Board Meeting of June 3, 1997
Statement by Pieter Stek

Romania - Country Assistance Strategy

General remarks

The new Romanian government - in office for only five months - has made a clean break with the past. It is wholeheartedly committed to reform and wishes to be judged on its success in achieving that. Faced as it is with a macroeconomic and structural legacy from the past, the government, through a policy of transparency, is seeking the understanding of the population for the fundamental measures it is taking, with their harsh short-term effects on the standard of living.

My colleague in the IMF, Mr. Wijnholds, on the occasion of the Article IV discussion and a request for a standby arrangement one month ago, gave a brief overview of Romania’s relations with our institutions, since it joined in 1972, and described the ambitious macroeconomic and structural-reform programme that the government is now undertaking (BUFF/ED/97/62). In the meantime legislative activity has continued apace. E.g. legislation on banking activity, bankruptcy of banks and the independent status of the Central Bank has been submitted to Parliament. I recommend reading the buff and shall not repeat it except for its conclusion, which I share, viz. that this programme could “prove to be a watershed, preparing Romania for a true transformation to a market economy and launching the country on its journey towards membership of the European Union”. I do not wish to put words into the mouth of the President of the World Bank, but I believe that he

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too, on his recent visit to Romania, was impressed by the government’s purposefulness and sincerity (Press Release undated from Resident office). The Bank’s response to the new situation has been praiseworthy: witnessing the government’s efforts, it decided to propose a very substantial new fast disbursing support package of $400 mln ($350 mln ASAL; $50 mln SPAL). My Romanian authorities are deeply appreciative of this gesture, which significantly lightens the pain of inevitable adjustment.

The Country Assistance Strategy

The CAS is admirably concrete and focused on priorities. My authorities recognize the risks and appreciate highly that the Bank’s strategy encompasses measures to reduce these risks (par. 65). The government is keenly aware that world-bank support of the size and nature envisaged in the high-case scenario will greatly contribute to the creation of a viable, competitive economy. A factor strengthening the government’s ability to push forward the reform process is the prospect of EU membership, which is a widely shared ideal amongst the population. In my opinion, this fact significantly diminishes the risk of backsliding. This is not to deny that creating the capacity to run a modern economy, rolling back vested interests and weeding out corruption are enormous challenges. The educational and advisory input of EDI can make an invaluable contribution to the effort. The careful sequencing of the EDI contribution and the Bank’s lending programme in an integrated approach, tested continuously against the progress of reform, shows that the Bank, like Romania itself, has learnt that a piecemeal approach to transition does not work. Well-timed structural reform across a broad front is an essential complement to and conditioner of successful macroeconomic stabilisation. In this connection, the ongoing FESAL deserves mention. The disbursement delay this loan has undergone in the past and the fact that the second tranche release under the streamlined procedure is now scheduled for this week are a clear sign of the seachange in the reform setting. The requirement of that loan to deal with lossmaking SOEs and the will to do so lie at the heart of successful reform. Equally important in the reconstituted FESAL is the government’s proposal of a detailed plan to restructure Banca Agricola as a step towards its privatisation.
As a revamped operation, the FESAL should make a strong contribution to an improved environment for a better Bank portfolio. Without wishing to cover all the issues in the CAS, the fact that the government has raised energy prices to world-market levels in a very short time is noteworthy. It is the best incentive for business to move from a quintuple of normal energy intensity to the average and in doing so to end the environmental onslaught of Romanian industry. The forwardlookingness of the government is also manifested in the measures described in par. 36. The energy price increase is reason to revert to the issue of social protection. The dramatic increase in poverty and social needs since 1991 not only justifies the SPAL, but also the attention the Bank and the Government are devoting to this sector. Reducing poverty in a sustainable way is at the heart of this CAS, as evidenced in the sizeable allocation of Bank funds for this priority. Reducing poverty is also a priority for the government as shown in the protection the government is affording to health and education spending in the budget. The Bank may be complimented for the fact that it already had a Poverty Assessment available by the time the new government took office.

I am happy to note that this CAS incorporates activities across the whole Bank Group, including a pretty full-bodied IFC program in paragraph 45 and a potentially rapidly expanding role of MIGA in paragraph 46. My Romanian authorities set great store by the efforts of IFC and MIGA and count on intensification of their contribution as opportunities are sought and found. I also appreciate the effort the Bank is making to coordinate with other partners, including the IMF and the EU.

They realize full well that for a country like Romania the future lies in the private sector with all that entails for the creation of a favorable environment for domestic savings and investment and for foreign direct investment. They also realize what this entails for the role and attitude of the public sector. Hence, they look forward to the Bank’s support for public sector reform, which will underpin the priority they give to decentralization.

Summing up, my authorities are gratified that their efforts in these first months of their tenure of office have been reflected in a constructive Bank strategy for Romania.