

## COUNCIL DECISION

of 12 May 2011

## providing precautionary EU medium-term financial assistance for Romania

(2011/288/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments <sup>(1)</sup>, and in particular Article 3(2) thereof,

Having regard to the proposal from the European Commission made after consulting the Economic and Financial Committee (EFC),

Whereas:

- (1) By Decision 2011/289/EU <sup>(2)</sup>, the Council has decided to continue to grant mutual assistance to Romania.
- (2) A precautionary medium-term financial assistance for Romania under the balance of payments facility for Member States appears to be appropriate under the current circumstances of still reduced capital inflows and remaining elevated fiscal and external imbalances. While under present market conditions Romania does not intend to request the disbursement of any instalment, the precautionary assistance will facilitate a continued orderly adjustment of the fiscal and the external deficits by strengthening credibility of the government's economic programme, including the continued fiscal adjustment, the consolidation of financial market reform, and an increased focus on product and labour market reforms and the increased absorption of Union structural funds. These measures should enhance Romania's growth potential, underpin monetary and financial stability, as well as confidence in Romania's currency (RON), and reduce the likelihood of negative balance sheet effects in the corporate and household sectors.
- (3) If negative risks attached to the current baseline scenario of the Government's economic programme materialise, Romania would not be able to cover its external financing needs from available funding resources, largely due to decreased inflows of foreign direct investment and lower rollover rates for amortising debt, notably from banks. In such a stress scenario, the residual financing needs would have to be covered from activating the precautionary Union financial assistance. The stress scenario has been developed in close collab-

oration with International Monetary Fund (IMF) staff and underpins the additional financing needs of around EUR 5 billion to be covered from international financial assistance.

- (4) It is appropriate to provide Union support to Romania of up to EUR 1,4 billion on a precautionary basis under the facility providing Union medium-term financial assistance for Member States' balance of payments established in by Regulation (EC) No 332/2002. This assistance should be provided in conjunction with financial support from the IMF of SDR 3,09 billion (around EUR 3,6 billion) under a precautionary stand-by arrangement approved on 25 March 2011. The World Bank will continue support of EUR 400 million committed earlier under its development loan programme (DPL3) and will provide up to EUR 750 million of results-based financing for social assistance and health reforms.
- (5) The assistance should be managed by the Commission who will agree with the authorities of Romania, after consulting the EFC, the specific economic policy conditions attached to the precautionary financial assistance. Those conditions should be laid down in a memorandum of understanding (MoU).
- (6) In view of the precautionary nature of the assistance, Romania will not request the disbursement of any instalment under the Union loan, unless Romania is in difficulty as regards its balance of current payments or capital movements. In the case that Romania makes a request for funding to the Commission, the latter will decide, after having consulted the EFC, on the activation of the programme and on the amount and timing for making available any such instalment. The detailed financial terms related to possible disbursements will be laid down in a framework loan agreement (FLA).
- (7) The precautionary financial assistance shall be provided with a view to contributing to the successful implementation of the Government's economic policy programme, and, in this way, shall support the sustainability of Romania's balance of payments,

HAS ADOPTED THIS DECISION:

*Article 1*

1. The Union shall make available to Romania a precautionary medium-term financial assistance amounting to a maximum of EUR 1,4 billion. In case the facility is activated and disbursements are provided, the assistance shall be provided in the form of a loan with a maximum average maturity of seven years.

<sup>(1)</sup> OJ L 53, 23.2.2002, p. 1.

<sup>(2)</sup> See page 18 of this Official Journal.

2. The precautionary Union financial assistance shall be available for activation, and disbursements may be requested, until 31 March 2013.

#### Article 2

1. The assistance will be managed by the Commission in a manner consistent with Romania's undertakings and the recommendations by the Council, in particular in the context of the implementation of the national reform programme (NRP) as well as of the annual update of Romania's convergence programme (CP).

2. The Commission shall agree with the Romanian authorities, after consulting the EFC, the specific economic policy conditions attached to the precautionary financial assistance as listed under Article 3(3). Those conditions shall be laid down in an MoU consistent with the undertakings and recommendations referred to in paragraph 1. The detailed financial terms shall be laid down by the Commission in an FLA.

3. The Commission shall verify at regular intervals in collaboration with the EFC that the economic policy conditions attached to the assistance are fulfilled.

#### Article 3

1. The activation of the precautionary Union financial assistance shall be examined by the Commission, following a written request by Romania to the Commission. The Commission, after consulting the EFC, shall decide if the activation of the programme and the subsequent request for disbursements under the assistance is justified, and shall decide on the amount and timing of such disbursements. In case the financial assistance is being activated, the funds may be made available in not more than three instalments, the amount and timing of which shall be laid down in an addendum to the MoU. Each instalment may be disbursed in one or more tranches.

2. Upon an activation of the assistance, any disbursement of the loan, or parts thereof, shall be subject to the entry into force of the addendum to the MoU referred to in paragraph 1. The Commission shall decide on the disbursement of the Union loan, or parts thereof, after having obtained the opinion of the EFC.

3. Any disbursement shall be made on the basis of a satisfactory implementation of the economic programme of the Romanian Government to be included in both the CP and the NRP; more particularly, the specific economic policy conditions laid down in the MoU, shall include, inter alia:

(a) the adoption of budgets and the implementation of policies in line with clear fiscal targets for the fiscal years 2011 to 2013 that underpin the continued fiscal consolidation with a view to stabilising the government debt to GDP ratio and

put an end to the excessive deficit in line with the Council recommendations under the excessive deficit procedure;

- (b) the requirement to attain progressively more restrictive benchmarks for the reduction in government payment arrears both at central government and local government levels;
- (c) the introduction of an enhanced reporting system for the State-owned enterprises which are already part of the European system of accounts definition of the general government, and also for those which will likely be reclassified into the general government sector by Eurostat in 2011 and 2012, with a view to enabling the government to assess on a continuous basis the likely impact on the general government deficit and the evolution of arrears, subsidies and transfers, and losses linked to these enterprises;
- (d) the continued monitoring of the public sector wage bill such that it respects the relevant limits set in the medium-term fiscal strategy;
- (e) the introduction of a means-tested co-payment system for medical services, as well as an adequate system of checks and controls against the accumulation of arrears in the health system;
- (f) the implementation of measures to improve the management of the public investment budget in line with the fiscal strategy 2012-2014 and with a focus on shifting from entirely domestically financed investment to Union co-financed investment;
- (g) the review, update and publication of a multiannual debt management strategy on an annual basis;
- (h) the implementation of policy measures aimed at rationalising the wage-setting system with a view to allowing wage developments to better reflect productivity and reforms increasing the flexibility of labour contracts and working time arrangements within an integrated flexibility approach;
- (i) the adoption of measures aiming at improving the market functioning in energy and transport, in line, where applicable, with Union legislation;
- (j) the implementation of measures to facilitate the business environment in services in line with the service Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market <sup>(1)</sup>;
- (k) measures to further strengthen the prudential framework for credit institutions and to prepare the introduction of International Financial Reporting Standard as of 2012;

<sup>(1)</sup> OJ L 376, 27.12.2006, p. 36.

- (l) legislative amendments to ensure the mutual consistency between the law on the winding-up of insurance undertakings, the general law on insolvency and the law on insurance business and insurance supervision;
- (m) to improve the absorption of Union structural and cohesion funds and specific targets to be met for the cumulative aggregate level of certified expenditure under these funds.
4. If required in order to finance the loan, the prudent use of interest rate swaps with counterparties of highest credit quality shall be permitted. The EFC shall be kept informed by the Commission of possible refinancing of the borrowings or restructuring of the financial conditions.

*Article 4*

This Decision shall take effect on the day of its notification.

*Article 5*

This Decision is addressed to Romania.

Done at Brussels, 12 May 2011.

*For the Council*  
*The President*  
PINTÉR S.