable progress has been made toward our goal of creating an environment in which individual choice and market forces play a preeminent role. We consider that this transformation of the economy will lead to a sustained growth in output and a steady improvement in the living standards of our population. However, the stabilization phase of our reform effort is not yet over, and the elimination of macroeconomic imbalances will require further determined adjustment efforts. In these circumstances, we are requesting a new 10-month stand-by arrangement with the Fund, in an amount equivalent to SDR 314.04 million, to support our 1992 economic adjustment and reform program. We also intend to request, once the repurchase expectation on an earlier drawing under the oil import element of the compensatory and contingency financing facility (CCFF) is met, financial support under the CCFF in an amount equivalent to SDR 76.8 million, on the basis of an oil excess for the year ending in September 1991.

Our efforts so far, which have been undertaken in an external environment that was significantly harsher than initially envisaged, and which were aggravated by delays in mobilizing external financing, provide clear evidence of our determination to continue with the reform process. We have adopted a number of crucial adjustment and reform measures, including price and trade liberalization, cautious financial and incomes policies, fiscal and financial sector reforms, and the liberalization of the exchange system. In addition, we have introduced a series of important structural measures, with the aim of stimulating private economic activity, privatizing state assets, and building the legal and institutional framework that are essential for the development and efficient functioning of a market-based economy.

In 1992 we hope to build on the progress that has been made so far. Moreover, it is particularly important to contain the decline in output, bring inflation down to a reasonable rate, and strengthen the external accounts. The details of the economic policies that the Government of Romania intends to follow to achieve its economic objectives are described in the attached memorandum. The Government of Romania stands ready to take any additional measures that might be required, should the economic objectives or the overall reform process be jeopardized.

The Romanian authorities will remain in close consultation with the Fund in accordance with Fund policies on such consultations. In this regard, the Government of Romania will provide the Fund with such information as the Fund may request, in connection with Romania's progress in implementing the policies and achieving the objectives of the program for 1992. To help monitor progress under the program, a review with the Fund of economic developments and policies should be completed by October 15, 1992.

Sincerely,

/s/ George Danielescu
Minister of Economy
and Finance

/s/ Mugur Isarescu
Governor
National Bank of Romania

Attachment:
Memorandum on Economic Policies
of the Government of Romania

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

MEMORANDUM ON ECONOMIC POLICIES OF THE GOVERNMENT OF ROMANIA

I. Introduction

1. Romania is in the midst of a comprehensive program of reform aimed at rapidly transforming the country from a centrally-planned system into a market-oriented economy. Achieving macroeconomic stability is a necessary foundation for the reform program to succeed. The main goal of the 1992 program is therefore to complete the stabilization phase of the reform process.

2. The program for 1992 is aimed at eliminating the existing domestic and external imbalances. In addition to pursuing appropriately cautious financial policies, meeting this objective will require the implementation of further structural measures to improve the allocation of resources and raise potential and actual output. These measures include continued progress in liberalizing markets, an appropriate interest rate policy, establishing effective private ownership, and developing a legal and institutional framework that will facilitate private sector activity. An open exchange and trade system that would allow for the integration of Romania into the world economy continues to be a key aspect of external sector policy.

3. Reversing the current situation of declining output and high inflation is one of the best ways to provide social protection. At the same time, the Government believes strongly that economic reform and adjustment can only succeed if measures are taken that will reduce the burden of adjustment on the most vulnerable groups in the population. The social safety net contained in the program is designed to ease this burden through well-defined policies.

II. Recent Economic Policies and Developments

4. During 1991 the economy was hit hard by a number of adverse and unexpected developments, and the decline in output was larger than expected. Real GDP fell by 13 percent, with industrial output some 21 percent below its level in 1990. These declines reflected a number of interrelated factors, including the lack of external financing, the decline in trade with the U.S.S.R. and the other ex-CMEA countries, the problems associated with the Gulf crisis, shortages of imported raw materials and energy, as well as economic disorganization and blockages in the payments system stemming from the inter-enterprise arrears. Heavy, energy-intensive, and extractive industries were most seriously affected. Floods and problems associated with the implementation of land reform contributed to the decline in agricultural output. The decline in real GDP was reflected in rising unemployment. At the end of June 1991, there were 195,000 registered unemployed, of which 128,000 received unemployment benefits. These figures rose to 337,500 and 266,000, respectively, at the end of 1991.

5. Despite overall cautious financial policies, inflation has been substantially higher than expected. From November 1990, the month in which the price liberalization program began, to end-1991 the price level has risen by 345 percent. The unification of the exchange rate in November 1991, which moved the rate from the previously-official rate of lei 60 per U.S. dollar to lei 180 per U.S. dollar, also put upward pressure on the price level. Among the products affected, prices of energy (except for household consumption) were increased immediately to reflect the pass-through effects of this exchange rate action. Real wages have declined by about 22 percent since the price liberalization began, despite increased payments under the wage indexation scheme.

6. Net international reserves (NIR) of the banking system fell by US$822 million in 1991. During 1991, the decline in NIR was dominated by current account developments; less than one-half of the current account deficit was offset by net capital inflows. The main factors affecting developments in the current account were the collapse of trade with ex-CMEA and some Middle East countries, and the financing constraint emerging from the shortfall in medium- and long-term capital inflows; as a result, trade flows were much lower than expected in the 1991 program.

7. Monetary policy was the main nominal anchor of our economic program, and an important goal of the National Bank of Romania (NBR) was therefore to keep the expansion of domestic credit from the banking system under strict control. Through September 1991, net domestic assets of the banking system rose by lei 99 billion (19.2 percent of beginning-of-period broad money). This amount was slightly lower that what had been expected under the program supported by the 1991 stand-by arrangement, with net credit to the Government expanding by much less than planned in light of a smaller-than-programmed deficit on the part of the general government, and because net credit to extra-budgetary funds fell sharply.

8. The combination of weak financial discipline on enterprises and a tight monetary policy led, however, to a rapid accumulation of inter-enterprise payments arrears that circumvented otherwise strict financial policies and contributed to building inflationary pressures. These arrears, which were estimated to have grown to some lei 1.8 trillion by early 1992 on a gross basis, and about lei 400 billion on a net basis, also led to the serious "blockage" of the payments system, with adverse consequences on output. Starting in October, the NBR began to allow an expansion of bank credit to enterprises in an effort to ease the arrears problem. On December 23, 1991, a law was enacted by Parliament calling for an expansion of bank credit to clear the inter-enterprise arrears. This operation, referred to as the global compensation, was completed by end-January 1992.

9. To keep inflationary pressures in check, and move the adjustment effort back on track, the NBR sterilized in February 1992 most of the liquidity injected into the economy as a result of global compensation. Moreover, the Government recognizes the importance of sending an unambiguous signal to enterprises of its commitment to prevent the reemergence of arrears and to avoid any further global compensation operation. In this

connection, two Government Decisions were adopted to enforce the repayment of credits received under the global compensation and to impose strong financial discipline on enterprises. The Government Decision relating to financial discipline establishes that all firms must meet their legal obligations in order of the due dates, regardless of whether the payments are due to workers, the Government, suppliers, etc. This Decision also establishes that firms can be declared insolvent if they do not meet their obligations within 30 days. Firms being declared insolvent have 30 more days before they can be subjected to forced repayment, including through bankruptcy proceedings, if they are not successful in working out an arrangement with their creditors. A draft law has been submitted to Parliament incorporating the text of the Government Decision on financial discipline to give it greater legal force by establishing that the Boards of Directors of enterprises are legally, as well as administratively, responsible for the financial management of enterprises. In addition, a new bankruptcy law is being considered by Parliament to update and strengthen the existing commercial code.

10. Interest rates were deregulated on April 1, 1991, as part of the financial system reform. In spite of this measure, deposit rates subsequently showed little movement, reflecting largely the rigidities in the financial system as well as the lack of incentives for banks to raise rates to attract deposits in an environment of bank-specific credit ceilings. New banks were able to attract deposits from the Savings Bank (SLB) by competing on the quality of service, but their very small size did not put much pressure on the SLB, which has basically remained reluctant to raise interest rates. In order to increase the cost of funds for banks, the NBR raised its basic refinance rate in several steps during 1991, and again in early 1992, to equal 28 percent compared with 3 percent at the end of 1990. However, despite Government efforts to put upward pressure on liberalized interest rates, these have remained negative in real terms.

11. To deal with the large and growing macroeconomic imbalances of previous years the Government pursued a conservative fiscal program in 1991, and fiscal performance through the year was stronger than programmed. Some difficulties arose in tax collections during the last quarter of 1991 due to blockages in the payments system. However, after the global compensation operation was completed in January 1992, all outstanding tax arrears from the previous year were cleared. The deficit for the consolidated general government was only lei 16.2 billion (0.8 percent of GDP), compared to a much larger programmed deficit of lei 50.2 billion (2.4 percent of GDP). The Unemployment Fund and some other extra-budgetary funds were not included in the definition of the general government in the 1991 program. Since these funds recorded substantial surpluses in 1991, the balance of general government would also have been in a surplus, of lei 5.6 billion (0.3 percent of GDP), if these were included.

12. The exchange rate after unification on November 11, 1991 has fluctuated between lei 180 per U.S. dollar and around lei 200 per U.S. dollar. As regards the trade regime, consistent with the market orientation of the reform effort, the Government has liberalized the export

regime by steadily reducing the number of products that are prohibited or subject to export quotas, and by raising quota limits. The Government has also eliminated quantitative import restrictions.

III. The Government's Macroeconomic Program for 1992

13. The Government's macroeconomic program for 1992 aims specifically to: (a) halt the decline in real economic growth; (b) lower the rate of inflation sharply from around 15 percent per month in the first two months of the year to 1-2 percent per month by year end; and (c) increase international reserves by US$500 million to reach about 1.7 months of imports by year end. To achieve these objectives, the authorities intend to: maintain prudent financial (fiscal and monetary) policies and an appropriate interest rate policy; ensure wage restraint through a tight incomes policy; and follow a flexible exchange rate policy. These stabilizing macroeconomic policies will be complemented by structural policies designed to make the economy more efficient and productive. Structural reform measures will include further price liberalization, privatization, enforcement of financial discipline by the restructuring and liquidating of state enterprises, and continuing reforms in the financial sector and fiscal area.

14. The Government has recently taken several measures in an effort to lay the foundation for its economic program for 1992 and to provide the appropriate signals for generating favorable expectations about the reform effort. Measures, as noted above, have been taken to deal with problems associated with inter-enterprise arrears. Lending and deposit interest rates were raised in January 1992. In the trade system, a new tariff code went into effect in that month. Several tax reforms were introduced at the beginning of the year. The details of the adjustment program, including these and prospective measures, are described below.

1. Fiscal policy and the social safety net

15. Maintaining strict fiscal discipline and reducing the size of the government sector are key elements of the Government's economic program, both in terms of the near-term stabilization effort as well as over the medium-term. For 1992, the draft budget submitted to Parliament aims at a *deficit of the general government of no more than 2 percent of GDP*. Achieving this goal will be a particularly difficult undertaking, since there is evidence from the recent experience of other East European countries that revenues from profit and turnover taxes will fall off, and pressures will mount to increase both current and capital expenditures. Taking into account these difficulties, as well as the need to maintain the credibility of the adjustment program and increase domestic savings to finance the investment necessary for restructuring the economy, the Government is nonetheless committed to a cautious fiscal policy. We believe that in the circumstances, achieving the fiscal deficit target will represent a substantial adjustment effort.

16. On the revenue side, total revenues are expected to be 33.5 percent of GDP in 1992 as compared to 36.7 percent of GDP the previous year, using comparable definitions. Several important tax reforms were introduced on January 1, 1992, which were designed to increase the simplicity and transparency of the tax system and minimize the incentives for tax evasion. In this regard, the rate schedule for the turnover tax now comprises 5 rates instead of more than 20 rates that existed before. The enterprise profits tax schedule was also simplified; there are now two rates of 35 percent and 45 percent, as compared with a progressive schedule containing 67 rates before. It is also expected that the measures taken to eliminate the problems associated with the past buildup of inter-enterprise arrears will boost tax collections, especially for the enterprise profits tax.

17. The policy of maintaining strict controls on all categories of expenditure, which was very successful in 1991, will be improved in 1992 with the adoption of a system of cash spending limits to keep monthly expenditure in line with monthly revenue collection. The Government is committed to a schedule for reducing the level of subsidies on 16 essential consumer products, including some energy items for household use. On May 1, and again on September 1, 1992, the level of subsidies will be reduced by 25 percent compared to their levels in January-April this year, as prices of these products are increased, and they will be completely phased out by the end of 1993. The Government has also established a program for enterprise restructuring, which is expected to reduce subsidies to enterprises, including to the mining industry. This program is currently being discussed with the World Bank.

18. Facilitated by improved data and the benefit of a year's experience, the Government has decided to expand the definition of the fiscal sector for program purposes, in order to obtain a more comprehensive accounting for fiscal operations. In this regard, the Unemployment Fund, which had a surplus in 1991 of 1.4 percent of GDP will be included in the fiscal targets. This fund is projected, in line with developments in output and enterprise closures, to have a deficit of 0.4 percent of GDP in 1992, which is included in the overall deficit of 2 percent of GDP.

19. Reflecting the Government's determination to maintain a conservative fiscal policy, it stands ready to implement on short notice a set of contingency fiscal measures in order to protect the objectives of fiscal policy. Deviations from the programmed path may arise, for example, because of macroeconomic developments and their effects on various revenue and expenditure lines in the budget. Prominent among the potential measures that the Government has identified, should the fiscal deficit target be threatened during the year, are: increases in tax rates on enterprise profits; introduction of an agricultural income tax by mid-year; moving the collection of turnover taxes on imports from the first point of domestic sales to the customs level; indexation of local property taxes, which are currently set in fixed amounts; and introducing excises on products such as alcoholic beverages, tobacco, and gasoline. If supplementary budgets become

necessary in the course of 1992, the Government is committed to keeping them balanced.

20. The Government will largely rely on bank credit to meet its financing needs, although it will endeavor to issue government securities to cover part of the deficit. Accordingly, the program limits the cumulative change in net credit of the banking system to the Government, which will be a performance criterion (Appendix I). In formulating this limit, a key consideration was to leave sufficient room for private sector demands for credit from the banking system. The limit will be adjusted downward by the amount of nonbank domestic financing and any local currency equivalent of foreign loans, including from the World Bank, which are used to finance expenditures included in the budget.

21. The Government places a high priority on structural reforms of the tax system that reduce distortions which impede the efficient allocation of resources, while striving to maintain the basic objective of equity. Preparations for replacing the turnover tax with a value-added tax (VAT) are underway, and the Government is committed to introduce a simplified VAT by the beginning of 1993. The Government also aims to replace the current schedular system of taxes with a global income tax by the beginning of 1994.

22. The Government is determined to maintain and strengthen the social safety net to prevent unnecessary hardship for the population during the period of transition. In 1990-91, legislation was passed that improved retirement pensions, benefits for disability, as well as sickness and maternity, and introduced unemployment benefits. These categories of benefits will be kept largely unchanged in 1992, and total payments of this kind are budgeted at 9.6 percent of GDP, which is somewhat lower than 1991, since fewer workers are expected to take early retirement. Unemployment is, however, expected to increase sharply during the year to 1.5 million (14 percent of the labor force). The coverage period for unemployment benefits has therefore been extended from 6 to 9 months, and an additional, but far smaller, benefit for unemployment past 9 months has been introduced. Total unemployment benefits are expected to amount to 2.2 percent of GDP in 1992, up from 0.2 percent in 1991. In addition to these benefits, the Government also provides substantial subsidies to the population for basic foodstuffs, energy, and public transportation. These subsidies amounted to around 5.5 percent of GDP in 1991, and a similar amount has been budgeted for 1992. The Government will, however, endeavor to improve targeting of subsidies, and seek to increase use of cash transfers as a more efficient form of income support. In this regard, the Government intends to remove the longstanding 20 percent tax credit granted to all parents, and simplify the system of child allowances.

2. Monetary policy

23. Monetary policy will serve as one of the two main nominal anchors for the program for 1992 and, in conjunction with fiscal and wage policies, will be assigned the task of containing inflationary pressures resulting from selective price adjustments and liberalization, exchange rate

movements, and external shocks. The Government believes that it is of critical importance to implement a strict monetary policy to establish credibility for its program and reduce inflation. To obtain the desired reduction of inflation, stringent credit policies are needed; accordingly, the Government has adopted targets for the growth of broad money which are based on conservative projections of the evolution of prices and the behavior in the demand for money. To this end, the Government will allow for an increase in broad money (in domestic currency terms) of 88 percent. The credit program for 1992 is designed to be consistent with this monetary growth and the targeted increase in NIR of US$476 million. In view of the above, the increase in net domestic assets of the banking system will be 67 percent of the end-1991 stock of broad money. Ceilings on the expansion of net domestic assets of the banking system will be a performance criterion, as detailed in Appendix II.

24. The NBR has moved to indirect methods of monetary control and away from bank-specific credit ceilings. In this regard, it is implementing the steps recommended by recent Fund technical assistance missions; reserve requirements and auctioning refinance credit have already been introduced. In order to increase the effectiveness of credit policy and to ensure that past losses of enterprises are not a burden on the financial system, Parliament adopted in February 1992 a law requiring that unserviceable debts to the banking system from prior to 1991 be replaced with special public debt accounts that are to be repaid by, inter alia, sales of state assets and the recovery of outstanding claims of enterprises.

3. Interest rate policy and financial sector reform

25. To improve the efficiency of credit allocation and to provide incentives for financial savings, the Government will rely on a flexible interest rate structure and ensure that interest rates reflect market conditions. Appropriate interest rate policy is a necessary complement to exchange rate policy, and in this regard domestic interest rates should be sufficiently attractive to encourage savings and the holding of domestic assets. Therefore, the Government has decided to take actions to ensure that domestic interest rates are at positive real levels.

26. In addition, however, measures need to be developed to promote the demand for domestic financial assets, and to improve the functioning of domestic markets, particularly by making the SLB more responsive to economic realities and market forces through restructuring. For now the Government will require the SLB to pay market-related interest on its existing negotiable instruments (e.g., "obligatiuni CEC"). To promote a more competitive banking structure, foreign banks have been allowed entry into the domestic market. So far, four foreign banks are operating in Romania, and the Government will continue to encourage such activity.

4. Prices and wages

27. The Government will proceed with its policy of price liberalization. The prices of 16 consumer products still subject to control are to be increased in two steps in 1992, and fully liberalized by end-1993. In the specific area of energy, the Government remains committed to reviewing these prices on at least a monthly basis and making such adjustments as are necessary to keep domestic prices (adjusted for the exchange rate and including all necessary processing costs and taxes) at world market levels throughout the program period. The domestic price of natural gas, which is currently about 30 percent below international prices, will be increased by 10 percent per quarter in real terms until parity with world prices is reached.

28. Incomes policy, the other main nominal anchor of the program, is seen by the Government as being critical for containing inflationary pressures and promoting the competitiveness of Romania's economy. Accordingly, the Government has adopted a forward-looking wage indexation policy, with the intention of keeping wage increases below the inflation rate. In addition, a tax-based incomes policy is being pursued, setting punitive taxes on enterprises for which the wage bill exceeds a reference wage bill established that takes into account the economic performance of each enterprise. Such taxes can reach up to 500 percent. We believe this policy will also create incentives for labor shedding. The mid-term review of the program will examine wage developments and the operation of the tax-based wage policy.

5. Enterprise reform and privatization

29. The Government regards the privatization of state-owned assets as essential for building a market-based economy, strengthening the financial discipline of enterprises, and improving their productivity and efficiency. To this end, the Government has embarked on a massive program of privatization. Under the privatization law, which was enacted in August 1991, about 6,000 state commercial enterprises are to be privatized. The process for selling some of these enterprises has begun. The share capital of the remaining enterprises will be transferred in the proportion of 30 percent to five Private Ownership Funds (POFs) and 70 percent to the State Ownership Fund (SOF). These funds will be established by July 1, 1992.

30. The privatization law also provides for the possibility of commercial enterprises selling up to 75 percent of the total value of their assets, in the form of commercial units, with the proceeds of these sales to be used to finance investment. It is expected that at least four hundred commercial units will be sold by mid-year. Progress in the privatization of enterprises and sale of commercial units will be examined at the time of the mid-term review. Furthermore, the Government will continue with the sale of housing units to the population and with the land reform and redistribution program.

31. The Government also regards the liquidation/closure of nonviable state-owned enterprises as an essential element of its program. In addition, a restructuring strategy will be adopted to complement the enterprise privatization and liquidation process. To harden the budget constraints on enterprises, the Government has submitted to Parliament a new Bankruptcy Law, and meanwhile will enforce bankruptcy procedures using the existing commercial code. The Government will also establish, with support from the World Bank under the proposed SAL, a system to monitor the financial situation of enterprises on a monthly basis, including inter-enterprise arrears.

32. With the price liberalization and economic reform measures that are underway, enterprises will be able to make market-based decisions using profitability criteria. It is imperative, however, that in making their operational decisions they do not expect that another global compensation operation will occur. Thus, the Government puts great weight on the passage of the draft law by Parliament to combat the moral hazard problems that stemmed from the previous compensation measures. Passage of the law will be an issue for the mid-term program review. Furthermore, enterprise discipline will be strengthened through a Government decision requiring that state-owned enterprises charge interest at market rates on new inter-enterprise credits (to be monitored by the financial monitoring system), developing a competition law, early application of the bankruptcy procedures, and strict bank supervision that supports lending decisions based strictly on economic grounds.

6. External Sector and Balance of Payments Objectives for 1992

33. One of the key objectives of the Romanian reform effort has been to integrate Romania into the world economy by eliminating distortions in the exchange and trade system. As noted earlier, much progress has already been made. In the exchange system, a key element of this effort was the exchange market unification on November 11, 1991. Subsequently, Romania was faced with a serious policy dilemma. The low level of liquid reserves and lack of external financing created significant pressure on the exchange rate. This pressure was aggravated by shortfalls in foreign exchange surrender from export receipts. In this latter regard, expectations of an exchange rate depreciation fed by the lack of foreign exchange intensified the surrender problem, as did insufficiently attractive rates of return on holding domestic assets. In an effort to hold to the price scenario for wage negotiations, some official intervention took place that held the exchange rate to under lei 200 per U.S. dollar. In addition, a wide spread emerged between the exchange rate in the interbank market and the rate quoted by foreign exchange bureaus, as a result of efforts to control capital flight by segmenting these two markets and limiting the amount that individuals could purchase from the bureaus. Nevertheless, the Government kept current in meeting its external obligations under difficult circumstances.

34. To improve the situation, and provide appropriate incentives for reversing the trend of exporters increasingly relying on barter and other

compensation arrangements, the Government is considering changing certain aspects of its exchange system, including the 100 percent surrender requirement. The exchange system is to operate as a managed float, on the basis of a classical fixing procedure, and with the foreign exchange bureaus participating in the interbank market. External reserves will be used for smoothing operations and not to support an unsustainable exchange rate level. The Government, in line with its objectives of reducing distortions in the economy, is relying on appropriate financial policies, including interest rate policy, to make domestic assets sufficiently attractive to support the exchange rate.

35. In the trade system, a new tariff code went into effect in early January 1992. The previous code was not considered adequate to meet Romania's longer-term need for a rational and transparent system that would form an integral part of its outward-looking development strategy. Overall, the new tariff code has rates that are both lower and less dispersed than the previous code. The average tariff, on a weighted average basis, is about 12 percent. Thus, even with a moderate, temporary and uniform import surcharge, ad valorem protection would remain low. Consistent with the market orientation of the reform effort, a number of other measures have been taken to liberalize the trade system. Requirements for approvals by the interested Ministries, which had covered 86 items, were eliminated in mid-1991. With regard to exports, the number of "controlled" exports, including those prohibited, and those subject to temporary quotas has been steadily reduced. By March 1992, 33 items were temporarily prohibited, while only 35 items were subject to temporary export quotas; the limits for 13 of these latter items were raised in that month. The Government intends to eliminate virtually all import and export licensing requirements (with a few exceptions, such as goods like explosives and toxic products that are related to health and national security concerns) by mid-1992. Moreover, except for goods subject to price controls and subsidies, and a few products that are considered strategic items that have been in short supply domestically (e.g., wood, wheat and sugar), all export quotas will be eliminated. In the future, as price controls and subsidies on various goods are eliminated, the corresponding quotas will automatically be eliminated as well.

36. The structural reforms discussed above, combined with the outward orientation of exchange and trade policy, are intended to support export growth. At the same time, steps are being taken to develop an information system about foreign markets and prices accessible to all potential exporters. While the principal thrust of the export effort rests on appropriate incentives through economic policy efforts, it is hoped that such additional export promotion efforts can boost exports further.

37. The Government expects that its program for 1992 will have to be implemented in a difficult environment. It is projected that the current account deficit would equal to US$1.3 billion in 1992. With net capital inflows (excluding exceptional financing) projected at US$1.7 billion, and taking into account the need to buildup international reserves to reasonable levels, Romania faces an exceptional financing need of around US$650

million, to be met by purchases from the Fund and by G-24 countries. Consistent with an overall balance of payments target for 1992 that calls for a surplus of around US$476 million, quarterly targets for net international reserves of the banking system have been established, which will be a performance criterion (Appendix III).

38. The Government attaches great importance to the role that foreign direct investment can play in the process of economic reconstruction, and in keeping the buildup of external debt to manageable levels. As part of its strategy of attracting foreign investment, the exchange system was modified by eliminating limitations on the repatriation of dividends and income. Foreign investors can also open and maintain foreign exchange accounts. As a result of the foreign investment law that came into force in May 1991, there are also no limits on foreign equity participation in a commercial company set up in Romania and investments are encouraged in virtually all sectors; certain tax exemptions also apply. It is estimated that inflows of foreign direct investment would amount to US$200 million in 1992, with substantially higher amounts expected in later years.

39. With respect to debt creating flows, the Government believes that care needs to be exercised that such external sources of financing are used in such a way that the resulting burden of servicing the debt is sustainable and that external creditworthiness is maintained. To this end, the Government is closely monitoring all contracting or guaranteeing of foreign loans by the public sector, and has created an inter-Ministerial committee that will inventory possible loans and decide on priorities before providing government guarantees. Moreover, the Government intends to limit the contracting of public and publicly-guaranteed external debt of maturities of over one year and up to and including 12 years to US$3.5 billion in 1992, with a separate subceiling of US$2.5 billion established for loans with maturities of over one year and up to and including five years. These two sets of ceilings will constitute performance criteria (Appendix IV). The public sector will limit its contracting, or guaranteeing, of short-term debt to normal import trade credits only.

7. Implementation and review of the program

40. The Government considers that the policies and measures set forth in this memorandum are consistent with the objectives of its program, but if required, will take any additional measures that may become necessary. In any case, the Romanian authorities will remain in close consultation with the Fund in accordance with Fund policies on such consultations, and will provide to the Fund such information as requested to monitor progress in achieving the program's objectives. To help monitor the implementation of the program, a review with the Fund should be completed by October 15, 1992. This review would focus on the pace of structural reforms, especially in the areas of enterprise reforms, price liberalization, privatization, and financial sector reforms. Monetary and fiscal policy performance, wage developments, interest rate behavior, external financing, and the functioning of the exchange market would also receive attention as part of the review.

Limits on Cumulative Change in Net Credit of
the Banking System to the Consolidated General Government

	Limits
	(In billions of lei)
Cumulative change from December 31, 1991, through:	
June 30, 1992	3.8
September 30, 1992	25.5
December 31, 1992	110.0

The consolidated general government is defined as the central government, the social insurance fund, the supplementary pension fund, and the local authorities; and, in addition, the Research, Health, Education and Unemployment Funds, as well as self-financing bodies. Excluded from the definition are the central and local Housing Funds, the Gold Revaluation Fund, and other extra-budgetary accounts.

Net credit of the banking system to the Government is defined as all claims of the banking system on the Government less all deposits of the Government with the banking system. Data are taken from the balance sheets of the National Bank and the other banks.

For program monitoring purposes, deposits of the Government will be adjusted downward by the local currency equivalent of any disbursements of foreign loans (net of repayments), which are used to finance the fiscal deficit, including World Bank loans. Any revenue on account of enterprise stock revaluations shall accrue to the Enterprise Restructuring Fund and be excluded from government deposits. Financial instruments issued to banks in exchange for bad loans outstanding on April 1, 1991, shall be excluded from the banking system's claims on the Government.

No transfers from the Gold Revaluation Fund to the accounts of the program definition of the general government will be allowed to occur. The limits on net credit of the banking system to the general government will be adjusted downward by any general government borrowing from domestic non-bank sources.

Limits on Cumulative Change in Net Domestic Assets of the Banking System 1/

	Limits
	(In billions of lei)
December 31, 1991	1,010
Cumulative change from December 31, 1991, through:	
June 30, 1992	524
September 30, 1992	723
December 31, 1992	694

1/ As defined for the purposes of the program.

The net domestic assets of the banking system (including any newly-created commercial banks) are defined as the difference between the liabilities of the banking system with the nonbank public (broad money) and net international reserves, both expressed in local currency. Broad money includes foreign currency deposits of residents but excludes all deposits of government bodies and deposits of foreign monetary institutions or other nonresidents. Net international reserves are defined in Appendix III but include the counterpart of foreign currency deposits of residents for the purpose of these limits. Net domestic assets comprise the sum of the following assets and liabilities: net credit to the general government (as defined for program monitoring purposes in Appendix I); net credit to government stemming from deposits of the Enterprise Restructuring Fund, the Housing Fund, and other extra-budgetary funds, and from deposits related to disbursements (net of repayments) of foreign loans; credit to the nongovernment sector; medium and long-term foreign liabilities; other foreign assets, net (comprising net claims on bilateral payments agreements, holdings of nonconvertible currencies, and debt in transferable rubles); the capital and reserve accounts; National Bank in transit accounts payable to depositors; and other assets and liabilities, representing, inter alia, currency valuation adjustments.

For the purposes of the program, net international reserves and those components of broad money that are denominated in foreign currency will be converted into lei at accounting exchange rates that have been agreed based on a projected constant real exchange rate.

The quarterly limits will be cumulative and will be monitored from the accounts of the banking system.

Targets for Minimum Cumulative Change in
Net International Reserves in Convertible Currencies

	Target
	(In millions of U.S. dollars)
December 31, 1991	-89
Cumulative increase from December 31, 1991, through:	
June 30, 1992	26
September 30, 1992	151
December 31, 1992	476

Net international reserves comprise gross official reserves net of reserves liabilities.

For the purposes of the program, gross official reserves shall be defined as monetary gold, holdings of SDRs, any reserve position in the IMF, and holdings of foreign exchange in convertible currencies by the National Bank of Romania and the commercial banks. Excluded from reserve assets would be long-term assets, the counterpart of foreign exchange deposits held by resident individuals and enterprises, any assets in nonconvertible currencies, and precious metals other than gold. Monetary gold shall be valued at an accounting price US$362.18 per ounce. On December 31, 1991, gross official reserves of Romania as defined above amounted to US$1,109 million, including gold valued at US$814 million.

For the purpose of the program, reserve liabilities shall be defined as liabilities of the National Bank of Romania and the commercial banks in convertible currencies to nonresidents with an original maturity of up to and including one year, and use of IMF resources. On December 31, 1991, the international reserve liabilities of Romania, as defined above, amounted to US$1,198 million.

All assets and liabilities denominated in foreign currencies other than the U.S. dollar, including the SDR, shall be converted at their respective December 31, 1991, exchange rates against the U.S. dollar. The targets will be monitored based on information supplied to the Fund staff by the National Bank of Romania. All changes of definition or valuation of assets or liabilities as well as details of operations concerning sales, purchases, or swap operations of gold shall also be communicated to the Fund staff.

Limits on Contracting or Guaranteeing of New External Debt

External Debt Contracted or Guaranteed	Maximum Limits (In billions of U.S. Dollars)	
	Over one- and up to 5-year maturity	Over one- and up to 12-year maturity
During period from December 31, 1991 through:		
June 30, 1992	2.5	3.5
September 30, 1992	2.5	3.5
December 31, 1992	2.5	3.5

External borrowing limits apply to the contracting or guaranteeing by the Government, the National Bank of Romania, or other publicly-owned entities with original maturities of over one year and up to and including 12 years. The Government is defined as in Appendix I. Excluded from the limits are debts included in international reserve liabilities, as defined in Appendix III. Debt falling within the limits shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee become effective.

Compliance with the limits shall be verified at the dates shown above based on information reported to the Fund staff on all contracting and guaranteeing for new debt falling both inside and outside the limits.