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AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

ROMANIA

FOR THE PERIOD July 2009-June 2013

June 12, 2009

**Central Europe and the Baltic Countries Country Unit
Europe and Central Asia Region**

**International Finance Corporation
Southern Europe and Central Asia Department**

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CURRENCY EQUIVALENTS

USD 1 = RON 2.9664

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IFC	International Finance Corporation
CEM	Country Economic Memorandum	IFI	International Financial Institution
CP	Convergence Program	IMF	International Monetary Fund
CPS	Country Partnership Strategy	IL	Investment Loan
DPL	Development Policy Loan	IT	Information Technologies
EBRD	European Bank for Reconstruction and Development	LA	Lisbon Agenda
EC	European Commission	MIC	Middle Income Country
ECA	Europe and Central Asia	MSME	Micro, Small and Medium Enterprises
ECB	European Commission Board	MTEF	Medium-term expenditure framework
EERP	European Economic Recovery Plan	NATO	North Atlantic Treaty Organization
EIB	European Investment Bank	NBR	National Bank of Romania
EU	European Union	NHIF	National Health Insurance Fund
EU8	Member States that joined the EU on May 1, 2004, excluding Malta and Cyprus	NGO	Non-governmental organization
EU10	EU8 Member States that joined the EU on January 1, 2007, excluding Malta and Cyprus	NRDP	National Rural Development Plan
FDI	Foreign direct investment	NRP	National Reform Program
FIAS	Foreign Investment Advisory Service	OECD	Organization for Economic Cooperation and Development
FIRST	Financial Sector Reform and Strengthening Initiative	OP	Operational Program
FRL	Fiscal Responsibility Law	PAL	Programmatic Adjustment Loan
FSAP	Financial Sector Assessment Program	PEIR	Public Expenditure and Institutional Review
GDP	Gross Domestic Product	PISA	Programme for International Student Assessment
GEF	Global Environment Facility	PPP	Public Private Partnerships
GMI	Guaranteed Minimum Income	ROSC	Report on the Observance of Standards and Codes
IBRD	International Bank for Reconstruction and Development	SBA	Stand-By Arrangement
		SME	Small and medium enterprises
		TA	Technical assistance
		USD	United States dollar
		VAT	Value Added Tax

IBRD		IFC	
Vice President:	Shigeo Katsu	Vice President:	Jyrki Koskelo
Country Director:	Theodore Ahlers	Director:	Shahbaz Mavadat
Task Team Leader:	Benoit Blarel	Task Leader:	Kaikhram Onedamdy

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COUNTRY PARTNERSHIP STRATEGY July 2009-June 2013

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Country Partnership Strategy for Romania

EXECUTIVE SUMMARY

1. After eight years of rapid economic growth and impressive gains in poverty reduction, the shockwave of the global economic and financial crisis has exposed the growing imbalances and economic vulnerabilities in Romania's economy, rooted in weak economic management and a large, unfinished agenda of public sector and governance reforms.
2. The new Government faces the difficult task of reconciling short-term fiscal consolidation with the need to mitigate the social costs of the crisis and restore the sources of sustainable and equitable growth. The new Government has moved rapidly to take fiscal measures aimed at containing the impact of the crisis, to mobilize an international financial package spearheaded by the IMF, the EU and the World Bank, and to resume the structural reform agenda that had faltered since EU accession on January 1, 2007.
3. The World Bank Group will complement and support this program by i) helping the Government to implement structural reforms to help mitigate the crisis by reducing social and economic vulnerabilities and ii) putting in place the basis for sustainable economic growth in the medium-term. In the first few years of the Country Partnership Strategy (CPS), the Bank program will center on a programmatic series of Development Policy Loans (DPLs), the existing investment portfolio, and Advisory and Analytical Activities (AAA). A mid-term CPS progress report would articulate the Bank program for the outer years of the CPS period. This CPS is fully consistent with a forthcoming Regional Framework that will set out the Bank's value-added and key areas of activity across Central and South Central Europe and the Baltics region. Notwithstanding the current economic crisis, Romania's EU accession is resulting in increased market access and commercial banking activity, with a gradually declining role for the IFC. IFC therefore, envisages a phased reduction of its involvement within a period of 5 years, subject to market conditions, offering support to selective sectors and activities in which IFC can still provide value addition and in which the commercial sector and market cannot fulfill. In the short term, IFC's investment strategy is to play a crisis response role by helping to recapitalize the major banks which are considered vital to the financial system and offering trade finance to financial institutions in Romania.

I. COUNTRY CONTEXT

A. Political Environment

4. **Between 2001 and 2006 stakeholders in Romania united behind the objectives of joining NATO and the EU, but since 2007 reform momentum has slowed sharply.** After EU accession on January 1, 2007 political differences escalated and reform fatigue set-in. This affected the consistency and coherence of public policies, and complicated the adoption and implementation of longer-term policies and programs. Coalition politics is expected to prevail over the period covered by this Partnership Strategy but the global economic and financial crisis may provide the necessary impetus for renewed political accommodation that has, prior to EU accession, enabled minority or coalition governments to undertake important reforms.

