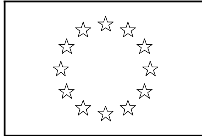

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 28.7.1999
COM(1999) 405 final

99/0167 (CNS)

Proposal for a

COUNCIL DECISION

providing supplementary macro-financial assistance to Romania

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

At the end of 1998, the Romanian authorities started discussions with the International Monetary Fund on a new Fund-supported economic programme of macroeconomic stabilisation and structural reforms. A preliminary agreement on a letter of intent was reached between the IMF staff and the authorities on 21 April. Subject to Romania meeting a number of prior actions, the IMF Board is expected to approve a new SDR 370 million Stand-by arrangement for Romania.

In this context, Prime Minister Radu Vasile wrote to President of the Commission Jacques Santer in January 1999 requesting further complementary macro-financial assistance from the European Community.

The European Union has granted three macro-financial loans to Romania, for a total cumulated amount of ECU 580 million, in the context of the Union's Balance of Payments assistance, in support of successive IMF programmes. The first loan facility, of ECU 375 million, was disbursed in 1992. The second loan, of ECU 80 million, was disbursed in February 1993. The third loan, of ECU 125 million, was disbursed in three payments of ECU 55 million (November 1995), ECU 40 million (September 1997) and ECU 30 million (December 1997). Romania repaid fully and on time the first loan: the first tranche of ECU 185 million on 18 March 1998, and the second tranche of ECU 190 million on 1 February 1999.

2. THE 1997-1998 MACRO-FINANCIAL ASSISTANCE PROGRAMME

In 1997, the government elected in November 1996 launched a radical programme of macroeconomic stabilisation and modernisation of the economy. While growth had resumed in 1994, the relatively satisfactory macroeconomic performances registered until 1996 masked insufficient progress on structural reforms and restructuring of the enterprises in all sectors, including agriculture. Breaking with years of timid reforms, the new government took a number of radical measures in the first months of 1997.

The International Financial Institutions (IFIs) took an active role in advising the new government on its economic and social policies. Agreement was reached with the IMF in April 1997 on a $430 million, Stand-by arrangement (SBA). In June 1997, the World Bank approved $550 million of new credits (including a new agricultural structural adjustment loan – ASAL) and the release of the $80 million second tranche of the outstanding Financial and Enterprise Structural Adjustment Loan (FESAL). The EU also supported the programme by reactivating the outstanding second tranche, of up to ECU 70 million, of the third macro-financial loan to Romania. This tranche was disbursed in two payments of ECU 40 million and ECU 30 million, respectively.

By early 1998, the slow progress of structural reforms and slippages on macroeconomic policies led to a failure to meet IMF performance criteria and thus to an interruption of disbursements under both the SBA and the World Bank's two main adjustment loans. The SBA expired in May 1998 with only two of the five tranches having been disbursed, while the FESAL expired in spring 1998 with the last tranche not disbursed, despite an extension of the loan period. The World Bank was not able to disburse the second tranche of the ASAL before the end of 1998. Nevertheless, it agreed to extend the loan period by six months to June 1999.

3. RECENT ECONOMIC DEVELOPMENTS

3.1 Macroeconomic performance

Since taking office in late 1996, the two successive Romanian governments have recognised the need to implement tight macroeconomic policies in order to address the existing economic imbalances. The high level of real interest rates, the increase in unemployment, severe cuts in public investment and widespread financial difficulties among enterprises have combined to severely cut domestic demand. In addition, the poor competitiveness of enterprises has led to a fall of exports. In this context, GDP fell by 6.6% in 1997 and 7.3% in 1998.

Tight fiscal policy has been a key element of the macroeconomic strategy. Whilst fiscal adjustment was impressive in 1997 (especially when taking into account the quasi-fiscal subsidies extended by the central bank up until 1996), it has been more difficult to maintain fiscal prudence in 1998, notably in the first half of the year. There have been two main reasons: pressures for higher spending have increased and the absence of significant progress in privatisation and structural reforms has affected revenues, notably through an increase in arrears to the public budgets.

Nevertheless, because of significant privatisation revenues collected in December 1998, the deficit of the general government accounts fell to 3.3% of GDP, from 3.7% in 1997. More significant, the State budget (i.e. excluding local budgets, social security and other funds of the general government) registered a primary surplus of 1.8% of GDP in 1998, compared to a 0.1% surplus in the previous year. The fact that the authorities managed to increase the primary surplus is commendable and reflects a commitment to impose fiscal discipline at the central government level. However, fiscal discipline has not made much progress at the local, and especially at the social security levels, because enterprises have increased social security arrears. Furthermore, most of privatisation receipts have been considered as revenues, and not as financing items. Excluding privatisation revenues, the 1998 fiscal deficit amounted to 5.7% of GDP.

In February 1999, Parliament adopted the budget for 1999, which forecasts a deficit of only 2% of GDP. At the insistence of the Government, Parliament suspended the application of laws granting large tax incentives for direct investments and halving the profit tax for exporters, which were adopted in December 1998. Following discussions with the IMF, the consolidated

general government deficit is set to decline to 3.9% of GDP, privatisation revenues excluded.

The rapid growth of public debt service remains a source of concern, notably because of the high level of real interest rates, which reached about 80% at the last Treasury bill issue at the end of April. The government has tried to limit the cost of T-bills issues, but this has led to a lack of demand. Interest charges have become the largest expenditure item on the State budget (about 26% of planned 1999 expenditures).

One important achievement of 1997 and 1998 was the reduction in inflation and the improvement of the monetary policy framework. Inflation surged at the beginning of 1997 (176.9% in March 1997 on an annual basis) because of price liberalisation and the rapid depreciation of the currency. It subsequently declined to about 42% at the end of 1998. This was achieved through a strict control of the monetary base and an appreciation of the (real) exchange rate. In addition, the special credits that the National Bank of Romania (NBR) had been forced to extend to the agriculture and enterprises were terminated. However, the real appreciation had a negative impact on the dynamics of exports and imports. Thus, since autumn 1998, the National Bank of Romania has reversed the policy and has allowed the currency to depreciate also in real terms.

Despite the fall of GDP and consumption, the unexpected worsening of the external imbalances in 1998 was a major disappointment. The current account deficit increased by 40% to $ 3 billion (or 7.9% of GDP), notably because exports fell (-1.6% compared to 1997) while imports increased (+4.8%). The balance of payments constraint has become problematic, notably because of deteriorating conditions for its sound financing. While there was an increase of foreign direct investment inflows in 1998 (largely linked to the privatisation of the telecommunication company), the total amount of foreign capital inflows was lower than in 1997. The repeated cuts in the country' sovereign ratings complicated the financing of the balance of payments.

As a result of the evolution of the current and capital accounts, foreign exchange reserves of the National Bank of Romania (excluding gold) have fallen regularly in recent months. At the end of March, they covered only 1.6 months of imports of goods. The level of reserves has become problematic in the light of the large external debt service, of about $ 3 billion for 1999, including $800 million on international bonds in May and June. Romania repaid on time and in full (ECU 185 million in March 1998 and € 190 million in February 1999) the first EC macro-financial loan granted in 1991.

The general deterioration of the economic situation as well as a major injection of liquidity in order to support an ailing state bank has led in early 1999 to a sharp acceleration of the depreciation of the exchange rate and a pick up in inflation (6.4% in March). Between the beginning of 1999 and end-April, the leu fell by 35% against the US dollar and almost a quarter against the Euro.

3.2. Structural reforms

As the experience between 1990 and 1996 showed, the hard-won gains of macroeconomic stabilisation can not be sustained in Romania unless substantial restructuring of the public enterprises is achieved. Although some important steps were taken in early 1997, the lack of progress in this area has been the main source of disappointment. Indeed, the fundamental causes of the balance of payments problems relate not only to short term macroeconomic developments, but mostly to structural factors, notably the weakness of the productive base and its low non-price competitiveness. This in turn is closely linked to the absence of meaningful restructuring of many of the large state-owned companies.

In the context of the agreements with the IFIs, the new authorities initiated some important structural reforms in 1997. The external tariff was substantially reduced, most prices were liberalised, tariffs of the utilities have been adjusted automatically, privatisation was accelerated and the exchange rate market was liberalised.

Most of these reforms are still in place. But the reform momentum has been erratic and has stalled at times. While a large number of 'Régies autonomes' were transformed into commercial companies, and restructuring plans were approved for the electricity, mining and railways companies, restructuring of the large public industrial enterprises did not make much progress. In particular, the amount of arrears, notably to the state and social security budgets and utilities, has continued to grow, undermining the fiscal position.

In addition, the financial sector has shown increasing weakness. After much delay, the two smallest public banks were sold to foreign investors in late 1998 and March 1999, respectively. Despite a first massive recapitalisation operation in late 1997 for the two largest public banks, problems continued to mount in 1998. The proportion of non-performing assets (classified as 'loss') increased from 42.6% of total credits in December 1997 to 51% at the end of June 1998. At the end of 1998 and in early 1999, the largest (public) bank, Bancorex, was confronted with serious difficulties, including lack of liquidity and withdrawals of deposits. The Central Bank took control of the bank and injected a large amount of funds to avoid bankruptcy. In the context of the preliminary agreement with the IFIs, it has been decided to progressively close discontinue Bancorex' activities and to further restructure (and privatise) the two other main public banks.

Well aware of the need to restore policy credibility and tackle the structural problems in order to restore access to official financing, the authorities accelerated structural reforms and large-scale privatisation at the end of 1998. A few landmark privatisation deals were announced, including the sales of a controlling stake in the telecommunication company. The government also decided to rapidly close a number of large loss-making companies, including many mines, restructure other large enterprises, and further accelerate privatisation. Few closures have actually taken place so far, but lay-offs have increased. As a result, unemployment increased rapidly and

reached 12% of the labour force at the end of March 1999, compared to 8.9% at the end of 1997.

4. THE NEW ECONOMIC PROGRAMME

Since the end of 1998, the government has shown determination to increase the pace of economic restructuring and resumed the negotiations with the International Financial Institutions.

A preliminary agreement on a letter of intent was reached between the IMF staff and the authorities on 21 April. Subject to Romania meeting a number of prior actions, the IMF Board is expected to approve a new SDR 370 million (some US$ 495 million) Stand-by arrangement. A preliminary agreement was also reached with the World Bank on a new structural adjustment loan (so-called Private Sector Adjustment Loan 'PSAL', worth $300 million). Successful implementation of the prior actions will trigger the approval of the new loan by the World Bank's Board. The World Bank and IMF agreements are closely interlinked; indeed, the IMF had insisted that progress be made on the World Bank loans before reaching agreement on the new SBA.

The new economic programme agreed with the IMF and the World Bank aims to restore macroeconomic stability and to tackle some of the enduring problems in the public enterprises and the financial sector. The macroeconomic strategy is based on tight fiscal and income policies, which should allow for a less restrictive monetary policy than in the previous period. This should bring about a much-needed fall in nominal and real interest rates. At the same time, the real depreciation of the currency should lead to a reduction of the current account deficit. Domestic demand is set to contract, limiting demand for imports. For 1999, GDP is forecast to register a third consecutive decline of 3.5%.

This macroeconomic strategy largely relies on substantial progress being made on structural reforms, in particular restructuring of the financial sector and the large public enterprises. The World Bank programme has three main components:

- bank restructuring and privatisation, focusing on the two largest public banks (Banca Agricola and Bancorex), improving the surveillance and regulatory framework of the financial sector, and creating an agency for the orderly work out of bad banking assets;
- privatisation and divestiture of large State-owned enterprises, including effective privatisation of 50 large enterprises, immediate start of privatisation procedures for five very large enterprises, identification of enterprises generating at least 15% of total losses of the State Ownership Fund for which liquidation procedures are to start immediately;
- improving the business environment, including a modified Law on securities interest in movable property, a new privatisation law, a reform

of direct taxes, improved bankruptcy procedures, internationally recognised accountancy standards.

There is also an important social safety net component to the programme, which will also be supplemented by a special PHARE programme. In addition, the World Bank has an important structural adjustment loan for agriculture (the so-called 'ASAL', of which the last tranche of $ 150 million might be released in June).

Restructuring of the financial sector is particularly important. It should unburden monetary policy and allow for a resumption of credit to the private sector, while privatisation and restructuring of industrial companies should have positive consequences for the budget and bring about some improvement in non-cost competitiveness.

Since preliminary agreement was reached with the IFIs, there has been progress in the implementation of some of the prior policy measures. Key laws have been, or will be shortly, modified by the government, including those on privatisation, leasing, bankruptcy, court of audit and financial control. Financial advisers for the privatisation of large public companies, including the national oil company, were selected. Restructuring of Bancorex is making progress; the transfer of a first batch of bad assets to the special work out agency will be carried out shortly.

The Executive Boards of the World Bank and the IMF are tentatively scheduled to approve the PSAL and the SBA on 10 June and 25 June, respectively.

5. BALANCE OF PAYMENTS DEVELOPMENTS AND FINANCING NEEDS

Originally, the economic programme agreed with the IMF envisaged a reduction of the current account deficit by as much as US $ 1 billion, through higher exports and lower imports. Exports are expected to increase on account of the large nominal and real depreciation of the currency that has taken place since the autumn of 1998. At the same time, imports will fall as domestic demand contracts further and as their price competitiveness deteriorates. At US $ 2 billion, the expected current account deficit was expected to be largely financed by the higher FDI inflows linked to the acceleration of the privatisation programme, while still allowing for a modest increase in official foreign exchange reserves.

However, the crisis in Kosovo has deteriorated the external environment. It is difficult at this stage to make a detailed assessment of the economic consequences of this crisis, notably because the evaluation depends to a large extent on the duration of the conflict. It is already clear, though, that it will have negative repercussions on the current account deficit, through lower exports to the FRY and also to Germany, Hungary and Austria because of the interruption of navigation on the Danube. Investor sentiment will be adversely affected. As a result, a slow-down of foreign direct investment inflows can be expected, with direct consequences for the privatisation process, while access to private finance will become more difficult on

international markets. In fact, the IMF estimates that the current account deficit will increase by US $ 190 million from the baseline scenario.

In this context, after taking into account the financial support from the IMF and the World Bank, the programme remains underfinanced. According to the latest balance of payments projections made by the IMF, Romania's residual financing needs for 1999 amount to US $ 322 millions. It is expected that these financing needs may further increase as the IMF and the Romanian authorities continue to assess in detail the economic impact of the Kosovo crisis.

Unless the remaining financing gap can be closed, Romania's ability to implement its adjustment and reform programme and to meet its external financial commitments would be put into question. The Commission is aware that Romania's performance under the previous macro-financial assistance programme has been disappointing in relation to the expectations of early 1997. The Commission considers, however, that the Romanian authorities are in a better position than in the past to implement vigorously the new economic programme.

The authorities' current efforts to stabilise the macro-economic situation and to tackle the often intractable problems in some of the large loss making public enterprises and banks should be supported by the international financial community, especially in the present critical juncture where the implications of the Kosovo crisis exacerbate the country's external financing needs.

The EU needs to give a strong signal of financial support to Romania. As a candidate country, Romania's progress towards accession depends greatly on the successful implementation of the new economic programme. Given the current situation in the Balkan region, complementary financial support from the EU/G-24, will help Romania to cope with the impact of the crisis and the tightening of sanctions against the former Yugoslavia.

The Commission, in co-operation with the World Bank, will shortly convene a Consultative Group/G-24 high level meeting to seek additional financial pledges from bilateral donors.

6. POSSIBLE COMMUNITY COMPLEMENTARY ASSISTANCE AND MAIN FEATURES OF THE LOAN

The Commission is proposing that the Community would make available to Romania a balance of payments loan of up to €200 million with a maximum duration of ten years. The proposed duration of the loan is consistent with the medium and long-term balance of payments outlook for the country, which is expected to face substantial financing needs for the years to come.

The assistance would be granted in the context of the stand-by arrangement to be approved by the IMF and would complement resources made available by the International Financial Institutions and bilateral donors.

The assistance would be released in two tranches subject to a satisfactory track record of the country's economic programme agreed with the IMF and progress with respect to structural reforms (including observance of a number of performance criteria). The Economic and Financial Committee would be consulted prior to each disbursement.

As in the case of similar operations in favour of other partner countries, the Community would provide the funds through market borrowing with a guarantee by the general budget. Romania would subsequently borrow from the Community. The borrowing and lending operations would be perfectly matched and without any commercial risk for the Community.

In accordance with the Guarantee Fund mechanism, the budgetary implications of a decision to make available assistance of up to €200 million to Romania would imply a €28 million provisioning of the Fund.

Proposal for a

COUNCIL DECISION

providing supplementary macro-financial assistance to Romania

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 308 thereof,

Having regard to the proposal of the Commission[1],

Having regard to the opinion of the European Parliament[2],

(1) Whereas the Commission consulted the Economic and Financial Committee before submitting its proposal;

(2) Whereas Romania is undertaking fundamental economic reforms and is making substantial efforts to establish a well-functioning market economy;

(3) Whereas Romania and the European Union have signed on a Europe Agreement establishing a relationship of association;

(4) Whereas the European Council at its meeting in Luxembourg in December 1997 decided to launch an accession process comprising Romania along with the other Central and East European applicant countries and Cyprus;

(5) Whereas Romania has reached an agreement with the International Monetary Fund (IMF) on a stand-by arrangement (SBA) in support of the authorities' adjustment and reform programme;

(6) Whereas the World Bank has approved a new Private Sector Adjustment Loan, which envisages substantial adjustment and investment financing in support of Romania's reform efforts in the enterprise and financial sectors;

(7) Whereas the authorities of Romania have requested financial assistance from the international financial institutions, the Community and other bilateral donors; whereas, over and above the estimated financing which could be provided by the IMF and the World Bank, an important residual financing gap remains to be covered during the programme period in order to strengthen the country's reserve position and support the policy objectives attached to the government's reform programme;

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[1] OJ ...
[2] OJ ...

(8) Whereas a Community long-term loan to Romania is an appropriate measure to help ease the country' external financial constraints, supporting the balance of payments and strengthening the reserve position;

(9) Whereas the Community loan should be managed by the Commission;

(10) Whereas the Treaty does not provide, for the adoption of this Decision, powers other than those of Article 308,

HAS DECIDED AS FOLLOWS:

Article 1

1. The Community shall make available to Romania a long-term loan facility of a maximum principal amount of EUR 200 million with a maximum maturity of ten years, with a view to ensuring a sustainable balance of payments situation and comforting the implementation of the necessary structural reforms.

2. To this end, the Commission is empowered to borrow, on behalf of the European Community, the necessary resources that will be placed at the disposal of Romania in the form of a loan.

3. The loan referred to in paragraph 2 shall be managed by the Commission in close consultation with the Economic and Financial Committee and in a manner consistent with any agreement reached between the IMF and Romania.

Article 2

1. The Commission shall be empowered to agree with the authorities of Romania, after consultation with the Economic and Financial Committee, the economic policy conditions attached to the loan. These conditions shall be consistent with the agreements referred to in Article 1(3).

2. The Commission shall verify at regular intervals, in collaboration with the Economic and Financial Committee and in co-ordination with the IMF, that the economic policy in Romania is in accordance with the objectives of this loan and that its conditions are being fulfilled.

Article 3

1. The loan shall be made available to Romania in two instalments. Subject to Article 2, the first instalment is to be released on the basis of a satisfactory track record of Romania’s macroeconomic programme in the context of the SBA agreed with the IMF.

2. Subject to Article 2, the second instalment shall be released on the basis of a satisfactory continuation of Romania's adjustment and reform programme and not before one quarter after the release of the first instalment.

3. The funds shall be paid to the National Bank of Romania.

Article 4

1. The borrowing and lending operations referred to in Article 1 shall be carried out using the same value date and must not involve the Community in the transformation of maturities, in any exchange or interest rate risks, or in any other commercial risk.

2. The Commission shall take the necessary steps, if Romania so requests, to ensure that an early repayment clause is included in the loan terms and conditions and that it may be exercised.

3. At the request of Romania, and where circumstances permit an improvement in the interest rate on the loan, the Commission may refinance all or part of its initial borrowings or restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with the conditions set out in paragraph 1 and shall not have the effect of extending the average maturity of the borrowing concerned or increasing the amount, expressed at the current exchange rate, of capital outstanding at the date of the refinancing or restructuring.

4. All related costs incurred by the Community in concluding and carrying out the operation under this Decision shall be borne by Romania.

5. The Economic and Financial Committee shall be kept informed of developments in the operations referred to in paragraphs 2 and 3 at least once a year.

Article 5

At least once a year the Commission shall address to the European Parliament and to the Council a report, which will include an evaluation of the implementation of this Decision.

Done at Brussels,

For the Council
The President

ANNEX

BUDGETARY RESOURCES NECESSARY FOR THE PROVISIONING OF THE GUARANTEE FUND IN 1999 AND MARGIN UNDER THE RESERVE FOR LOANS AND LOAN GUARANTEES IN FAVOUR OF THIRD COUNTRIES

(EUR million)

Operations	Basis of the calculation[3]	Provisioning of the Fund[4]	Reserve Margin
			346.0 [5]
Operations decided			
EIB/New mandates[6]			
CEEC	872.9	122.2	223.8
ALA	218.1	30.5	193.3
South Africa	143.5	20.1	173.2
MED	351.4	49.2	124.0
FYROM	38.5	5.4	118.6
Bosnia	42.0	5.9	112.7
EIB/Old protocols[6]			
Syria	-30	-4.2	116.9
Macro-financial assistance			
Albania III	20	2.8	114.1
Bosnia I	20	2.8	111.3
Operations proposed			
EIB/Turkey[7]	105	14.7	96.6
EIB/Croatia [8]	35	4.9	91.7
Macro-financial assistance			
Bulgaria IV[9]	100	14.0	77.7
Romania IV[9]	200	28.0	49.7

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[3] The provisioning basis is calculated by applying the relevant guarantee cover rate, namely 70% (EIB loans new mandates), 75% (EIB loans old protocols) or 100% (macro-financial assistance loan).

[4] In accordance with the provisioning rules in Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994, the Fund having reached its target amount on 31 December 1997, the provisioning rate has been reduced to 14%.

[5] Amount of the Reserve for loans and loan guarantees in favour of third countries for 1999 under the financial perspective.

[6] Annual amounts of loans scheduled to be signed in 1999 and correction of amounts already provisioned in the Fund to take account of actual signings at the end of 1998: Transfer 5/99 to the Guarantee Fund.

[7] Proposal for a Council Regulation on a special financial cooperation measure for Turkey (COM(95) 389/3).

[8] EC/Croatia cooperation agreement (SEC(95) 180/final).

[9] Commission proposal.

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Further macro-financial assistance to Romania.

2. BUDGET HEADING INVOLVED

Heading BO-211 reflecting the European Community guarantee for borrowing programmes contracted by the Community to provide financial assistance for non-member countries in Central and Eastern Europe.

3. LEGAL BASIS

Article 308 of the Treaty.

4. DESCRIPTION AND JUSTIFICATION FOR THE ACTION

a) Description of the action

Provision of a Community loan (to be financed by Community borrowing in the international capital markets), in the amount of up to EUR 200 million with a view to supporting Romania's reform efforts.

b) Justification for the action

The viability of Romania's external position depends on external financial assistance from official sources.

5. CLASSIFICATION OF THE EXPENDITURE

Obligatory.

6. NATURE OF THE EXPENDITURE

Potential activation of budget guarantee for the Community borrowing aimed to fund the loan to Romania.

7. FINANCIAL IMPACT

a) Method of calculation

The evaluation of the amount of the assistance deemed necessary is based on the present estimates of Romania's residual external financing needs.

A token entry is proposed given that the amount and timing of any call on this budget line cannot be calculated in advance and because it is expected that the budget guarantee will not be called.

b) Effect of the action on intervention credits

Activated only in the case of an effective call on the guarantee.

c) Financing of the intervention expenditure

In case of call on the budget guarantee:

– Recourse to the Guarantee Fund established by Council Regulation (EC, EURATOM) n° 2728 of 31 October 1994.

– In case the Guarantee Fund did not contain sufficient resources, additional payments would be called up from the budget by transfer:

  - of any margin remaining in the Reserve for guarantees;

  - of any late payments to the budget for which the budget guarantee has been activated (under article 27(3) of the Financial Regulation);

  - of any margin available under the ceiling of category 4 of the financial perspectives or redeployment therein.

– In order to fulfil its obligations, the Commission can provisionally ensure the debt service with funds from its treasury. In that case, Article 12 of the Council Regulation (EEC, Euratom) n° 1552/89 of 29.5.1989 will apply.

8. FRAUD PREVENTION MEASURES

The funds will be paid directly to the Central Bank of the beneficiary country only after verification by the Commission Services, in consultation of the Economic and Financial Committee and in liaison with the IMF and World Bank Services, that the macro-economic policies implemented in these countries are satisfactory and that the specific conditions attached to this assistance are fulfilled.

9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

a) Grounds for the operation and specific objectives

By supporting Romania's macroeconomic reform efforts and complementing financing by the International Community provided in the context of the IMF agreed programme, this assistance would ease the country's external financing constraints, would underpin its transition towards a market economy, and would improve its growth prospects.

b) Monitoring and evaluation

This assistance is of macro-economic nature and its monitoring and evaluation is undertaken in the framework of the IMF-supported adjustment and reform programme that Romania is implementing.

The Commission services will monitor the action on the basis of a genuine system of macro-economic and structural policy indicators to be agreed with the authorities of the beneficiary country. They will also remain in close contact with the IMF and World Bank services and will benefit from their assessment of Romania's reform achievements.

An annual report to the European Parliament and to the Council is foreseen in the proposed Council decision, which will include an evaluation of the implementation of this operation.

10. ADMINISTRATIVE EXPENDITURE

This action is exceptional in nature and will not involve an increase in the number of Commission staff.