

ROMANIA





Summary

The arrival in power of a reform-minded government, coinciding with the opening of negotiations on the accession to the EU and loan agreements with the IMF, mark a turning point in the process of economic reform in Romania. The economic strategy that has been developed by the new government is expected to bring rapid progress in reform efforts, which had lost some momentum last year. This Monitoring Instrument reflects the approach of the government and the orientation of priorities towards EU accession criteria. Among the clear priorities that emerge are: fiscal reform, increasing the pace of privatisation of SOEs, pre-privatisation restructuring in public utilities, reduction of red tape relating to SMEs and business start ups and otherwise promoting dynamism in the SME sector, and development of a multi-faceted financial sector and a higher volume stock exchange.

Simplifying the tax system. The main objective of fiscal reform is to lower tax rates, broaden the tax base and remove arbitrary and non-transparent exemptions. Both personal income and corporate tax laws have been amended, a uniform VAT tax rate has been introduced and individual/discretionary tax incentives have been abolished. These changes are intended to streamline the system and reduce tax evasion and underreporting, and a key activity of the Government over the coming year will be to monitor the impact of these reforms.

Making headway with privatisation of high-profile SOEs and taking steps to restructure public utilities. The rate of privatisation increased last year and the aim for 2001 is to build on that success. A large number of major enterprises have been targeted for sale, including large industrial enterprises and banks, with the nomination of privatisation advisors, publication of calls for tender, and so on already well under way. The main strategic share offerings include Petrom, the national oil, metallurgy and tobacco companies and the national airline. Restructuring of the energy sector is also a priority, with the power (CONEL) and gas (ROMGAZ) companies having been broken up in advance of privatisation and new legislation for granting licences opening up the sectors to greater competition.

Reviewing the treatment of small business and incentives for entrepreneurs. The growth of the SME sector is a priority for the government. The main initiatives include a comprehensive review of the administrative barriers that entrepreneurs presently face in establishing a small business, reduction in the number of licences required for an average company registration, simplification of reporting requirements for SMEs and review of accounting practices for SMEs, and improvement of the financing options for SMEs, notably through the establishment of a loan guarantee fund for SMEs and better information on services for SMEs through regionalised information centres.

Completing the privatisation major banks and taking steps to improve supervision of the banking sector. The most pressing financial sector reforms include further steps towards privatisation of major banks and improvements in the regulatory supervisory structures in the sector. The main sales proposed for the coming period are Banca Agricola (BA), which is under special management and has been recapitalised, and the Romanian Commercial Bank (BCR), which is the country's largest bank. The National Bank of Romania is working to improve its supervisory and regulatory control over the banking sector by means of improved risk management and auditing, as well as an early warning system developed with the IMF to pick out troubled banks. Development of a securities market is also a priority but after limited success in attracting investors, the growth of the RSE appears to be linked to progress with major privatisations.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES					
To develop further an appropriate enabling environment	Harmonisation and updating of investment-related legislation	Consultations underway on draft review	The aim is to facilitate investment by ensuring a simpler and more transparent legal framework	Ministry of Development and Prognosis	Mid 2001
	Reduction of number of official forms, simplification of procedures, etc.	Measures in this area included in draft review above		Ministry of Development and Prognosis	Ongoing
	Initiation of programmes for regional and sectoral development	Task force established by Prime Minister Public /private sector consultation is planned as a component of this initiative	Intended to underpin investment aspects of economic development support policies	Ministry of Development and Prognosis	Ongoing
To improve activities and materials for FDI promotion	Expansion of programme of promotional activities	Trade fairs, economic missions and specific programmes organised Preparation of information materials on investment opportunities		Ministry of Development and Prognosis	Mid 2001
	Inclusion of FDI as integral element in international programmes/foreign policy actions	Consultation between Foreign Affairs and Development ministries ongoing	Mainly focusing on greater involvement of high-level political actors in FDI promotion activities	Ministry of Foreign Affairs/Ministry of Development	
	Establishment of specialised Romanian Centre of Commerce	Measure under consideration	The aim is to highlight the positive role the private sector can play	Ministry of Development Chambers of Commerce	

2. SME SUPPORT POLICIES					
To simplify company registration	Review of legislation relating to administrative obligations on small businesses	Legislative review submitted to Govt in mid March. Agreement reached to circulate		Ministry for SMEs	Mid 2001
	Reduction of the number of licences/ permits (from around 90 to 5 major licences)	Discussions underway with private sector and line ministries		Ministry for SMEs	1st phase feedback by mid year
	Reduce processing time	Questionnaires issued		Ministry for SMEs	
	Establishment of one stop office for SME's		The aim of this initiative is to increase the range of services for SMEs and provide simplified access	Ministry for SMEs	
To improve the financial environment for SMEs	Introduction of loan guarantee fund for SME's	Interdepartmental meetings to discuss this initiative have started		Ministry for SMEs Ministry of Finance	
	Implement loan guarantee scheme for SME's	Government agreement to the principle has been achieved. Discussion now relate to funding		Ministry for SMEs Ministry of Finance	
To make information about programmes for SMEs more accessible	Establish regional information centre(s)			Ministry for SMEs Ministry of Finance	

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3. PRIVATISATION					
To continue increased pace of privatisation programme from 2000	Privatisation of 63 large, high visibility enterprises, such as major steel works and banks	Nomination of privatisation advisors, publication of calls for tender, and so on is well under way in many cases	Share offerings include the national oil, metallurgy and tobacco companies and the national airline	Privatisation Authority	C 30 sold by year end
			An important by-product of these sales is expected to be increased activity on the Bucharest Stock Exchange		
	Disposal of all (45) tourism facilities in rural area	Responsibility delegated from Privatisation Agency to Ministry of Tourism	Target is to sell off 45 by the end of the year	Ministry of Tourism	End 2001
	Advance sale of 800 smaller companies	Complete documentation has been prepared on transparent sale of 400 companies	Ministry looking at innovative financing arrangements for sale on local markets, such as purchase on deferred terms		
To launch pre-privatisation restructuring in public utility sectors and public services			Target of 400 privatisations (half of total) set for 2001	Privatisation Authority	End 2001, remainder in 2002
	Preparation for sale of the main public utilities, starting with the energy sector	Unbundling of the businesses of the power (CONEL) and gas (ROMGAZ) companies initiated	New legislation for granting licences opening up the sectors to greater competition have also been introduced	Privatisation Authority	End 2001

Evaluation of scope for privatisation of public services to improve efficiency	Limited progress to date. Matter being discussed with Ministry for Local Government	Public services include such things as irrigation management, veterinary services and seed analysis
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4. FISCAL REFORM AND TAXES

To strengthen reform of the tax system	Revision of the income tax law following problems with definitions of taxable and non-taxable income and incentives for certain categories of tax payers	The revised law has been drafted and will be completed with information on its influence of its provisions on the budget of the year 2002	General Division for Tax Policy and Legislation	1st trimester 2001
		Analysis of the categories of interest which should be considered as deductible on the computation of taxable profit, with a view to drawing up a draft law for changing the profit tax	General Division for Tax Policy and Legislation	2nd trimester 2001
	Improvement of the legal framework of the tax on agricultural income	The draft of the law has been drawn up and submitted for signature to the Minister	The General Division for the Fiscal Policy and Legislation	the 31st of March 2001
	Improvement of the legal framework for local taxes	The legal instruments are currently being drawn up	The General Division for the Fiscal Policy and Legislation	September 2001
	Introduction of VAT exemptions to provide incentives for SMEs	The import of machines and equipment, raw materials and materials destined for upgrading of SMEs are exempted from custom duties and VAT of	Part of a private sector development and SME start up legislative initiative	The General Division for the Fiscal Policy and Legislation

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To improve tax collection	Improvement of the VAT legislation	The draft of the law for VAT has been drawn up and has been submitted for approval to the Ministry of Justice, the Ministry of European Integration and the Ministry of Public Works, Transportation and Tenement		The General Division for the Fiscal Policy and Legislation	March 2001
	Revision of the current system of excise duties	The draft law on excise duties has been submitted to the Ministry of European Integration		The General Division for the Fiscal Policy and Legislation	
	Completion and the harmonisation of the legal framework in the field of VAT and the excise duties	The legal instruments are currently being drawn up, with the assistance of the European Union		The General Division for the Fiscal Policy and Legislation	December 2001
	Initiation of a plan for administrative co-operation in the field of indirect taxation (VAT, excise duties, custom duties)	The legal instruments are currently being drawn up, with the assistance of the European Union		The General Division for the Fiscal Proceedings	December 2001
	Preparation of the conditions for the adherence of the Ministry of Public Finance to the Convention for Mutual Administrative Assistance on Taxation, with the assistance of the European Union			The General Division for the Fiscal Proceedings	December 2001
	Initiation of a national programme for the improving of the administration of indirect taxes, with the assistance of the European Union			The General Division for the Fiscal Proceedings	December 2001

5. BRIBERY AND CORRUPTION

To implement measures to address corruption	Ratification of Conventions of the Council of Europe	Signed, but not yet formally ratified	Issue of implementation of legislation/conventions/recommendations now needs to be addressed	Government	2001
	Formation of regional groupings to adopt common strategy on corruption	Member of regional group	As above	Government	2001
	Management of domestic legislation on corruption	Legislation passed since May 2000	As above	Government	2001
	Management of laws in relation to money laundering	National office established since mid 1999	As above	Government	2001

6. COMPETITION LAW

To ensure effective implementation of Competition and State Aid policy	Completion of secondary legislation for enforcing:		These initiatives are to be supplemented with staff training, including IT. Donor support for capacity building programmes has been obtained		2001/2002
	1. <i>Competition Law</i> (largely improved definitions of exemptions) <i>and</i> 2. <i>State Aid Law</i> (largely clearer definition and eligibility criteria)	Adjustment of law on block exemptions is in preparation		Issues are under consideration on an interdepartmental basis	Competition Council

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7. ACCOUNTING REGIME AND PRACTICES					
To harmonise accounting rules with European Directives and International Accounting Standards	Harmonization of the accounting and reporting rules for small and medium enterprises in accordance with international practices	Accounting regulations harmonized with the Fourth European Directive 78/660 and International Accounting Standards have been implemented starting with financial statements prepared for year ended 31 December 2000 by listed companies, regies autonome and some national companies	These rules will be implemented in phases, up to 2005 The companies that are not covered by these regulations will apply a simpler accounting system	Accounting rules Directorate	2002
	Setting up the accounting rules for specific operations for insurance and re-insurance companies	The specific rules for insurance companies are to be tested by a representative sample of insurance companies, in the last half of this year Based on the outcomes, the chart of accounts will be completed and it will be applied by all insurance and re-insurance companies	It is necessary to run in parallel a training programme for the specialists involved in the area	Accounting rules Directorate	The fourth quarter 2001
	Harmonization of the accounting rules specific for companies working on capital market with European Directives and International Accounting Standards	A mixed committee has been established composed of representatives of the National Security Commission, representative companies working on capital market and specialists from Ministry of Public finance, with responsibilities in drawing up the specific accounting rules for operators on capital market	So far, foreign technical assistance for drawing up the project of these rules has not been secured. At the same time, the necessity of training courses for the specialists in the field should be addressed	Accounting rules Directorate	2002

8. CORPORATE GOVERNANCE

SEE Corporate Governance Roundtable	Review of Corporate Governance in Romania First meeting of the SEE Corporate Governance Roundtable 27-28 September Bucharest, Romania	Undertaken as part of the Investment Compact Regional Flagship Initiatives	National Securities Commission and the Bucharest Stock Exchange
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9. FINANCIAL SECTOR REFORM

To make progress in sale of state-owned banks	Privatisation of Credita Agricola (CA) and Romanian Commercial Bank (BCR), plus other smaller banks	Both major privatisation projects are at an advanced stage. CA already under special management pre-privatisation and has been recapitalised	Ministry of Finance Privatisation Authority		
To improve regulation of the financial sector	Strengthen regulatory role of the Romania National Bank and Improvement of system of risk management and surveillance of banks Establish regulatory body in the insurance sector	“Early warning system” developed in cooperation with the IMF to monitor poor performing banks Office of Insurance Supervision Commission established	Undertaken with support from the IMF Awaiting implementation (e.g., appointment of management, separation from Ministry of Finance, etc)	Romanian National Bank Ministry of Finance	End 2001
To develop a functioning securities market	Increase activity on the Stock Exchange and improve the regulations governing operation of the Exchange	Work underway on upgrading the regulatory framework of the Stock Exchange	Growth in the volume of trading appears to be dependent on progress with privatisation	Ministry of Finance	2000-2002
To introduce public service reform	Pilot multi annual budgeting procedures introduced into selected ministries 2000		Pilot being extended to all ministries (beyond original 8) in 2001	Ministry of Finance	2001

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