

# **REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**ROMANIA'S**

**PROGRESS TOWARDS ACCESSION**

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## **A. Introduction**

### **a) Preface**

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the accession partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union’s priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Romania follows the same structure as the Opinion. It

- describes the relations between Romania and the Union, particularly in the framework of the Europe Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Romania’s situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)

- addresses the question of Romania's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. Each report contains a separate section which examines the extent to which Romania has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Romania's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions<sup>1</sup> and in particular the report on the application of Romania for accession to the EU prepared by Mr. Bernard-Raymond were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

## **b) Relations Between the European Union and Romania**

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<sup>1</sup> European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs: A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

## *The Enhanced Pre-Accession Strategy*

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In March Romania presented the first version of its National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

### *Recent developments in bilateral relations*

Romania has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council met in April 1998. An Association Committee meeting was held in October 1998. This meeting was the first to discuss the implementation of the Accession Partnership priorities. The system of subcommittees continues to function as a forum for technical discussions.

Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Romanian and European Parliaments met twice, in September 1997 and February 1998. A Joint Consultative Economic and Social Committee is being established.

Compared to 1996, EU exports expanded by 14% and EU imports by 26%. In 1997, Romania's exports to the Union represented 56% of total exports and imports from the Union accounted for 52% of total imports.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

The agreement concerning trade in wine has been extended for one year up to end 1998. In line with the trade provisions of the Europe Agreement Romania has lifted certain export restrictions and reduced a number of tariffs. The Community's textile import restrictions have been eliminated.

On 10 October 1998 an import surcharge was introduced by the Romanian Government in order to remedy balance of payment difficulties. The measure was notified in conformity with the provisions of the Europe Agreement.

The 1998 Phare programme consists of a national allocation (117 MECU), based on the Accession Partnership priorities, to support in particular child protection, customs, regional policy and transport, as well as the participation in Community programmes and Tempus.

In addition, funding will be provided under the Catch-up Facility<sup>2</sup>, for projects in rehabilitation of mining areas and restructuring of financial institutions under the 1998 allocation.

Under a new facility for large scale infrastructure projects, cofinanced by the European Investment Bank and the International Financial Institutions, 25 MECU will be provided for the construction of 60 Km of road on Corridor IX.

Romania also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, environment, small and medium sized enterprises, statistics, public administration reform and TAIEX.

## **B. Criteria for membership**

### **1. Political Criteria**

#### *Introduction*

In its 1997 Opinion on Romania's application for EU membership, the Commission concluded that:

“The current improvement in Romania, following the arrival in power of a new government, indicates that Romania is on its way to satisfy the political criteria”.

In the Accession Partnership with Romania the “continuation of child protection reform, further efforts to integrate the Roma, consolidation of protection of individual liberties and improvement of the functioning of the courts” were mentioned as a medium-term priorities.

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<sup>2</sup> Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

## *Recent developments*

There have been a number of governmental changes during the last year in Romania. Following a Government crisis triggered by alleged delays in the reform process, the coalition Government of the National Peasant-Christian and Democratic Party (PNT-CD) was replaced on 15 April 1998 by a new Government. The majority of ministers remained in their posts. Political developments did not result in any major shifts in government policy. EU integration remains an important Government priority.

### **1.1 Democracy and the Rule of Law**

#### *The Parliament*

Parliament continues to operate satisfactorily. Its powers are respected and the opposition plays a full part in its activities. The frequency of the government's use of emergency ordinances, as mentioned in the Opinion, remains a source of concern.

#### *The Executive*

The central institutions of the State continue to operate normally in general.

There is a Government commitment to continue the reform of the administration at all levels. This is reflected in the creation of institutional structures to oversee reform as well as in the preparation of strategies and legislation to implement it. An Inter-Ministerial Group for Public Administration Reform (GIRAP) was set up in June 1998 under the chairmanship of the Prime Minister with the mandate of launching and sustaining a comprehensive reform process, based on a general review and reorganisation of government functions. The Council for Reform is responsible for ensuring the coherence of individual legislative acts with the overall legislative and policy reform process.

A public administration reform strategy is currently under elaboration. It aims at clarifying institutional responsibilities, establishing an effective coordination and implementation mechanism, setting up of training schemes and establishing a Commission for the Civil Service responsible for defining core functions and standards of the civil service.

Some progress has been achieved on the decentralisation of Government functions and the setting up of administrative structures in line with the organisational and implementation requirements of regional policy supported by the European Union. The Law on Regional Development adopted in July 1998 has created 8 macroregions. Following rejection by the Constitutional Court, the framework Law on Local Public Administration is not yet adopted. Once adopted, other secondary laws on public and local patrimony, on local public finance, ministerial responsibilities and on concessions and public procurement, all adopted by Parliament in September 1998, will enter into force.

## *The Judiciary*

A series of measures has been taken to strengthen the working of the judiciary.

These include:

- amendment of the Law for the Organisation of the Judiciary in the spring of 1998 to define the size of judge panels at all levels of jurisdiction. This resulted in a perceptible acceleration of procedures.
- the creation of the National Institute of Magistrates as the specialised institution charged with the training of judges and prosecutors. This has contributed to the clarification of institutional responsibilities and provides the basis for further human and material resource development within the judicial system.
- a review of the organisational structure of the Public Ministry (i.e. the General Prosecutor's Office) combined with personnel changes of strategic importance. These aim at a more effective delivery of services, in particular in relation to serious cases of smuggling and organised crime.
- removal of unsuitable judges. In June 1998, mandates for 17 of the 37 judges of the Constitutional Court were not reconfirmed, due to their repeated infringements of existing legislation on property. In the last 10 years there has been a considerable change in the age structure of judges. Today about 76% of judges are under 30 years of age. However, little structural change took place at the level of appeal courts.
- the creation of the institution of the People's Advocate, provided for by the Romanian Constitution to fulfil the functions of an ombudsman. The office has taken up its duty but still needs further strengthening (46 staff were employed in July 1998).

Despite these measures, there remains considerable scope for improving the operation of the judicial system. Judicial proceedings can take from 6 months to several years, particularly in commercial matters. This period needs to be reduced. Judicial decisions need to be more effectively enforced. Administrative weaknesses such as the lack of accessible case-studies and court verdicts affect the equitable application of law. Further efforts are also needed to improve the status and remuneration of judges and prosecutors, to attract and retain more qualified staff and to fill the current judicial vacancies (although there has been an improvement compared to previous years, 552 out of 3749 posts remained vacant in July 1998). These measures would help reinforce the independence of the judicial system and help safeguard it more effectively against possible corruption. There is also scope for further improving Court administration, in particular as regards training, equipment and general working conditions, and also by reducing the pre-trial detention time in prisons.

The demilitarisation and reorganisation of the police has been announced, but so far without a clear timetable for action. Once implemented, it will allow for the independent examination of cases based on direct access of the investigating judges to the police administration. This should contribute to the improved functioning of the

judiciary in general. At the same time, it would also remove responsibility from the military courts for cases of police abuse and ill-treatment in detention locations.

### *Anti-Corruption measures*

The fight against corruption needs to be further strengthened. Without the adoption of the Law on Prevention and Fight against Corruption, unclear institutional responsibilities and the lack of specialised bodies dealing with the problem will continue to affect any efforts in this field. The recent establishment of an anti-corruption unit in the Prime Ministers' Control Department to coordinate the fight against corruption will not bear fruit without a legal basis.

Overall, the legal basis for the fight against corruption remains incomplete. Considerable further efforts remain to be undertaken as regards the identification of institutional competencies and functions. Reforms need to be further underpinned by a clear definition of corruption in the Penal Code, a public administration reform based on the adoption of the Civil Service Act and the effective implementation of an inter-institutionally agreed policy framework.

## **1.2 Human Rights and the Protection of Minorities**

Romania has ratified most of the major human rights instruments. Nevertheless, the European Social Charter signed in May 1997 has not yet been ratified.

### *Civil and Political Rights*

The office of the UN High Commissioner for Refugees (UNHCR) has concluded that Romania is no longer to be characterised as a refugee-generating country and that basic standards of human rights are respected.

There has been a positive change in government policy on child protection and a new determination to care for this vulnerable section of society. Legislation on the protection of children has been amended and transfers responsibility for child protection to the local administration. It focuses on the objective of the (re-)integration of children into their families. The underlying reform strategy, supported by the Phare programme, has started to bear fruit. There is encouraging evidence that the number of children re-integrated into their families or adopted by foster families has increased. However, there is scope for further improving policy implementation, in particular by promoting the reintegration of children into their families.

More than 12.000 NGOs play an increasingly important role in society. This is also being recognised by the state administration which is intensifying its relations with civil society. An office has been established under the Prime Minister to promote relations with the NGO sector. However, the situation in the field of civil and political rights in most other key areas has not improved significantly. It can be described as follows:

- in July 1998, a comprehensive reform of the Penal Code dealing with issues such as homosexuality, libel, insult and offence to authorities, was rejected by Parliament and sent back to Government.
- Romania continues to have a lively and active press, but at the same time journalists continue to be sentenced for accusation of slander and offence to the authorities, limiting the freedom of expression.
- the excessive use of custody and pre-trial detention needs to be addressed more effectively; no new decisions have been taken to reform the prison system and in the meantime, prison conditions have remained poor, there is insufficient medical assistance and ill-treatment by the authorities continues to be reported.
- while some progress has been made in police reform, cases of inhumane and degrading treatment by the police especially against Roma, children, homosexuals and prisoners continue to be reported by several organisations. Judicial control over the activities of the police needs to be strengthened.

### *Economic, Social and Cultural Rights*

The following developments can be noted:

- An Economic and Social Council has been created in order to accompany structural reforms, stabilise social consensus and support the dialogue between the social partners and the Government;
- Despite important legislative activities of the Government as regards equality of opportunities between men and women, no substantial progress has been achieved in this field since mid 1997.
- People with either physical or mental disabilities continue to face difficult living conditions.
- Further efforts need to be maintained to foster religious freedom. A draft Law on Cults submitted to Parliament in 1997 would, if adopted, considerably restrict the rights of religious associations and foundations which do not have the status of recognised cults.

### *Minority Rights and Protection of Minorities*

In general terms, the protection of minorities in Romania remains satisfactory, with the major exception of the Roma. The following developments can be noted:

- There is a continued debate on the proposed amendments to the 1995 Education Act, which aim to establish the legal basis for setting up a Hungarian language University. While draft amendments continue to be debated in public, a political modus vivendi

has been achieved which will allow for the establishment of a multi-cultural Hungarian-German university.

- Discrimination against the large Roma minority in Romania remains widespread. While there have been improvements, the following should be noted:
  - an Inter-ministerial Committee for National Minorities was set up by a government decision in August 1998, while the sub-committee responsible for the elaboration of a strategy for the integration of the Roma met for the first time in September 1998.
  - the Ministry of Education has granted the Roma minority privileged treatment in reserving a specific number of places for admission to teacher training and academic education in the field of social administration in the 1998-1999 school-year.

No reliable data on the number of Roma in Romania exist as yet, but they constitute an important share of the overall population (estimated to be several million). While the measures taken by the Romanian authorities reflect a continuing commitment to the protection of minority rights, the social and economic integration of Roma requires substantial additional efforts. Prejudice against the Roma remains widespread and needs to be addressed comprehensively in order to achieve sustainable mid-term improvements. The Government Department for Minorities should be strengthened in term of staffing and financial resources.

### **1.3 General evaluation**

[...]

Developments confirm that Romania fulfils the Copenhagen political criteria. Continued efforts have been made to respect and protect the rights of the Hungarian minority and to carry through reforms concerning the situation of children in orphanages. Nonetheless, much still remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties and the rights of the Roma. Priority should also be given to reform of the public administration.

## **2. Economic criteria**

### **2.1. Introduction**

In its 1997 Opinion on Romania's application for EU membership, the Commission concluded:

“Romania has made considerable progress in the creation of a market economy”; it “would face serious difficulties coping with competitive pressure and market forces within the Union in the medium term”.

In examining the economic developments in Romania since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion.

### **2.2 Economic developments since the Commission published its Opinion**

Since mid-1997, Romania's economic performance has deteriorated. Although tight monetary and fiscal policies have enabled policy-makers to exert a better control over inflation and public finances, and despite reform programmes, two successive governments have not been able to build on the achievements of the first half of 1997. They have failed to accelerate structural reforms and the restructuring of state enterprises. The lack of financial discipline in the public sector, the pressures for direct intervention of the state in the economy, and the weakness of the financial sector continue to threaten macroeconomic stability. The worsening of the external accounts, pressures on the floating exchange rate and fiscal tensions that have appeared in 1998 point to new macroeconomic risks.

#### *Macroeconomic developments*

In 1997, Romania experienced a sharp downturn in economic activity, which has continued in the first months of 1998. Gross domestic product (GDP) contracted by 6.6% in 1997, bringing the level of aggregate output to approximately 82% of the 1989 level. This sharp fall was caused by the restrictive monetary, fiscal and income policies implemented at the beginning of 1997. This tight policy stance was necessary to reduce the large and unsustainable macroeconomic imbalances, which were the result of the lack of commitment to reform between 1989 and 1996, and the pervasive absence of financial discipline in public enterprises.

Tight macroeconomic policies have been broadly pursued since mid-1997. Despite a premature relaxation of monetary policy in the summer of 1997, the monetary policy of the National Bank of Romania (NBR) has been targeted at fighting inflation through a strict control of the monetary base. The policy has been successful to some extent. The year-on-year rate of consumer price inflation has fallen from 177.5% in June 1997 to 50.8% in September 1998. The fall in inflation has allowed for a gradual decrease in interest rates in nominal terms.

Exchange rate policy has also become more predictable. By influencing the rate of nominal depreciation through intervention on the exchange market, the NBR has allowed a gradual real appreciation of the national currency, which has helped reduce inflation, but may have hurt exports. In fact, the recent fall in foreign exchange reserves and the worsening of the external imbalances have shed doubt on the sustainability of this policy of real appreciation.

Achieving fiscal discipline in the public sector was a significant success in 1997. The consolidated general government deficit fell to 3.6% of GDP, compared to the expected 4.9%. When taking into account the quasi-fiscal subsidies extended by the NBR up until 1996, fiscal consolidation was even more pronounced. On this basis, the primary deficit shrank from 6.1% of GDP in 1996 to an estimated 0.6% in 1997.

However, the authorities have been confronted with increasing difficulties in controlling the fiscal situation, mainly due to the absence of significant progress in implementing structural reforms: revenues have been much lower than expected (due to lower privatisation receipts and accumulated tax arrears of state-owned enterprises). At the same time, pressures for higher spending have increased - notably to support ailing sectors and enterprises. As a result, soon after the 1998 budget was approved by Parliament, it became clear that the deficit was expanding too rapidly to meet the target of 3.6% of GDP. Moreover, the financing of the deficit became increasingly problematic in an environment of high interest rates and difficult conditions on international markets.

In this context, a supplementary budget was approved in September 1998, which included both expenditure cuts (amounting to 2% of GDP), and revenue enhancing measures (most notably increases in a number of excise taxes and VAT). While the decision to increase taxes in a difficult economic situation showed the authorities' determination to limit fiscal risks, the new level of expenditure remained too high in a context of very weak revenues. Indeed, fiscal difficulties are likely to recur as most of their underlying causes - arrears' accumulation, insufficient large-scale privatisation and non-liquidation of unviable companies, as well as weak tax administration - persist. There is a risk that the fiscal deficit will grow substantially in 1998 if current expenditures are not contained within very strict limits.

Romania: Main economic trends		1994.0	1995.0	1996.0	1997.0	1998 latest	
Real GDP growth rate	<i>per cent</i>	3.9	7.1	3.9	-6.6	-5.2	Jan-Jun
Inflation rate							
annual average	<i>per cent</i>	136.7	32.3	38.8	154.8	66.0	Jan-Sep
December-on-December	<i>per cent</i>	61.7	27.8	56.9	151.4	50.8	Sep-on-Sep
Unemployment rate, end-year							
ILO definition	<i>per cent</i>	8.1	8.0	6.7	6.0		
registered	<i>per cent</i>	10.9	8.9	6.3	8.8	8.7	Sept
General government budget balance	<i>per cent of GDP</i>	-1.9	-2.6	-4.0	-3.6		
Current account balance	<i>per cent of GDP</i>	-1.7	-4.9	-7.4	-6.7		
	<i>billion ECU</i>	-0.3	-1.4	-2.0	-2.0	-1.2	Jan-Jul
Foreign debt							
debt/export ratio <sup>1</sup>	<i>per cent</i>		64	83	91		
gross foreign debt	<i>billion ECU</i>	3.9	4.8	6.5	8.3	8.2	Jun
Foreign direct investment inflow							
net inflow according to EBRD	<i>per cent of GDP</i>	1.1	1.0	1.5	3.5		
balance of payments data	<i>million ECU</i>	288	321	207	1079	575	Jan-Jun

Source: Commission services, national sources, EBRD

<sup>1</sup> Gross hard currency debt as a percentage of exports of goods and services

The current account deficit in 1997 was higher than expected. Its rapid deterioration in the first months of 1998 is a source of serious concern. In 1997, the deficit reached ECU 2.1 billion, marginally less than in the previous year, and accounted for 6.8% of GDP. In 1998, the trade deficit deteriorated, under the influence of declining exports (-2.1% in the first seven months of the year compared to the same period of 1997) and increasing imports (+3.1%). This situation is especially severe, since economic activity has continued to decline (GDP in the first half of 1998 was 5.2% lower than in the same period of 1997) and Romanian workers have experienced a large cut in real wages in the last 18 months. The deterioration in the trade balance is linked to short term developments (including the evolution of real wages in recent months and the real appreciation of the leu) and structural factors, notably the weakness of the Romanian enterprise sector. It has led to an increase in the current account deficit in the first half of the year.

The growing external imbalances reflect the fundamental weakness of the country's productive base. Not only has it been unable to take advantage of its low level of labour costs, but it has also lost ground on the domestic market, which has been flooded with cheaper and better quality imported products. Industrial production was almost 17% lower in the first eight months of 1998 than in the same period of 1997. The weakness of the supply side has led to the perverse situation in which any resolute effort to fight inflation inevitably leads to a deterioration of the trade deficit.

This balance of payments constraint has become even more problematic in 1998, notably because of deteriorating conditions for the financing of the external deficits. Indeed, while there was a surge of long term investment in 1997 (in the financing of the current account deficit, the share of long-term capital inflows jumped from 48% of the current account deficit in 1996 to 94% in 1997), this trend has been reversed in 1998, mostly because of the lack of progress on large-scale privatisation.

In addition, since mid-1997 there is a growing reluctance of international investors to commit resources to Romania, whether in the form of direct investments, portfolio investments or bank lending. The recent downgrading of Romania's sovereign rating and the impact on emerging markets of the Asian and Russian crisis will further complicate the financing of the country's external financial needs and obligations.

### *Structural reforms*

The macroeconomic difficulties largely reflect the lack of sufficient progress in the field of restructuring of the large state-owned banks and enterprises. Initially, important structural reforms were achieved in 1997: the external tariff was substantially reduced, most prices were liberalised, tariffs of the utilities were adjusted automatically, the exchange market was liberalised and privatisation was accelerated. While most of these reforms are still in place, the reform momentum stalled in the second half of 1997, and has not accelerated since.

Progress on creating a legislative framework for a market economy has been ambivalent. There has been clear progress achieved through the adoption of laws on land circulation and registration. But the law on land restitution has not been enacted and the law on public property will only enter into force once the law on local public administration is adopted. There have also been repeated changes to the legislation on privatisation and foreign investment.

Restructuring of the large public enterprises has not progressed much. There have been some positive steps: the regular adjustment of administratively controlled prices has led to a marked reduction of losses in some public companies ("Régies autonomes"). The authorities have implemented a costly programme to reduce the labour force in the mining sector through severance payments, and many "Régies autonomes" have been transformed into commercial companies. In the spring and summer of 1998, further encouraging steps were taken, including the transformation of a number of additional "Régies autonomes" into commercial companies and the approval by the government of restructuring plans for RENEL (the electricity company) and SNCFR (the Railways Company).

However, doubts remain about the schedule for the effective introduction and implementation of these plans, as well as for the privatisation of some of the entities created by the separation of these large enterprises. Moreover, the government has not presented a restructuring plan for ROMGAZ (the Gas Company) and the steps that have been taken have been largely insufficient. The restructuring programmes of many of the large "Régies Autonomes" have not yet been implemented; the level of arrears in the economy has not decreased; and no strategy has been devised to tackle the problems of many large lossmaking industrial companies as well as the public steel sector, which is still largely characterised by obsolete and over-staffed capacities.

<b>Romania: Main indicators of economic structure in 1997</b>		
Population	<i>million</i>	22.5
GDP per head	<i>PPS-ECU</i>	5800
as % of EU-15 average	<i>per cent</i>	31
Share of agriculture in:		
gross value added	<i>per cent</i>	20.1
employment	<i>per cent</i>	39.0
Investment-to-GDP ratio	<i>per cent</i>	19
Gross foreign debt/GDP	<i>per cent</i>	27
Exports of goods & services/GDP	<i>per cent</i>	30
Stock of foreign direct investment <sup>1</sup>	<i>billion ECU</i>	2.2
	<i>ECU per head</i>	99
<i>Source: Commission services, national sources, EBRD, IMF</i>		
<sup>1</sup> <i>FDI stock converted at end-1997 exchange rate of 1ECU=\$1.10421</i>		

The financial sector has also become a source of serious concern. The largest public banks have been unable to impose financial discipline on state-owned enterprises. More than half of the commercial banks' assets were non-performing at the end of 1997, and overdue loans increased from 23% in December 1997 to 31% in June 1998. This situation led the authorities to carry out the massive recapitalisation of two public banks in 1997 through the issue of government bonds amounting to 1.4% and 1.8% of GDP, respectively. The interest payments linked to these bonds have increased fiscal expenditures in 1998 by as much as 1.7% of GDP.

The increasing weakness of banks has been reflected by a sharp decrease in their net foreign assets between December 1997 and June 1998. In 1997, banks drastically cut their lending to the private sector. The amount of credit to the non-government sector shrank from 24.5% of GDP at the end of 1996 to 14.4% of GDP at the end of 1997, and in the first seven months of 1998, it has increased only marginally in real terms. The share of credits denominated in foreign currencies has increased, accounting for 55% of credits to non-government at the end of June 1998, against nearly 37% at the end of 1996. This significantly increases the risks linked to a devaluation of the national currency. Banks have increasingly invested in Treasury bills, which offer very high returns.

While privatisation accelerated in 1997 (1300 companies were sold in 1997, against a total of 3000 between 1990 and 1996), most of the public enterprises which were sold were small to medium-sized. Only a small number of large enterprises - including the largest cement producer and one oil refinery - were sold. Although receipts from privatisation have increased, the number of privatisation transactions slowed down

considerably in the first half of 1998 and amounted to about 35% of the number reached in the same period of 1997. Large-scale privatisation has not accelerated despite the improved new privatisation and investment laws. In addition, receipts fell short of the authorities' expectations and the amount planned in the budget.

The authorities are committed to the privatisation of the public banks, and in particular to two of the smallest banks in 1998, to be followed by three larger banks in 1999. However, the process has faced many delays. The sale of the first state-owned bank was to take place in 1997 according to the original agreement with the World Bank. In the aftermath of the Russian and Asian crisis, it will be hard to implement the bank privatisation programme on schedule and according to the financial conditions anticipated by the authorities. Nonetheless the government has recently re-affirmed its determination to privatise two banks by the end of 1998 as planned. Failure to sell the two banks in 1998 would have a significant negative impact on the budget. The same applies to the sale of a 35% stake in the national telecommunication company.

### **2.3 Assessment in terms of the Copenhagen criteria**

#### *The existence of a functioning market economy*

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Romania has made good progress in price and trade liberalisation. The number of administratively controlled prices has continued to fall, and now represents less than 7% of the consumer price index. Trade liberalisation has progressed further, notably in the context of the obligations set out in the Europe Agreement. A large number of export quotas were eliminated, and import duties were reduced at the beginning of 1998. However, growing macroeconomic difficulties and the pressure of foreign competition led the Romanian authorities to increase duties on wheat imported from Hungary and to impose a 6% import surcharge as of 10 October 1998.

One important achievement has been the improvement of the framework of monetary policy. The special credits that the National Bank of Romania (NBR) had been forced to extend to agriculture and enterprises were terminated, and the independence of the NBR has been significantly strengthened. Following the liberalisation measures implemented in early 1997, the foreign exchange market has continued to function well. This has allowed the authorities to announce the full convertibility of the leu for current account transactions as of the end of March 1998; non-residents may conduct transactions on the Treasury bills market since September 1998.

However, markets for land and capital are not functioning properly. The unfinished and controversial process of land restitution, as well as difficulties in the operation of the land register, is still hampering the emergence of a market for land, and thus the full development of the agricultural sector. Similarly, the market for working capital

and long-term capital is not functioning satisfactorily, as local banks have reduced their exposure to the non-government sector and are extending credits only with very short-term maturities.

Despite an acceleration of privatisation, the public sector continues to play a predominant role in many sectors of the economy (60% of total ownership in industry at the end of 1997, down from 65% in 1996), due to the slow pace of privatisation of medium- and large-sized companies.

Corporate governance in banks has not improved and the share of non-performing loans has continued to increase. Moreover, given the uncertain prospects for privatising the largest of the public banks, there is still a strong possibility of moral hazard. This calls for a major strengthening of supervision activities and, more generally, for addressing the absence of financial discipline in public companies and entities, which has been the fundamental problem of the Romanian economy. Indeed, respect of contractual obligations, including timely payment of creditors remains elusive in Romania. Data on arrears to banks show a major increase from 1% to 5.6% of GDP - between June and December 1997.

The recent enactment of three important laws in the banking sector - new statutes of the NBR, the law on Bank Bankruptcy and the Banking Law - has greatly improved the legislative framework. The new statute of the NBR restricts the mandate of the NBR to ensuring price stability and limits the amount of financing that it can temporarily grant to the government, and the new Bank Bankruptcy Law significantly reinforces the supervisory power of the NBR. However, it remains to be seen how these laws will be implemented. Moreover, only a radical and sustained improvement in the overall macroeconomic conditions as well as the imposition of financial discipline throughout the economy will lead to a meaningful improvement in the situation of the financial sector, and thus to the emergence of banks able to foster the sustainable development of the private sector.

While activity and capitalisation of Romania's two stock markets have fallen sharply since the autumn of 1997, both the official Bucharest Stock Exchange and the over the counter RASDAQ markets are quite modern. But they have not been used sufficiently in the context of the privatisation programme, nor as vehicles for raising long term finance. Repeated changes in the legal framework for foreign investment and privatisation have made foreign investors cautious to invest in Romania since the autumn of 1997. In addition, the securities exchange commission continues to be relatively weak.

Despite major achievements in controlling inflation and reducing the deficit of the general government sector in 1997, macroeconomic stabilisation cannot be considered to have been achieved. This stems from a number of factors linked to the absence of restructuring in the large loss-making public enterprises, the very weak financial situation of the largest public banks and the continuous pressures for direct support and intervention from the state, which have constantly put the budget under pressure, as exemplified by the need to pass important supplementary budgets in 1997 and 1998. Moreover, failure to sustain reform of structural policies has placed an excessive burden on monetary policy.

More important, the evolution of the balance of payments in 1998, as well as the financing of the current account deficit, has become a cause of serious concern. The balance of payments appears vulnerable to changes in investors' perception of the evolution of the economic situation. Attracting foreign direct investment and other long-term capital remains crucial to ensure the sound financing of the balance of payments.

Romania has suffered particularly badly from the inconsistent approach to economic reform pursued by the authorities since mid-1997, and the absence of proper co-ordination between the various elements of economic policy. Instances of strong political dissent in the second half of 1997 and the early months of 1998 led to paralysis of structural reform. The possible adoption of two expensive projects (the purchase of attack helicopters and a meals vouchers scheme), would, if confirmed, have important fiscal repercussions in 1999 and in the years ahead, and would not be consistent with the target of fiscal consolidation and macroeconomic stabilisation.

There is no broad consensus on the main features of economic reform. The reform programmes have been discredited by the absence of a coherent implementation of some of the most important priorities outlined in these documents. Repeated failure to deliver on its national and international commitments has been detrimental to Romania's standing within the international lending community. An ambitious reform of the public administration, for which work has started under the auspices of an inter-ministerial committee, is a necessary and urgent step to ensure that policy commitments are implemented efficiently.

Romania has not made further progress in establishing a functioning market economy. There have been improvements in some fields – notably in terms of price and trade liberalisation, control over inflation, and financial sector legislation. However, macroeconomic stabilisation has not been achieved on a sustainable basis, and market institutions are weak. There is a lack of political consensus on reform, privatisation is proceeding too slowly and the role of the State continues to be predominant in many sectors of the economy. Capital and land markets are not functioning well.

### *The Capacity to Cope with Competitive Pressure and Market Forces within the Union*

Romania's ability to fulfil this criterion depends on the existence of a market economy and stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

The steep decline of public and private investment in 1997, when gross fixed capital formation fell by nearly 16%, has continued in 1998. The low level of investment is hampering the development and modernisation of the economy. In particular,

Romania's infrastructure continues to suffer from a chronic lack of investment. Romania will have to restructure the large utilities and service providers, and allow foreign strategic investors to step in if it is to reverse this situation. Such a strategy can bring radical improvements, as demonstrated in the field of mobile telecommunications, where foreign investment and competition have resulted in an extremely rapid increase in the number of subscribers.

FDI inflows reached ECU 1.1 billion in 1997, approximately five times the level registered in 1996. This was a considerable achievement, though still far below the authorities' expectations. However, inflows in the first seven months of 1998 fell compared to the same period of 1997. The relatively low level of FDI for a country of the size of Romania (both in terms of annual flows and accumulated capital) has held back the modernisation of the economy. It is complicating the sound financing of the external imbalances, and is one of the factors explaining Romania's lacklustre export performance.

Because of the trade, price and exchange rate liberalisation achieved in 1997 and early 1998, economic agents are confronted with a more open and competitive environment than previously. However, the worsening of the trade position in 1998 points to serious competitiveness problem of the local industry in a more competitive environment. This reflects low non-price competitiveness and also, to some extent, the impact of the continuous appreciation of the real exchange rate.

More fundamentally, the absence of a properly functioning market economy, and the non-respect by a large number of economic agents of their contractual obligations do not ensure a sound basis for economic activity. In addition, legal, macroeconomic and political uncertainty is not facilitating investment planning. The growth of the small and medium-sized private enterprises is stifled by the complexity of administrative rules and the absence of long-term capital and working capital financing from banks.

In 1997, the share of Romania's exports sold on European Union markets remained constant. However, in the first six months of 1998, while total exports were falling, the share of exports going to EU and to other countries in central and eastern Europe increased to 64% and 4% respectively, reflecting both an intensification of sub-contracting trade with the Union and the admission of Romania to CEFTA. While the strengthening of the bilateral trade with the EU is a positive development, most of Romania's exports are concentrated in a small number of sectors. For example, textiles and metals accounted for almost 47% of total exports in the first seven months of 1998. The share of imports from the EU increased to more than 57%.

Romania's capacity to cope with competitive pressure and market forces within the Union in the medium term has worsened since the Opinion. The low and declining levels of investment including foreign direct investment, as well as the poor export performance are indications of a fragile and faltering restructuring process. The lack of financial discipline of public enterprises, combined with the difficult macroeconomic and financial conditions, has hampered the ability of Romanian enterprises improve their performance and penetrate both domestic and foreign markets.

## **2.4 General Evaluation**

Romania has made very little progress in the creation of a market economy and its capacity to cope with competitive pressure and market forces has worsened.

Since the Opinion, there have been some clear improvements – notably in terms of price and trade liberalisation, control over inflation, convertibility of the leu and financial sector legislation. However, reforms have been far too hesitant and slow, complicated by legal and administrative uncertainty, as well as by frequent changes and delays in implementation. The state has not been able to impose financial discipline in the public enterprise sector, nor has it fully addressed the weaknesses in the financial sector. The disappointing pace of restructuring poses a constant challenge to macroeconomic stability, and has led to a rapid deterioration of external imbalances. This is causing serious problems for the financing of the balance of payments.

The economic situation in Romania is very serious. The new government must give absolute and urgent priority to restoring macroeconomic stability and establishing credibility in international financial markets. This must involve a substantial privatisation programme, attracting foreign direct investment, accelerating structural reforms and impressing financial discipline on enterprises. Romania urgently needs a medium term economic strategy to deal with all these issues comprehensively.

### **3. Ability to Assume the Obligations of Membership**

This section aims to up-date the Commission’s Opinion of 1997 on Romania’s ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission’s Opinion on Romania’s application for EU-membership, the Commission concluded that

“Despite the progress that has been made, Romania has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Romania will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, employment and social affairs, justice and home affairs as well as agriculture”.

The presentation which follows uses the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on progress made since July 1997. Under each heading legislative decisions and progress in implementing and enforcing the legislation are reported.

#### **3.1. Internal market without Frontiers**

As explained in the Opinion, the Union’s internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration

process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

### *General Framework*

Despite good intentions, no progress has been achieved so far in the area of public procurement.

In the area of intellectual property rights, Romania passed a modern copyright law in 1996 and acceded to a number of WIPO Conventions (Rome, Paris and Bern). However, Romania's administrative capacity to implement this legislation remains open to question. Romania should pay special attention to enforcement, including border enforcement, on which a new law is needed. Music piracy increased significantly in 1997.

In the area of industrial property rights, in November 1997 Romania submitted an application to accede to the Munich Convention. In January 1998, Parliament approved the ratification of certain conventions on industrial property, including the Madrid Protocol. Romania is now party to all WIPO conventions in industrial property, except the Budapest Treaty. A new trade mark law, in line with the *acquis*, was adopted in April and entered into force in July 1998. Some progress is still awaited notably with regard to the adoption of the Supplementary Protection Certificate for medicinal products. Special attention should be paid to enforcement (including border enforcement) which is likely to constitute a major weakness.

Romania recently signed the Council of Europe Convention n°108 on personal data protection, but has not yet ratified it.

### *The Four Freedoms*

#### **Free Movement of Goods**

Over the last year, Romania has made some progress with regard to the framework legislation facilitating the adoption of New Approach directives. The Government issued two important Ordinances, one on national standardisation and one accreditation and infrastructure for conformity assessment which put standardisation and accreditation on a sound legal footing in line with EU principles.

Whilst most European Standards have yet to be adopted, the standards institute has launched an impressive programme, the significance of which is clearly understood. In the field of Legal Metrology, some standards have been adopted in the course of 1998. A Decision on type approval for motor vehicles entered into force at the beginning of 1998.

Regulations have been adopted in the fields of low voltage (LVD) and electromagnetic compatibility (EMC).

An important separation of the standardisation and accreditation function has been achieved. Accreditation has been removed from the Romanian Institute for Standardisation and put under the responsibility of a National Accreditation Body. While certification and standardisation are not formally separated, they are operated independently with separate budgets.

### **Free movement of capital**

The Foreign Exchange Regulation (1994) was modified in order to allow for further liberalisation of the foreign exchange market and the elimination of restrictions regarding foreign exchange operations and foreign transfers. In March 1998, Romania achieved full current account convertibility for the leu and, thus, has acceded to IMF's Article VIII status.

In the field of the liberalisation of capital movements, restrictions on outflow of foreign direct investment, profits and dividends have been removed and Romania has liberalised the T-bill market for non-residents in September 1998.

Acceptance of foreign securities on the Romanian capital markets, transactions with money market instruments, transactions in the deposit accounts opened in Lei by non-residents, as well as most of the capital transfers by residents abroad remained subject to authorisation. Financial supervision as regards credit institutions is carried out by the Central bank. To perform this task effectively, NBR needs to be strengthened in terms of effective organisation, staff, skills and remuneration.

### **Free Movement of Services**

Three important laws on banking activity, the statute of the National Bank of Romania and on bank bankruptcy were adopted in early 1998. This new legislation is designed to consolidate the central bank's independence, its supervisory capacity and the prudential regulation of the banking system. The NBR is now the sole licensing and supervisory authority for commercial banks. According to the Romanian authorities, prudential regulations are now fully in line with corresponding EU norms. Implementing measures are being prepared by the NBR. An important Law on money laundering was adopted in October 1998. Emphasis should now shift to the effective implementation and enforcement of these laws.

The current payments system still cannot be considered sufficiently advanced. Further reforms (notably the introduction of a real time giro system) are necessary.

No significant progress has been reported on the alignment of Romanian legislation to the *acquis* on securities markets. Conditions for foreign companies are more stringent than those for Romanian companies. Serious gaps are considered to persist in relation to insider regulations, general information to be provided to the public and as regards authorisation and capital adequacy requirements for investment firms. The Bucharest Stock Exchange, while functioning well at a technical level, reflected the general downward trend of the markets in the region. The Rasdaq which represents mainly minority shareholding in state controlled companies still performs poorly. However, technical barriers preventing registries to access RASDAQ are now lifted. Reporting on companies contributes little to the transparency of markets. The national Securities Exchange Commission (CNVM) still requires considerable strengthening in terms of staff, skills, remuneration, enforcement capacity and de facto independence.

As regards insurance, the Office for Supervision of Insurance and Reinsurance activities (OSAAR) is not independent yet and needs strengthening in terms of staffing, budget, skills and modern equipment. The privatisation of the two state owned insurance companies, which dominate the Romanian insurance market, was initiated in early 1998.

### **Free movement of persons**

(a) *Free Movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications*

There is little new to report on the mutual recognition of diplomas and professional qualifications. Some progress can be noted on strengthening the mobility of students. No activities have been undertaken so far as regards the recognition of professional qualifications.

(b) *Abolition of checks on persons at internal frontiers*

Apart from progress made on visas (see section 3.7 on justice and home affairs) there have been no new developments.

### *Competition*

In the field of anti-trust, Romania's Competition Law is largely in line with EC legislation, although further alignment is needed. There is a need for a regulation on economic concentration. The enforcement of competition laws and ordinances needs to be further strengthened. Both the Competition Council and Competition office need additional staff and further training. Secondary legislation should be adopted and the responsibilities of the Competition Office, mainly focused on price regulation, still need to be reviewed.

The gradual liberalisation of monopolies and autonomous administrations has gained momentum in summer 1998, following a decision to proceed on the basis of Emergency Ordinances issued by the Government, notably as regards the reorganisation and restructuring of autonomous administrations as commercial companies having the state as sole stakeholder. Liberalisation starts to extend to sectors such as energy, air transport, railways, harbours, telecommunications and postal services. This trend should be further pursued. Laws on concessions and on state property (establishing the public and the private domain of the state) have been approved by the Parliament: both laws are pre-requisites for the operation of public utilities by the private sector. A considerable effort will now be required to inventory and classify assets and to establish independent regulatory authorities.

Major efforts are still needed to establish a sound basis for the assessing and allocating state aids. A first State aid inventory has been prepared by the Competition Office. It constitutes a first step in the right direction that should be further improved. It can be presumed that, at this stage, State aid policy is not enforced in accordance with the *acquis*.

Certain indirect support measures such as soft loans and interest rebates have been recorded for which the compatibility with Europe Agreement provisions remains to be assessed.

## **Conclusion**

Steps are being taken to meet the short term priorities of the Accession Partnership, notably with regard to banking legislation, intellectual and industrial property and industrial product legislation. With framework legislation in most areas yet to be completed, the development of the appropriate implementation and enforcement structures will remain a major challenge. The overall assessment of last year's Opinion, - that a considerable effort will have to be made if it is to adopt and implement the internal market legislation and equip itself with the machinery needed for the application of that legislation - remains valid. Progress has been made on anti trust legislation although further attention to enforcement is needed. The lack of any legal framework on state aid requires major efforts to improve the situation in line with the requirements of the *acquis*. It is important to review and adopt a Law on State Aid and complete the first state aid inventory.

## **3.2. Innovation**

### *Information Society*

Progress has been achieved in this field. A "National Strategy for Informatisation and fast implementation of the information society" was adopted by the Government in February 1998, aiming at the strategic improvement of the information infrastructure, developing the information technology industry and developing information technologies for the public administration. A State Secretariat for the Information Society has been created for policy development and monitoring while the independent Romanian Authority for Informatics supervises the market and personal data processing.

Liberalisation in the field of data transmission has progressed. This has created a better basis for dynamic development of the information society. Today, there are 1,300 sub-domains registered and more than 18,000 host computers. Romania has a wide private cable television network with 3 million connected users, while television companies are allowed to transmit data and to connect to the Internet.

Romania participates in the High Level committee on the information society.

### *Education, Training and Youth*

The Ministry of Education has taken major steps towards institutional and legislative reforms, such as the setting up a National Council for Curriculum and the independent National Office for Evaluation and Examination.

In July 1998 the National Agency for Employment and Vocational Training was established by law. This new law sets the basis for the promotion of vocational training in line with labour market trends and enterprise demands, to be monitored by the newly created National Council for Vocational Training.

Major efforts need to be made in order to overcome internal attitudinal resistance and to establish curricula which foster inter-ethnic tolerance and understanding. A positive development in this regard is the privileged treatment of Roma by reserving a specific number of places for admission to teacher training and academic education in the field of social administration in 1998-1999.

Since 1997, Romania has participated in the Socrates, Leonardo and Youth for Europe programmes of the European Union. An estimated 800 Romanians have participated under Youth for Europe in 1997/98, 321 participants were registered for Socrates and 767 for Leonardo.

### *Research and Technological Development*

Romania has officially asked to start the negotiations for the full association with the 5<sup>th</sup> Framework Programme in February 1998. Two rounds of exploratory talks in view of the formal negotiations took place.

Research is mentioned as a priority in the National Programme for the Adoption of the *Acquis*.

A law was adopted in 1998 concerning the stimulation of Research and Technological Development and innovation which foresees the setting up of the National Plan (1998/2002) for the decentralisation of RTD institutions and structures. It creates, with the support of the Research and Development Fund and of the Innovation Stimulation Fund, a new financial and management framework in line with the EU procedures.

## *Telecommunications*

The 1996 Telecommunications Law has provided a general framework of market regulation. Secondary legislation has been issued on the authorisation of data transmission on CATV networks, of paging, trunking and CATV networks as well as on interconnection of telecommunications networks.

The legislative framework in force since 1998 includes the liberalisation of alternative infrastructures by authorising data transmission on the cable TV networks and by allowing the provision of voice telephony services for closed user groups at the seaport of Constanta. Full liberalisation of the markets for voice telephony and infrastructure is foreseen to be completed on 1 January 2003 and first steps have been taken to set up an independent Regulatory Agency. Some progress has been made in telephone penetration which has increased from 14% in January 1997 to 16% in September 1998. After operating for one year, the two GSM operators have around 450,000 subscribers.

In 1998, the autonomous administrations Romtelecom and Radio-communicatii and Posta Romana have been restructured as commercial companies. The subsequent separation of the management of the national operators from the Ministry's regulatory functions provides the basis for the privatisation of 35% of the telephone operator, Romtelecom.

There has been little progress in the field of approximation of legislation with only one decree on interconnection adopted this year.

As far as postal services are concerned, a 1996 framework law defines and classifies postal services, including universal service, and introduces a licensing regime for postal operators. Accordingly, basic service will remain a monopoly until 2001. Further legislative amendments in 1997 specify the authorisation procedures for postal services open to competition.

## *Audio-visual*

Some progress has been made since 1997 (certain Decisions issued by the national Audio-visual Council), which bring the Romanian regulatory framework closer to the audio-visual *acquis*. However, the 1992 broadcasting law will need to be amended in order to achieve full alignment.

The National Audio-visual Council is well established and endowed with adequate powers but it requires strengthening in terms of human and material resources to fulfil its missions effectively.

## **Conclusion**

Some progress has been achieved in the approximation of legislation in the telecommunications and audio-visual sectors. The general economic situation hampers the growth of the information society and research and development. The

non-alignment with the Television without Frontiers directive prevents Romania from participating in the MEDIA programme.

### **3.3. Economic and fiscal affairs**

#### *Economic and Monetary Union*

Romania has made some progress in its preparations for joining Economic and Monetary Union.

Since mid 1997, the foreign exchange market has functioned well. Officially, the exchange rate is freely floating but the National Bank has intervened frequently on the market to limit the rate of depreciation of the national currency, which is under increasing pressure. No bank has been privatised since mid 97. However, privatisation procedures have been launched for two small banks. The financial sector remains very weak; the share of bad loans is still considerable.

The independence of the NBR has been further strengthened. A new Statute of the National Bank of Romania entered into force on 30 June 1998, stipulating price stability as its main objective. The NBR can no longer finance the overdraft account of the Treasury but, given the insufficient development of the financial markets, may grant loans with up to 180 days maturity at market interest rate, with a view to filling the temporary gap between Treasury account revenues and payments.

#### *Taxation*

Control procedures in fiscal administration have been improved. Tax collection eroded significantly in past years and the budget's share of GDP dropped to 30%.

In the field of indirect taxation, recent changes to VAT legislation include reducing the scope of exempt transactions, eliminating differences in taxation between the supply of imported services and similar domestic services and redefining the provisions governing exemptions for the export of goods, passenger transport and certain other services. The dual VAT rates have been increased to 22% and 11% respectively.

*Excise duties* are now largely regulated by legislation adopted in the second half of 1997 in order to bring the country's excise legislation more into line with Community requirements. This ordinance introduced new duty structures and systems of rates for the common excise duties and extends the fiscal supervision system for the production and distribution of alcohol. Other measures comprise the regrouping of products and product groups and a review of the taxation base. Taxation for important product groups (spirits and tobacco) has mostly been brought in line with the *acquis*.

Implementation and enforcement of the reforms depend on a drastic strengthening of the tax administration at central and local levels. Cooperation and communication with customs, financial regulators and other institutions concerned needs also to be established and intensified.

## **Conclusion**

Some progress has been made in the VAT field but these efforts need to be sustained. The progress made on excise duties should be continued towards full alignment with the *acquis*. Major efforts are needed to strengthen the administrative capacity of the tax administration.

### *Statistics*

A Law on Statistics, adopted in 1992 and amended in 1994, is in principle in line with the current standards applied at European Union level. Progress has been made in a number of statistical areas (e.g. classifications, business structure) and measures are currently being taken to harmonise the Romanian statistical system with EU requirements. The administrative structures to implement and enforce the *acquis* in this area are largely in place.

In the transition towards full alignment, some specific issues deserve continued attention, such as external trade and macro-economic statistics, national accounting and consumer price indices, to be based on government finance statistics, social statistics, in particular as regards national minorities, the business register and the establishment of regional accounts.

## **3.4. Sectoral policies**

### *Industry*

Industry policy in Romania makes a clear distinction between traditional sectors and emerging sectors. The first group (refinery, chemical, machine-building, metallurgy, and synthetic textiles) has been targeted for substantial restructuring and privatisation efforts. The second group (communication equipment, electric machines, fabrics, furs, leather, and furniture) is now largely in the private sector, and is the focus of new horizontal policies to stimulate investment and growth. The latter group has been the engine for growth in recent years, whilst in the former, performance has been declining, and restructuring efforts have led to employment losses. Product quality and price competitiveness are problems that are to be tackled in both groups.

Romania sets out its industrial policy approach in the Medium Term Strategy for Economic Reform, presented in July 1998. The main objectives of Romanian industrial policy are broadly compatible with the EU's industrial competitiveness policy.

There has been progress in restructuring of autonomous administrations and their conversion into national companies, with a view to privatisation and improving the competitive environment. However, the law on concessions foresees that successor companies maintain exclusive access to state infrastructure and prevents the tendering of services. Further, direct and indirect subsidisation of the autonomous administrations and other large state owned enterprises continues to be the major problem for the country in creating an appropriate market based business

environment. These undertakings tend to crowd out new market entrants, soak-up available financial resources, and distort prices.

The restructuring of manufacturing industries, such as steel, has been marked by a lack of political will to close down non-viable companies, and to reduce the number of companies in line with capacity requirements. There has been progress in the elimination of subsidies in some industrial areas, notably in the mining sector.

In a number of industrial sectors privatisation has advanced, and in certain areas including textiles and clothing, leather and shoes, building materials, and the wood industry activity is now predominantly private.

Significant capacity reductions have been implemented in the chemicals and petrochemicals industry. Five refineries and two large fertiliser units have been privatised.

During the period July 1997 to 1998, industrial production fell by 15,8%. A 6% import surcharge was introduced in September 1998 for a 2-year period in order to protect industry and the economy during restructuring. This measure is in general terms not compatible with the EU approach to stimulating performance through open and competitive markets, but provision is made for such action under exceptional circumstances in the Europe Agreement. However, the speeding up of privatisation and structural reform of the Romanian enterprise sector, accompanied by key horizontal policy actions of the kind described above, remains crucial to the development of the vibrant, competitive enterprise sector which needs to be at the centre of an appropriate business environment.

Investment legislation is complex and administrative procedures for investors cumbersome. Any further amendments to existing investment legislation should be comprehensive and oriented towards the reduction of bureaucratic obstacles.

## **Conclusion**

It remains to be seen whether the reorganisation of autonomous administrations and the planned restructuring and privatisation of major state enterprises will lead to a reduction of economic imbalances and an upturn in investment and industrial activity in viable sectors within an acceptable period of time. If not implemented effectively, a further deterioration of the macroeconomic situation might be unavoidable

## *Agriculture*

### **Agricultural situation**

Since 1993 the relative importance of agriculture in the Romanian economy remained stable at about 20 % of GDP, and its share of total employment is still increasing, reaching almost 40 % in 1997. While 1997 was an excellent year for cereals, confirming Romania's return to being a net cereal exporter since 1995, the downward trend in livestock numbers and animal production continued (excepted for milk

production), with the largest fall occurring in the state sector and following the liquidation of many state-owned pig and poultry farms.

### **Agricultural policy**

Amendments to the Land Law and the land Lease Law and the new Land Circulation Law were important steps in the establishment of a legal framework for buying, selling and leasing land, that will have to be completed by the creation of a unified land registration service covering the whole country. At the beginning of 1998 78 % of landowners had received land titles while 72 % of total agricultural land and 84 % of arable land were cultivated by private farmers.

Out of 109 state pig and poultry farms, 26 were liquidated and 20 privatised in 1997 many commercial companies (state crop farms) remained in the hands of the state, using 12 % of the agricultural area. Privatisation of the food industry continued in 1997, but at a slower pace than expected. By March 1998, 184 commercial companies had been privatised, but 240 remained in state hands. All autonomous agricultural administrations had been corporatised by mid 1998, in line with the short term priorities of the Accession Partnership.

All export bans, quotas and licences were removed in 1997. Direct controls on input prices were also eliminated, and the free distribution of fertilisers was phased out. In order to ease the impact of these reforms, vouchers were distributed directly to private farmers, to pay for inputs and services (fertilisers, seeds, plant protection, fuel, and new machinery).

Although most price support schemes previously applied were been discontinued in 1997, a transitional wheat-marketing scheme was put in place, involving a purchase revolving credit fund and seasonal storage subsidies.

A General Direction for Rural Development was set up in order to favour a harmonised approach to public interventions in rural areas and to progressively draw up and implement multi-sectoral development programmes. The Ministry of Agriculture has also started implementing a specific policy for less favoured areas.

Little progress has been achieved in the development of the veterinary *acquis*. The staff of the veterinary agency is competent in drafting and enforcing legislation but further training is needed. Major efforts are being made to improve the standards, management, training and efficiency with which the state and private medical veterinary services control, monitor and diagnose statutory diseases and ensure health and hygiene standards demanded by law. A new certification system has been set up in accordance with EU norms and new regulations for the import and export of live animals have further approximated in 1998. However, border inspection posts do not have the necessary infrastructure to carry out the physical inspections of consignments. A computerised communication network does not exist within the state veterinary service.

No significant progress has been achieved in the phytosanitary field. New legislation on seeds and seed varieties has been adopted which is in line with the EU catalogue

and these products can subsequently be imported without obligatory testing. Certification of imports of seeds and planting materials is approximated. However, the administrative and legislative capacity of the responsible Directorate for Plant Protection of the Ministry of Agriculture and Food directorate remained weak. Communication between the central and regional administrations remained hampered and the number of regular meetings between the regional and central administration was reduced for financial reasons. The regional Phytosanitary Inspectorates and the Border Inspection Points do not have sufficient communications equipment or have outdated equipment. The budget allocated to the phytosanitary administrations is very limited and does not allow for investment in laboratory equipment, training, and communication, strengthening border controls.

## **Conclusion**

In relation to the short term Accession Partnership priorities, there has been progress which should be sustained. Good progress has been made since July 1997 in phasing out sectoral monopolies and corporatising all agricultural autonomous administrations as commercial companies. Agricultural prices were completely liberalised, subsidies and directed credits were phased out.

Progress can also be seen in the establishment of an open land market. Land selling and leasing has been facilitated and the development of the land registration system is underway, although there is scope to speed up developments in this field. A major blockage for the completion of land reform is the lack of political capacity to broker a compromise on the question of land restitution and the privatisation of state farm land.

Although some progress was achieved in the further development of the veterinary *acquis*. Substantial additional efforts need to be devoted to the phytosanitary field

## *Fisheries*

A Fisheries Policy Framework was adopted in April 1998. The document outlines the intended development of the Romanian fisheries sector in general and defines the structure of the Department for Fishing and Fisheries (DFF), including its staffing, the development of an information system on the supply and demand of fish, permanent monitoring and updating of information concerning the fisheries sector and sector related research and development.

The Ministry of Agriculture and Food has established and staffed a Directorate dealing with Fisheries, Pisciculture and Pisciculture Inspection. Officials and industry interests are represented on a working group established by the Ministry of Agriculture to study EU legislation and enforcement practices for fish and fish products.

While there has been progress on planning the necessary institutional, legal and policy developments with a view to further European integration, the overall assessment of last years' Opinion - that significant further efforts are needed in order to adapt the sector for accession - remains valid.

## *Energy*

Romania made progress in adjusting monopolies, liberalising energy prices and phasing out state interventions in the solid fuel sector.

The government made important headway in the reform of the energy sector in July 1998 by deciding on the restructuring of the *régie autonome* RENEL, splitting it into two national companies and one *régie autonome* for the production of heavy water and research activities. A restructuring programme for the gas utility (ROMGAZ) was also adopted. Electricity and gas sector restructuring plans take account of the Union's directives. The energy sector is being gradually opened up to competition and privatisation prepared. Parts of the power sector are foreseen to be privatised and opened up to competition according to the planned restructuring. The framework is in place for establishing private power plants.

An energy regulatory authority has been recently established. Despite this necessary framework for independent operation, there is concern that staffing levels and salaries will be insufficient for the body to function properly.

Romania's oil refining sector will need to become more competitive and to meet European quality and environmental standards. Some refineries have been privatised. Community legislation on oil stock levels should be adopted and appropriate oil stock levels ensured.

Restructuring of the coal sector began last year, with the work-force halved as a result of closing mines and generous severance payments. Substantial investment will be required to complete the closure of unprofitable mines and to mitigate social consequences and implications for regional economies.

The Government started to raise energy prices and phase out cross-subsidies built into the system in favour of households. This process is foreseen to be completed by end 1999. A new energy efficiency strategy, including both supply and demand aspects, was approved in 1997, which includes a scenario based on financial incentives for reducing energy intensity by 22% by the year 2005. Romania has to step up its work on the energy efficiency *acquis*.

Unit 1 of the Cernavoda nuclear power plant (built with Western technology) is now in operation providing 8 % of the country's power. A decision regarding financing for Unit 2 is expected at the end of 1998. The nuclear sector is considered a national priority, and studies have shown that this is the least-cost option for power supply. In the long-term, 5 units are consequently planned at the Cernavoda site. Domestic uranium production was sufficient for local needs in 1997.

The Atomic Act of 1996 was further amended in 1998: the Safety Authority has been established as an independent body answering directly to the Government. Staffing levels and salaries are still too low. There are proposals to increase the staff by also incorporating specialists from other Ministries.

The establishment of an Agency for Radwaste Management has been proposed. Spent fuel will be stored on site before intermediate storage and pending a decision on final disposal.

## **Conclusion**

In line with the Commission's Opinion, Romania has stepped up its efforts in the energy sector in order to prepare for integration. The completion of the legal framework in line with the *acquis* should be pursued as a matter of priority and the necessary steps taken to establish and strengthen implementation and enforcement mechanisms. The newly-established energy regulatory authority and Nuclear Safety Authority which needs to develop a safety culture should be given the means to function properly and the Agency for Radwaste Management should be set up.

It will be necessary to monitor progress in the adoption and implementation of legislative and restructuring plans. Particular areas of concern in the adaptation of the internal energy market are adjustment of monopolies and the continued restructuring of the sector, access to networks and price and tariff restructuring; state interventions in the solid fuels sector; development of energy efficiency, and fuel quality standards. Progress in meeting requirements as regards mandatory oil stocks also needs to be made.

## *Transport*

Since 1997 the Romanian legal harmonisation process has been substantially reinforced. Subject to a close monitoring of the continuity of their validity, a very significant number of Governmental Ordinances aim to meet Community requirements in all modes of transport.

As regards road transport, a series of Governmental Ordinances is intended to transpose the conditions of access to the market for transport services, competition and certain technical requirements linked to upgrading the infrastructure. The current negotiations on conditions for the carriage of goods and on international occasional carriage of passengers (INTERBUS) should offer an opportunity to establish reasonable medium term deadlines for fulfilling the remaining priorities identified in this field.

New Governmental Decrees on rail transport regulate access to infrastructures and foresee a comprehensive restructuring of the railway company (SNCFR).

In the field of air transport, the updated Government Programme for restructuring TAROM is under way. Other autonomous administrations (e.g. airport administrations) have been transferred to local administrations. The current negotiations on market access aim to provide the appropriate framework for the identification of detailed measures to be taken for the full transposition and application of the *acquis*.

On maritime and inland waterway transport, Government Decisions have been taken on the use of the International Code for Safety Management (ISM), the free market,

training of the crew and certificates. Autonomous administrations in this area are being restructured.

Romania is implementing its Road Infrastructure Programme. Overall, preparation for privatising state-owned transport companies is under way. Romania is implementing its Road Infrastructure Programme. In the "Transport Infrastructure Needs Assessment" (TINA), an outline of the priorities for the main rail and road networks has been endorsed, fulfilling the criteria in the Guidelines for developing the Trans-European Transport Network. Romania is actively participating in regional initiatives.

The current infrastructure programmes will place a strain on domestic resources, even with EU support. It would also be useful to establish a global strategy on infrastructure financing, involving the EU, the EIB, the international financial institutions and the private sector.

## **Conclusion**

Although Romania has made progress in transport harmonisation, major efforts still need to be made, particularly on road and maritime safety.

No specific improvements in administrative structures have so far been clearly indicated. Romania should prepare a detailed summary programme for the establishment of the bodies necessary to manage the *acquis*, including the identification of training needs where appropriate.

## *Small and Medium Enterprises*

The general economic environment described in section 2 has not helped the SME sector. SMEs are crowded out by high interest rates, limited access to international finance and the lack of project appraisal skills in the banking sector.

The distribution of governmental tasks as regards SMEs remains unclear. Policy responsibility has been taken over recently by the Council of Reform, supported by an Inter-ministerial Committee for Reform. There is a need for a law to encourage the setting-up and development of SMEs. It should cover issues such as the definition of SMEs, simplify the legal and administrative framework and improve SMEs' access to finance.

Investment related legislation and administrative procedures remain cumbersome and their further streamlining remains an important task. To establish a conducive enabling environment for SMEs, considerable additional efforts on macroeconomic stabilisation, accelerated structural reforms and improved investment related legislation are necessary.

Romania is expected to participate in the Third Multiannual Programme for SMEs (1997 - 2000).

### **3.5 Economic and Social Cohesion**

#### *Employment and Social Affairs*

Registered unemployment is approaching 10%, while there remains substantial hidden unemployment. In addition, Romania has serious problems with long term unemployment and important regional disparities.

In the area of health and safety at work there has been progress in the transposition of a number of EU Directives. Progress on the administrative side lags behind, the creation of an integrated Labour Inspection is not foreseen before 2000.

There has been no new legislation in the area of equal opportunities apart from law on parental leave which however does not fully cover the provisions of the relevant EU directives. A substantial effort has been made to create structures to monitor respect for equal rights.

As regards health, transitional arrangements have been put in place before legislation on health social insurance is set to become fully operational by 1999. A Government Decision governs ambulatory medical assistance, and establishes the list of essential human medicines which are supplied without any charge. Another law approved during 1998 governs public health assistance aimed at prevention of diseases and controlling the implementation of hygiene and public health norms. Curative medical assistance is to be provided through the social health insurance system. It is too early to establish whether these institutional arrangements will succeed in redressing the overall state of the health system, still considerably below EU standards.

The development of social dialogue at national level between government, trades unions and employers associations was instituted through a 1997 law regulating the organisation and functioning of the Economic and Social Council. Cooperation structures are being established at regional and local levels. Legal initiatives have been launched to strengthen the roles of the social partners. However, due to traditional attitudes and to the weakness of independent employer organisations, tripartite arrangements and agreements still prevail and independent bipartite agreements between the social partners remain rare.

In the area of labour law legislation on collective redundancies and protection of employees in cases of insolvency is only partially harmonised and much remains to be done in particular to transpose the insolvency and European Works Council directives.

#### **Conclusion**

Although on the legislative side there has been some progress in a number of areas, the overall pace of reform remained slow. In line with the needs identified in the Commission's 1997 Opinion, much remains to be done in the coming years to strengthen the public administration and enforcement structures in most areas of social policy and particularly on health and safety at work, public health and labour

market and employment policies. In the field of health and safety at work, greater efforts could be undertaken to review the existing organisational structures in line with the objectives declared by the Government.

Continued efforts are also required to ensure that efficient social protection measures are developed, although budgetary resources are scarce.

### *Regional Policy and Cohesion*

In the period following the 1997 Opinion there has been notable progress in the creation of the institutional structures and sectoral co-ordination mechanisms required for Romania's participation in EU structural policy. In particular a Law on Regional Development, drafted with EU assistance and approved in July 1998, has created a framework for the development and implementation of regional policies.

The law constitutes the legal basis for Romania's regional policy, and defines national and regional level policy and programming structures. It now needs to be implemented. A National Board for Regional Development is the national decision-maker on structural policy and cohesion matters, with a National Agency for Regional Development as an executive body. A National Fund for Regional Development is established as the channel for budgetary and EU funds in support of regional programmes. The necessary institutional structure is now being set up and inter-ministerial co-ordination will need to be strengthened. Financial and monitoring procedures also need to be strengthened and the financial instruments of regional policy are still weak.

In seven of the eight regions established, agreements have been signed between the participating country (judet) councils setting up the associations envisaged under the law. In four cases the regions have gone on to set up Regional Development Agencies as envisaged under the law. These agencies will oversee the implementation of regional programmes.

### **Conclusion**

While problems remain, particularly as regards institutional structures and financial procedures, Romania has made important steps in regional policy development.

## **3.6. Quality of Life and Environment**

### *Environment*

There has been little progress in the transposition of environmental legislation since early 1997. There is no comprehensive policy approach in this core area of Community legislation. Some limited progress has been achieved on the environmental *acquis* covering the water sector. In addition, a number of implementing regulations have been passed.

Romania has not adopted any framework laws in the various environmental sectors despite the priorities included in the Accession Partnership.

There is an urgent need for a comprehensive reorganisation of the Ministry of Waters, Forests and Environmental Protection.

The organisational structure for enforcement needs to be strengthened. Monitoring of air and water is still far behind EU requirements, with the exception of the measurement of pollution in the effluent of urban wastewater treatment plants.

Major investments will be needed. Romania should work in close co-operation with the European Investment Bank and the International Financial Institutions as well as the EU in order to develop appropriate financing strategies.

## **Conclusion**

The overall status of Romania's approximation efforts is low. Much remains to be done to comply with the short-term priorities of the Accession Partnership. Romania still faces very serious problems of air protection, water management and waste management. The pace of legal approximation and institution building should be accelerated and the structure of the Ministry of Waters, Forests and Environmental Protection should be improved. The elaboration of a consistent environmental strategy and the development of directive-specific implementation programmes are indispensable for further progress in European integration.

### *Consumer Protection*

Romanian legislation on general Product Safety and Product Liability is partially in line with Community legislation. There appears to be no legislation concerning Dangerous Imitations, Consumer Credit and Timeshare properties.

In view of the fact that consumer protection is a medium term priority in the Accession Partnership, Romania will have to make substantial efforts in this field. Since the Opinion very limited transposition has been made. There is a need to improve the efficiency of the institutional structures to ensure the application of legislation. Consumer Protection Associations need to be further strengthened to become effective.

## **3.7. Justice and home affairs**

In July 1997 the Commission noted that Romania had particular problems in the area of justice and home affairs, particularly as regards supervision and control of enforcement agencies and the fight against organised crime and drugs. Little had been done to tackle issues such as immigration policy, issuing of visas and border control. Progress would depend on a process of generalised institutional reform.

### *Immigration /Border controls*

Romania is both a country of emigration and a country of transit. It has extended (to 85) the list of countries whose nationals are subject to visa requirements, and on the EU's recommendation it now requires an airport/port transit visa from nationals of 12 countries. It has so far concluded readmission agreements with nine EU Member States and cooperation in this area is satisfactory.

However, no significant progress has been recorded on border controls, though this was one of the three short-term priorities of the Accession Partnership and particular attention should be paid to the borders with Moldova and Ukraine and the port of Constanta. The reasons for this inaction include poor demarcation of the respective duties of border guards and border police and grossly inadequate training. Romania urgently needs to clarify the interdepartmental division of responsibilities and make a major effort to acquire surveillance equipment and information systems. This is one of the things that must be done before acceding to the country's request to be taken off the common list.

### *Asylum*

Procedures need to be revised to make them faster and more transparent, particularly as far as NGOs are concerned. Romania should adopt the EU system of safe third countries.

### *Police*

As regards measures against organised crime, Romania has still not ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, which it signed on 18 March 1997, and laws on the following subject are still at the draft stage: prevention of use of the banking system for money laundering operations; measures to combat organised crime; prevention and control of corruption. However, agreements have been concluded with Austria, Bulgaria, Greece, Hungary, Moldova, Turkey and Ukraine to tackle organised crime and illegal immigration.

Since the Opinion there has been no progress on reorganisation of the police, although the government has announced plans to demilitarise and radically reform the force, including a draft law on the rules governing police officers.

The European Convention on the Suppression of Terrorism came into force on 3 August 1997.

### *Drugs*

Drug trafficking in Romania is on the increase and some large consignments have been seized. Romania signed the Agreement on Illicit Traffic by Sea, implementing Article 17 of the UN Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances, but has not yet adopted laws on drug trafficking, drug abuse or chemical precursors. There is still no national programme to control and reduce demand and the interdepartmental anti-drugs committee which should be instrumental in framing and implementing a comprehensive policy is still not up and running.

### *Judicial cooperation*

Romania ratified the European Convention on Extradition and its two additional protocols on 10 September 1997 and they came into force on 9 December that year. On 20 November 1997 it signed the European Convention on the Transfer of Proceedings in Criminal Matters (not yet ratified) and on 8 April this year it signed the additional protocol to the Convention on the Transfer of Sentenced Persons; the Convention itself entered into force on 8 December 1996.

It has still not ratified the European Convention on Mutual Assistance in Criminal Matters which it signed in June 1995, nor the additional protocol, signed in February 1996.

### *Conclusion*

In the short-term priorities for the Accession Partnership the Commission called on Romania to step up its efforts to combat corruption and organised crime and improve border controls. No significant progress has been recorded in any of these three areas.

There have been some improvements on visas and readmission policy, and seven major international legal instruments have been signed or ratified or have entered into force. Even on this front, however, Romania still has to ratify some agreements, including the European Conventions on Mutual Assistance in Criminal Matters and Money Laundering, and adopt the necessary implementing legislation.

Broadly speaking what is required now is for Romania to give effect to the numerous reforms announced in the field of justice and home affairs, particularly the institutional reform urged on it by the Commission in July 1997, and allocate the human and financial resources necessary for their effective implementation .

## **3.8. External policies**

### *Trade and international economic relations*

Given the nature of the Common Commercial policy, progress has been primarily been in terms of coordination and alignment of policies rather than on harmonisation.

Romania, like the EU, has signed up to the WTO Information technology agreement and made offers in both the basic telecoms and the financial services agreements.

With regards to alignment with the Union's network of regional arrangements, Romania entered into a free trade area with Turkey on 1 February 1998. Contacts have been taken up with all the Baltic States with a view to establishing FTAs. Romania became a member of CEFTA on 1 July 1997. By signing the Charter of the Economic Conference of the Black Sea on 4 June 1998, Romania has become a full member of the recently established organisation.

The remaining export restrictions have been eliminated and tariffs reductions for certain industrial and agricultural products have taken place as foreseen in the Europe

Agreement. Romania has accepted the conditions of article VIII of the IMF Articles of Agreement concerning the movements of capital for current account transactions.

### *Development*

In the 1997-1998 period, Romania has continued to improve the legal framework for its relations with developing countries, mainly in the fields of economic and trade cooperation. No progress has been achieved concerning development cooperation with ACP countries.

### *Customs*

There has been progress in the approximation of legislation. The new Romanian customs code was adopted in July 1997 and came into force in October 1997, accompanied by the necessary application rules.

In October 1997, technical procedures on the completion, use and printing of the Single Administrative Document entered into force.

Romania currently maintains its own integrated Tariff. In order to improve compatibility between this and the integrated Community Tariff (TARIC), a new department has been created within the Customs Board.

The principles used in the Common Transit system on the clearance of goods, have been implemented. A system of guarantees was introduced in 1998. Romania continues to make preparations for adherence to the European Convention on Common Transit.

A new statute on customs personnel has been approved, regulating their rights and responsibilities, recruitment, training and wage systems at the managerial and executive levels.

Progress has been made in the area of border management. A special customs surveillance corridor has been created along Romania's borders allowing for surprise checks. Customs authorities can also carry out checks in company premises.

There has been investment in physical and information infrastructure. Several new customs offices have been built and equipped. Computerised customs clearance of goods has been introduced and the Integrated Customs Information System (ICIS) implemented with a view to streamlining customs documents and applications at customs office level.

### **Conclusion**

Progress still needs to be made on achieving the compatibility of the Romanian Integrated Tariff (TARIR) with the Community Tariff (TARIC). While important investments have been made to upgrade infrastructure, there remains scope for further improvement. Although Romania has made overall progress on customs matters, there

is still quite some way to go before legislative compatibility and administrative efficiency are achieved.

### *Common Foreign and Security Policy*

Since 1997, Romania has further fostered its foreign and security policy towards European and Euro-Atlantic integration. It continues to attach priority to it and has further pursued systematic co-operation with the Union.

Romania has continued to participate actively in the multilateral dialogue between the EU and the associated countries. It participates in the regular meetings of the political directors, European and associate European correspondents and in CFSP working groups. Romania responded to EU invitations to support its CFSP positions, by aligning itself, when invited, to all EU common positions and joint actions and by participating in their implementation, where necessary.

Romania supported international efforts to contain the crisis in the Western Balkans and to seek a peaceful solution to it. Negotiations on the political Treaty between Romania and the Republic of Moldova are progressing slowly and leading towards the reinforcement of economic and cultural relations. Negotiations with Ukraine on the land and sea border delimitation are in progress. Negotiations with the Russian Federation on a Treaty of Friendship and Co-operation are continue. The framework of good-neighbourly relations set up between Romania and Hungary has been completed by the Agreement on setting up the Mixed Battalion for Peacekeeping Operations.

The assessment of Romanian foreign and security policy in the period under review leads to the conclusion that Romania has continued to progress in its alignment with the Common Foreign and Security Policy *acquis*.

## **3.9. Financial Questions**

### *Financial Control*

As regards external financial control, the Romanian Court of Audit slowed down the privatisation process in Romania in its capacity to investigate taxpayers directly and to make ex ante controls in the privatisation process. It seems therefore appropriate that the Court of Auditors transfers the ex ante internal control functions to the Ministry of Finance. However, a recently elaborated draft law on the organisation and functioning of the Court of Audit does not foresee the necessary steps.

On internal financial control, there has been little progress since 1997. The 1998 National Programme for the Adoption of the *Acquis* did not provide for a description of the future Romanian financial control and auditing system. Plans to review the existing policy have been postponed. The Government should make serious progress in the area of such systems. Plans with clear time-frames will have to be developed

soon, leading to high quality public control performance in internal financial control organisations.

### **3.10 General Evaluation**

Romania has accelerated the pace of transposition in agriculture, energy, transport, regional development and some areas of the internal market. Implementation and enforcement capacities are not yet sufficiently developed however to ensure the effective application of this legislation.

While Romania has addressed certain aspects of the administrative capacity short term Accession Partnership priority (regional development) other short term priorities have not been satisfactorily addressed such as the internal market (restructuring of the banking sector, public procurement, state aids), the justice and home affairs (fight against organised crime and corruption, border management, demilitarisation of the police) and environment priorities.

## **4. Administrative Capacity to Apply the *Acquis***

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that substantial administrative reform will be indispensable if Romania is to have the structures to apply and enforce the *acquis* effectively.

### **4.1. Administrative structures**

The administrative capacity of Romania to apply and implement the *acquis* communautaire is closely related to the overall development of the Romanian public administration. In its Opinion on Romania, the Commission stressed that a general and comprehensive reform is needed.

Since April 1998, the Council for Reform has been in charge of all aspects of public administration reform, including decentralisation, regional development and ensuring the coherence of individual legislative acts with the legislative and

policy reform environment as it emerges. The Inter-Ministerial Group for Public Administration Reform (GIRAP), established in June 1998, steers the reform process.

As regards decentralisation the laws on Public and Local Patrimony, on Local Public Finance, and on Concessions were all adopted in September 1998, but their entering into force depends on the framework law on Local Public Administration which has not yet been adopted by Parliament.

The Law on Regional Development, adopted in Parliament in July 1998, has created an appropriate framework for the development and implementation of regional policies. In seven of the eight macroregions Regional Development Agencies have already been set up. Major efforts are now required as regards institution building, human resources development, integrated regional planning and budgetary and financial control procedures.

Remuneration and career structures for civil servants will be key factors determining the effectiveness of reforms. The equal provision of access to employment in the public service on the basis of qualitative and transparent criteria will require specific attention in order to ensure the creation of a professional body of civil servants. In the specific context of European integration, the recruitment and retention of experienced officials is necessary for the preparation and implementation of the pre-accession process. The separation of the political and the administrative functions of the executive in line with Romanian reform plans remains to be translated into administrative practice.

Systems and institutions for budgeting and expenditure management in Romania have developed slowly and unevenly, mainly due to the fact that laws in this field are not effectively underpinned by appropriate administrative structures. Better systemic linkages between the policy-making and the budgetary processes need to be established. Internal financial control and adequate accounting and information systems need to be established as yet.

Other areas that will require further attention include the strengthening of mechanisms to ensure and monitor implementation of policy decisions, the systematic elaboration of legislation and regulatory norms in line with the EU *acquis*, the review of consultative mechanisms to involve non-central government actors in the policy formulation process and the improvement of governmental communications capacities, both as a mean of managing information flows within government and as a tool for greater policy coherence.

In July 1998, the Government has resumed the reorganisation of existing autonomous administrations, comprising public utilities and commercial activities, into national companies, thereby establishing the basis for continued privatisation.

Public confidence in the civil service remained low. Romania has been slow to draft laws to protect citizens, provide redress and control the executive. The introduction of the *acquis* will place a burden on general administrative law and

control mechanisms. Oversight systems should take account of the intensifying relationship between citizens, economic actors, and the administration. Anti-corruption measures, despite multiple political initiatives in this field, have not yet yielded the expected results.

The Department for European Integration continued to coordinate bilateral relations with the European Union on the Romanian side. The department played an important role in organising, preparing and refining the National Programme for Accession of Romania to the EU and was reorganised in order to cope with the increasing requirements of the pre-accession process.

#### **4.2. Administrative and judicial capacity : Key areas for implementation of the *acquis***

**The uniform application of the EC law:** The judicial system has undergone some changes and reforms, in particular as regards judicial organisation and proceedings. However, understaffing remains a problem, with currently 552 out of 3749 posts vacant in July 1998. Following an important generational change, also due to low remuneration in the sector, 76% of judges are today under 30 years of age. This turnover has also affected the experience and expertise of the judiciary. Overall, legislation is still applied unevenly and additional efforts in institution building and human resources development are needed to ensure the consistent application and enforcement of the law, in particular as regards commercial and other specialised legislation.

**Single market:** In the case of intellectual property, the Romanian Office for Copyright (ORDA) is responsible for copyright. ORDA is properly staffed (53 staff), but there is need for better training especially at the operational level. Management and organisation remains a major weakness. Compliance with legislation has not yet been enforced effectively. Infringements can only be sanctioned by the courts but they do not have specialised know how.

The State Office for Inventions and Trademarks (OSIM) is the specialised body of the central public administration subordinated to the Romanian Government which has unique authority on the territory of Romania to grant protection in the industrial property field. OSIM is properly staffed (290 staff), although specialised training is still needed.

Public procurement alignment is a short term priority under the Accession Partnership. Responsibility lies with the Ministry of Public Works (296 staff) with currently 7 staff working in the responsible directorate, the service is poorly equipped and insufficiently skilled to fulfil the role of overseeing the public procurement rules. Major efforts need to be undertaken in order to change the current approach. Out of 6 posts approved, 3 employees work in the Ministry of Finance on the legislative aspects of public procurement.

Financial supervision of credit institutions is carried out by the Central Bank which is understaffed in this particular field and suffers from a lack of training,

high staff turnover (75 staff in the supervision department, out of 4816 staff in the National Bank of Romania, 1472 in Headquarters). The National Bank has increased powers granted through the new 1998 Banking Law but, so far, has failed to react appropriately in dealing with several troubled banks.

Capital markets are supervised by the National Securities Commission (CNVM) employing 77 staff. Although formally politically independent, commissioners face political influence and pressure from the major market actors. The supervision department is understaffed (11) and the staff is inexperienced and there is a high turnover. The Commission's enforcement responsibilities are limited.

The insurance sector is supervised by the Office for Supervision of Insurance and Reinsurance activities (OSAAR) whose powers comprise: licensing of insurance companies, supervision and regulation of the insurance sector. The Office is not independent and it is included in the structure of the Ministry of Finance. OSAAR is understaffed (20 staff) and under-equipped. The OSAAR is a weak institution, with almost no political support and insufficient budgetary endowment to become a strong supervisor of the market.

Standards and certification: in the field of free movements of goods, the legal framework for the separation between regulatory, standardisation and certification functions was completed in early 1998. The Accreditation Institute (RENAR) has 12 staff. It has been set up as the single responsible body for accreditation in 1998. The Romanian Standards Institute (96 staff) has become an independent statutory body since July 1998.

**Competition:** The independent Competition Council has an allocation of 108 posts and a current staffing level of 63 people. The Competition Office has 410 posts, thereof 45 currently vacant. The Office manages 42 county offices. During 1997, the Competition Council analysed and solved 120 cases, 7 of which concerned mergers. 56 cases were closed with a comfort letter. In the first semester of 1998, 132 cases were dealt with, and 15 cases of economic concentration were solved. This evolution shows a growing awareness and confidence of the enterprise sector in competition rules.

**Telecommunications:** Progress in setting up the institutional framework for deregulation has been slow. An independent National Regulatory Agency is to be established in 1999. In the meantime, the regulatory function is carried out by the Ministry of Communications (overall 81 staff).

**Indirect taxation:** In the Ministry of Finance, 123 staff (out of 141 allocated) work under the Department for fiscal policies, thereof 39 staff (out of 44 posts allocated) on indirect taxation. About 28.000 staff are employed in the local structures under the Ministry of Finance. 1669 posts have been allocated in 1998 to the Financial Guards, with about 40 staff in each judet.

**Agriculture:** Phytosanitary policy is supervised by the Phytosanitary Department (12 staff) in the Ministry of Agriculture and Food in Bucharest which has assigned technical tasks to the Central Laboratory for Phytosanitary Quarantine (CLPQ) and to the Academy of Agriculture and Forestry Science (AAFS). There are 41 Regional Phytosanitary Inspectorates (RPI) in operation at the level of counties (2.523 staff), 32 Border Inspection Points (BIP) with 205 phytosanitary inspectors report directly to the CLPQ. Administrative and legislative aspects are the responsibility of the Ministry of Agriculture and Food. Although the relevant staff is technically well qualified, its capacity to draft and implement new legislation is weak and communication between the central and regional administrations is limited. The number of regular meetings between the regional and central administration was reduced for financial reasons. Communications equipment is insufficient and outdated at all and the overall budgetary allocation for the phytosanitary administrations is insufficient.

The central veterinary authority in Romania is the General Sanitary Veterinary Agency (GSVA) (32 staff) under the supervision of the Ministry of Agriculture and Food. GSVA is the central veterinary authority responsible for drafting and enforcing legislation. The central laboratories such as the Laboratory of Veterinary Diagnosis, the Laboratory for Food and Field control and the Control Laboratory for Veterinary Diagnosis are also under GSVA. At the county (judet) level there are 42 diagnosis laboratories and 42 food control laboratories. County and regional divisions of the GSVA have a total of 11.914 staff. Altogether, the State Veterinary Service employs 3.500 veterinarians (state veterinary officials) while about 3.700 private veterinarians provide public services on behalf of the state. In total, 22 Border inspection posts with 35 checkpoints are operated by the GSVA at county (judet) level. Agency staff draft and enforce legislation. Major efforts are being made to improve the standards, management, training and efficiency of both the state and private medical veterinary services in the control, monitoring and diagnosis of statutory diseases and ensuring health and hygiene standards. A well elaborated strategy provides the basis for further reform. The lack of skills and training remain to be addressed effectively. Border inspection posts do not have the necessary infrastructure to carry out the physical inspections of consignments. Therefore, checks are carried out at the destination inside the country or at quarantine stations in the case of imported livestock. A computerised communication network within the state veterinary service does not exist at present.

**Transport:** Shortage of staff (300 staff work in the Ministry of Transport) remains a bottleneck. Staff in the ministry has decreased since 1997.

**Employment and social policy:** Responsibility for Health and Safety at Work is split between the Department for Labour Protection of the Ministry of Labour and Social Protection (62 staff), responsible for safety at work, and the Ministry of Health, responsible for health issues and supervising the County Public Health Inspectorates. Safety inspections are performed by the State Inspectorate for Labour Protection (29 staff). . The split responsibility and the maintenance of two services in closely related fields is questionable from an organisational

and fiscal point of view. There is a lack of political will to merge the two inspectorates. It remains open whether the organisational structure currently in place will allow for the setting up of effective implementation and enforcement structures.

**Regional policy and cohesion:** Important legislative decisions were taken in mid 1998 and administrative structures are currently being set up in line with these. These will also help with Romania's participation in the pre-accession financial instruments.

**Environment:** Two new directorates have been set up under the Ministry of Waters, Forests and Environment Protection (295 staff), one for the preservation of biological diversity and management of protected areas and the other for European Integration, programmes and international relations. The necessary inspectorates should be set up. In 1998, a National Commission for Nuclear Activity Supervision was established as an independent governmental agency (306 staff). There is scope for improving staffing and skills. A comprehensive reorganisation of the Ministry of Waters, Forests and Environmental Protection should be a high priority for Romania. However, no decision has been taken yet. The organisational structure for enforcement needs to be strengthened. Monitoring of air and water is still far behind EU requirements, with the exception of the measurement of pollution in the effluent of urban wastewater treatment plants.

**Consumer protection:** in 1997, a Departmental Office for Consumer Protection was established which has 42 Departmental Offices (with 688 staff, 71 at central level). To further strengthen consumer protection, the 1998 budget of the Consumers' Protection Office foresees financial support to non-governmental consumer' association.

**Justice and home affairs:** There is a continuing need for sufficient and properly trained staff with a high degree of integrity. Some improvements can be identified as regards judicial proceedings and international police co-operation. There are currently 56.600 policemen in service; border police and border guards comprise 26.000 staff.

**Customs:** The custom's directorate has 5400 posts (currently 788 vacancies), 319 staff work in Headquarters. Notable efforts have been undertaken by the Custom's Directorate to modernise organisation and management and to introduce performance oriented remuneration. Much however remains to be done and current efforts should be maintained.

**Financial control:** The function of Court of Audit (2300 staff with competitive salaries) needs to be revised 135 staff work inside the Ministry of Finance on financial control aspects. In the Direction of state financial control under the

Ministry of Finance, 943 posts have been allocated to perform control functions at local levels. Also at local levels, the Financial Guard has currently 1187 posts at its disposal, at central level 77. There is scope for reviewing institutional competencies and organisational streamlining. An effective *ex ante* financial control system with *ex post* internal auditing features is indispensable for the sound and efficient management of increased EC assistance in the future. Major efforts are required to meet these obligations, in particular with a view to complying with the short term objectives of the Accession Partnership in this field. Substantial upgrading of staff skills and institution building is needed to establish effective financial control functions.

### **4.3 Twinning**

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Romania is participating actively in twinning.

### **4.4. General Evaluation**

There has been little progress in strengthening the Romanian public administration. While in many areas steps have been taken to establish the legal framework for setting up the institutions responsible for the application of the *acquis*, there has been little progress in actually creating these institutions. The provision of the financial and human resources to permit the functioning of these institutions, once established, has not been ensured. It is unfortunate that only limited progress has been made in the area of border management, particularly in view of Romania's request to be removed from the common visa list.

## **C. Conclusion**

Romania meets the Copenhagen political criteria. Much remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties and the rights of the Roma. Priority should also be given to reform of the public administration.

Romania has made very little progress in the creation of a market economy and its capacity to cope with competitive pressure and market forces has worsened.

Despite progress made in transposition of key parts of the *acquis*. Romania has a long way to go in terms of additional legislative transposition, implementation and enforcement before the country will be able to assume the obligations of membership.

## **D. Accession Partnership and National Programmes for the Adoption of the *Acquis*: Global Assessment of Implementation**

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions; the financial means available to help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession partnership, the timetable for implementing its priorities and outlining human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

### **1. Accession Partnership: Assessment of short-term priorities**

The Accession Partnership sets out the following short-term priorities:

- **Economic reform:** establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; make satisfactory progress on the Government's economic reform programme, including the privatisation of two banks, the transformation into commercial companies of most *régies autonomes*, the efficient and transparent implementation of the foreign investment regime, and restructuring/ privatisation of a number of large state-owned industrial (e.g. coal and steel) and agricultural companies (notably by reducing their losses and financial arrears); continue the implementation of the agreements with the international financial institutions.
- **Reinforcement of institutional and administrative capacity:** adoption of draft law on the civil service and progress in public administration reform, phytosanitary and veterinary controls, particularly as regards facilities at the external borders, the financial sector (strengthening of supervisory bodies of banking, financial services and capital markets), customs; strengthening of financial control and auditing mechanisms and competition, anti-trust and state aid monitoring bodies and environment, begin to set up structures needed for regional and structural policy.
- **Internal Market:** including the restructuring of the banking sector and the capital markets, the completion of company law reform, including measures for the promotion of enterprise development and SME's, foreign direct investment, harmonisation and improved application of indirect taxation, harmonisation of

public procurement, adoption of a law on state aid and a first state aid inventory. Establishment of standardisation and conformity assessment structures.

- **Justice and Home Affairs:** in particular further efforts to implement measures to combat corruption and organised crime and improve border management.
- **Environment:** continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

Progress concerning the short-term priorities of the Accession Partnership can be summarised as follows:

- **Economic reform:** good progress has been made in the elaboration and formulation of a consistent short- to medium-term economic policy. However, translation of policy into practice remained a problem throughout 1998, due to the overall economic problems Romania is facing, but also due to the lack of firm commitment to introduce hard budget constraints and to accelerate structural reform. The privatisation of two banks is still planned by the end of the year. The general investment rules have again been amended but this has not created the necessary transparency and simplification of the legal framework. The restructuring/ privatisation of large state-owned industrial (e.g. coal and steel) and agricultural companies is advancing, but decisive action on the big loss-making companies has not yet been taken. Most of the autonomous administrations have however been corporatised since summer 1998, although it is too early to give a comprehensive assessment on the process of privatisation and consolidation of the corporatised entities.
- **Reinforcement of institutional and administrative capacity:** efforts have been undertaken by the Romanian Government. However, apart from the Law on Regional Development, important framework legislation has not been adopted by Parliament so far. Overall, progress in this field was slow until mid 1998 with sustainable efforts only being undertaken following the establishment of the Inter-Ministerial Group for Public Administration Reform (GIRAP) established in June 1998 under the chairmanship of the Prime Minister. On veterinary controls, some progress has been achieved as regards institutional reforms and the introduction of procedures close to EU practice. Phytosanitary controls remain an area where more substantial progress is needed. While the legal framework for supervisory bodies has been consolidated, they remain weak in terms of staffing, skills and there is a lack of political will to make these bodies effective. No notable progress has been reported on the strengthening of financial control and auditing mechanisms. The bodies responsible for competition policy are being strengthened and efforts need to be maintained. As regards state aids however, there is a lack of progress and the first Romanian state aid report is still outstanding. Negligible progress has been achieved in the environmental field, while the elaboration of the mechanisms needed for regional and structural policy has been substantially advanced.

- **Internal market:** the restructuring of the banking sector remains one of the major challenges, although the privatisation of two smaller state-owned banks is advancing in line with the Accession Partnership. The liberalisation of capital markets has continued. Company law reform is advanced but major efforts remain to be undertaken as regards the establishment of a simple, transparent and effective legal environment to enable and support enterprise development. The promotion of SMEs has recently become a policy priority. However the main constraining factor is the crowding out of SMEs through heavy subsidisation of big loss-making state-owned enterprises. This problem has not yet been properly addressed. Major efforts remain to be undertaken to harmonise and improve the application of indirect taxation. Despite ambitious intentions expressed by the Romanian government early in 1998, the harmonisation of public procurement has not yet been tackled. The establishment of appropriate standardisation and conformity assessment structures has been completed.
- **Justice and Home Affairs:** a number of initiatives have been launched to combat corruption, while a comprehensive approach is still lacking. Efforts have been undertaken to step up the fight against organised crime, supported by numerous initiatives to intensify international cooperation and coordination. These efforts should be maintained. Border management has remained weak
- **Environment:** Little progress can be registered in the field of environment. Transposition of framework legislation is not systematic and there is an overall lack of programming at strategic, institutional and technical levels.

Romania has made progress in addressing certain aspects of the short term Accession Partnership priorities in economic reform and administrative capacity (preparation of civil service and regional development legislation; strengthening veterinary capacity). The internal market priorities (restructuring the banking sector, improvement in indirect taxation, public procurement, states aids), the justice and home affairs priorities (fight against organised crime and corruption) and those in the environment have not been satisfactorily addressed.

## **2. National Programme for the Adoption of the *Acquis* - Assessment**

The first draft of the National Programme for the Adoption of the *Acquis* was submitted the end March 1998. This document has been constantly amended and refined since then, with the most recent version submitted in October 1998.

All areas mentioned in the Commission's Opinion are covered with only some exceptions. The Programme has been divided into three main parts in accordance with the Copenhagen criteria as well as a fourth part concentrating on administrative capacity. Each of the four parts seeks to comply with the main points raised in the Accession Partnership, referring to a detailed implementation schedule and estimated costs. The document provides the basis for a comprehensive and effective strategy. It has contributed to enhancing inter-ministerial cooperation and communication and is increasingly being accepted as an important policy planning framework. Following completion of its harmonisation with the Romanian Government Programme, full

consistency of the documents should be established. The Romanian authorities consider the National Programme for the Adoption of the *Acquis* as a rolling policy planning tool and will continue refining it further. A major challenge will be to elaborate the national 1999 budget in line with the priorities stipulated under the National Programme for the Adoption of the *Acquis*, in particular as regards the macroeconomic approach lined out.

The coverage needs to be expanded in a number of areas including public administration reform, the implementation and enforcement of the *acquis* communautaire, sound and consistent budgeting of reforms, common foreign and security policy, regional cooperation, statistics, the non-internal market *acquis*. More detailed coverage of the overall organisation, coordination and monitoring of the National Programme for the Adoption of the *Acquis* is needed including the elaboration of a systematic approach to ensure the full transposition of legislation and the harmonisation of sector policies with the macroeconomic framework.

Bilateral discussions on the National Programme for the Adoption of the *Acquis* have been constructive. The Romanian Government is revising the document. On the basis of a revised version, the Commission will take a position on the National Programme for the Adoption of the *Acquis* and will communicate it to the Council. This assessment is expected to take place during the second half of 1998 at the time of the re-examination of the Accession Partnerships.

## **Annex**

### STATISTICAL DATA

## STATISTICAL DATA

	1993	1994	1995	1996	1997
<b>Basic data</b>	in 1000				
<b>Population (end of period)</b>	22748	22712	22656	22582	22526
	in 1000 hectares				
<b>Total Area</b>	23839	23839	23839	23839	23839
<b>National Accounts</b>	in Bn Lei				
<b>Gross Domestic Product at current prices</b>	20035.7	49773.2	72135.5	108390.9	249750.2
	in Bn ECU				
<b>Gross Domestic Product at current prices</b>	22.5	25.3	27.1	27.6	30.6
	in ECU per capita				
<b>Gross Domestic Product at current prices</b>	1000	1100	1200	1200	1400
<b>Structure of Production</b>	in % of Total Gross Value Added				
- Agriculture	21.6	20.6	20.7	20.0	20.1
- Industry	34.9	37.6	34.5	35.8	38.0
- Construction	5.4	6.8	6.9	7.2	5.7
- Services	38.1	35.0	37.9	37.0	36.2
<b>Structure of expenditure</b>	as % of Gross Domestic Product				
- Final consumption expenditure	:	:	81.3	83.7	85.5
- household and NPISH	:	:	67.6	72.1	75.4
- general government	:	:	13.7	11.6	10.1
- Gross fixed capital formation	:	:	21.4	23.1	19.2
- Exports of goods and services	:	:	27.6	28.4	29.7
- Imports of goods and services	:	:	33.2	36.7	36.7
	% change over the previous year				
<b>Gross Domestic Product</b>	1.5	3.9	7.1	3.9	-6.6
	in Purchasing Power parities				
<b>Gross Domestic Product per capita</b>	4800	5100	5600	6100	5800
<b>Inflation rate</b>	% change over the previous year				
<b>Consumer Price Index</b>	256.1	136.7	32.3	38.8	:
<b>Balance of payments</b>	in millions of ECU				
-Exports of goods	4178	5171	6047	6367	:
-Imports of goods	5141	5517	7253	8313	:
-Trade balance	-963	-346	-1206	-1945	:
-Services, net	-98	-144	-248	-303	:
-Income, net	-124	-108	-184	-243	:

-Net current transfers	183	238	282	467	:
-of which government transfers	95	85	48	37	:
-Current account balance	-1003	-360	-1356	-2025	:
-Reserve assets (incl. gold)	1722	2514	1996	2509	4237
-Reserve assets (excl. gold)	892	1696	1201	1678	3444
in % of Gross Domestic Product					
Public Finance	0.9	-3.6	:	:	:
General Government Deficit/Surplus	17.4	17.6	16.6	19.1	:
Gross foreign debt					

	1993	1994	1995	1996	1997
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Financial indicators					
<b>Monetary Aggregates</b>	in Bn ECU				
- M1	1.5	2.0	2.1	2.2	2.3
- M2	3.1	4.9	5.4	5.9	7
- Total credit	:	:	6.5	7.2	5.7
<b>Average short-term interest rates</b>	% per annum				
- Lending rate	:	:	48.9	55.3	72.5
- Deposit rate	:	:	36.5	38.1	55.8
<b>ECU exchange rates</b>	(1ECU=..National currency)				
- Average of period	890	1968.8	2947.1	3922.2	8111.5
- End of period	1423.6	2173.5	3384.2	5182.4	8859.1
- Effective exchange rate	:	:	:	:	:

Foreign Trade	in millions of ECU				
Imports	5716	6056	7961	9005.7	9946.7
Exports	4243	5220	6097	6366.6	7434.5
Balance	-1473	-836	-1864	-2639.1	-2512.2
	corresponding period of the previous year = 100				
Terms of trade	:	:	:	97.2	:
	as % of total				
Imports with EU-15	45.3	48.2	50.5	52.3	52.5
Exports with EU-15	41.3	48.2	54.13	56.5	56.6

Demography	per 1000 of population				
Natural growth rate	-0.6	-0.9	-1.5	-2.4	:
Net migration rate	-0.8	-0.7	-0.9	-0.9	:
	per 1000 live-births				
Infant mortality rate	23.3	23.9	21.2	22.3	22
	at birth				
Life expectancy : Males	65.9	65.7	65.7	65.3	65.2
Females	73.3	73.4	73.4	73.1	73

Labour market	in % of labour force				
Economic Activity rate (ILO methodology)	:	64.9	67.2	64.8	64.8
Unemployment rate (ILO methodology) : Total	:	8.1	8	6.7	6
< 25 years	:	22.6	20.8	20.2	:
> 25 years	:	5.3	5.4	4.2	:
Average employment by NACE branches (LFS)	in % of total				
- Agriculture and Forestry	36	36.5	34.4	38	39
- Industry	30.1	28.8	28.6	27.3	26.2
- Construction	5.7	5.6	5	4.3	4.2
- Services	28.2	29.1	32	30.4	30.6
Infrastructure	in Km per 1000 Km2				
Railway network	:	:	47.7	47.8	:
Length of motorways	in km				
	:	:	:	:	:
Industry and Agriculture	previous year = 100				
Industrial production volume indices	101.1	103.3	109.4	109.9	94.1
Gross agricultural production volume indices	110.2	100.2	104.5	101.3	103.1

## Methodological Notes

**Gross domestic Product per capita in PPS:** Revised data using the new PPP results from the 1996 International Comparison Project.

**Reserve assets:** are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

**General government deficit / surplus:** is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

**Monetary aggregates:** are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

**Interest rates:** Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

**Exchange rates:** Where available, the ECU exchange rates are those officially notified to DG II. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

**Imports and exports (current prices):** The data is based upon the “special trade” system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). *Trade Classification:* Merchandise trade flows are using the commodity classification according to the Combined Nomenclature.

Imports are recorded on CIF basis, exports on FOB basis.

Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

**Imports and exports with EU-15:** Source: Comtrade. Data for years 1993 and 1994 refer to trade with EU-12 only.

**Economic activity rate (ILO Methodology):** Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

*Labour force:* employed and unemployed persons in the sense of the ILO definitions stated below.

*The employed:* all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

*The unemployed:* all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

**Unemployment rate (by ILO methodology):** - Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

**Average employment by NACE branches:** This indicator is derived observing the ILO definitions and recommendations.

For the years 1993, 1994 and 1995, the data refer to the civilian employment resulted from:

\* enterprises survey that comprise:

- all enterprises with 200 or more employees.
- representative sample for enterprises with less 200 employees.
- \* administrative sources.

Beginning with year 1996, the data refer to the total employment (including armed forces) resulting from Quarterly Household Labour Force Survey (LFS).

**Industrial production volume indices:** Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

The industrial production indices are calculated based on the physical industrial output of approximately 600 representative products and groups of products, weighted with the 1991 added value at factors' cost.

**Gross agricultural production volume indices:** The indices of gross agricultural production are calculated on the basis of the previous year.

## Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : **New Cronos**.

**Reserve assets and Financial indicators :** Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).