

BTI 2014 | Romania Country Report

Status Index	1-10	7.90	# 19 of 129	
Political Transformation	1-10	7.90	# 23 of 129	↘
Economic Transformation	1-10	7.89	# 18 of 129	→
Management Index	1-10	5.85	# 39 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	21.3	HDI	0.786	GDP p.c.	\$	16517.7
Pop. growth ¹	% p.a.	-0.3	HDI rank of 187	56	Gini Index		27.4
Life expectancy	years	74.5	UN Education Index	0.821	Poverty ³	%	1.8
Urban population	%	52.8	Gender inequality ²	0.327	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, severe political struggles continued between the newly installed center-left cabinet (which took office in the spring of 2012) and its parliamentary majority on the one hand, and President Traian Băsescu on the other, culminating in a failed referendum to impeach Băsescu in August 2012. Driving this struggle were both sides' efforts to exert control over the judiciary. The referendum was marred by irregularities and attempts by the government to curtail the powers of the Constitutional Court and manipulate electoral rules, which led to open political pressure by the European Commission, large EU member states (Germany), and the United States aimed at protecting the rule of law. This in turn prompted anti-European Union and anti-United States rhetoric on the part of top Romanian politicians, a relative novelty in the country. The situation calmed somewhat after the December 2012 parliamentary elections, when a nonaggression pact was concluded between President Băsescu and Prime Minister Victor Ponta.

However, the struggle over the fate of reforms, the rule of law and the independence of the judiciary is likely to continue in the background, with periodical resurgences of tension when important appointments must be made, such as top figures within the prosecutor-general's office. Romania continues to be monitored by the European under the Cooperation and Verification Mechanism (CVM), but progress in this area will almost certainly be protracted. It is precisely the institutions praised in the EU progress reports that are most under attack by politicians at home, and which are periodically slated for dismantlement. These institutions are very controversial, and are perceived as both politicized and unaccountable.

Structural socioeconomic deficits (e.g., urban–rural disparities, unsustainable fiscal policies and an agricultural sector absorbing 30% of the labor force but generating only 7% of GDP) were masked by high growth rates before the crisis, but have been subsequently exposed. Romania was particularly vulnerable to the effects of the crisis due to irresponsible spending commitments made by pre-2009 governments. Many of these commitments required severe adjustment after the onset of the crisis. A harsh program of macrostabilization and austerity followed in an attempt to restore

fiscal balance; this was on average surprisingly successful, and was tolerated by the country's population with less turmoil than seen in other EU states. Much of this outcome can be attributed to the financial help, policy guidance and arm-twisting by international financial institutions (IFI) and the European Union. However, even this pressure was not enough to push the government to advance structural reforms in key sectors (energy, state-owned enterprises, health care) during the 2012 electoral year; in these important sectors, reforms basically stalled.

The party spectrum in Romania has managed to overcome the old dichotomy between post-communists and democratic opposition, and individual parties have to some extent been decentralized, relying more on their local-level leadership and interest groups. The dominant political cleavage after 2000 has not been the right-left divide, however, but rather the concern with corruption or anti-corruption. A minority of people in power has promoted an agenda of anticorruption, judicial independence and general modernization under the rule of law, while a silent (or in some cases quite vocal) majority has fought back, seeking to preserve a traditional regime of impunity. This fundamental cleavage cuts across party and ethnic groups.

History and Characteristics of Transformation

Historically, Romania has been characterized by a modernization gap between the southern and eastern regions, which were under Ottoman domination until 1878, and the more modern, urbanized economy of the western and northwestern regions, which were under Hapsburg rule until 1918. The modernization of the unified Romanian state in the interwar period was a political and economic process with its origins in the mid-19th century. Western models of statehood, democracy and the market economy were grafted onto Romanian society, with the result being a democracy dominated by a small political and economic elite that did not represent wider societal interests and had not internalized the concept of popular sovereignty. National mobilization became a substitute for modernization and an integrative strategy.

Despite the massive socioeconomic transformations forced upon the country by the communist regime after 1945 – 1947, the postwar political system in fact perpetuated some of the shortcomings of the prewar period, especially during the last decade of Nicolae Ceausescu's autarchic rule, a period described as "sultanistic communism" by transitologists. Political elites continued to perceive the state and the bureaucratic apparatus as their property rather than as a policy instrument. This resulted in rampant nepotism, etatism and simulated reforms, even in the comparatively liberal decade following 1965. By the early 1980s, the combination of an autonomous foreign policy and Stalinist approaches to industrialization and domestic control had run its course, resulting in typical national-socialist mobilization and economic decay.

There was no outspoken and influential opposition during this period, as the Ceausescu clan repressed any organized dissent or independent voices within the party. The revolution of 1989 was essentially a power struggle among different segments of the nomenklatura rather than the

promising beginning of a political transformation. Thus, although Romania was the only country in East-Central Europe to witness a violent end to communism, the net outcome was generally rated as more of a “palace revolution” within the nomenklatura than a clear break with the past. Being highly distrustful of market economics and pluralist democracy, and facing some distinct disadvantages in comparison to most of the other Eastern European states seeking EU accession, Romania increasingly fell behind in the reform process.

When the democratic opposition finally won the presidential and parliamentary elections in 1996, expectations were correspondingly high. The new center-right government of President Emil Constantinescu and the Democratic Convention of Romania (DCR) initiated the restructuring of heavy industries and the mining sector, liquidated economic black holes, consolidated the banking system, privatized several large state-owned enterprises, liberalized most input prices and established the full convertibility of Romania’s currency. As the various DCR-led governments lacked political coordination and failed to settle their internal political differences, they lost the presidency and their parliamentary majority in 2000. This period had a better record for reform dynamics than for actual implementation. Ion Iliescu was elected (again) as president, and a minority government of the Social Democratic Party (PSD) led by Adrian Năstase took office with the support of the ethnic Hungarian party, the Democratic Union of Hungarians in Romania (UDMR). As a result, those who had taken over power after Ceausescu’s fall in the December 1989 revolution were back in office. The amateurish politics of President Constantinescu and the center-right Democratic Convention (1996 – 2000) created reform fatigue and political disillusionment among the electorate. The broad impression of policy failure is largely unjustified, but added to the extreme uncertainty and hardship experienced by sectors of society that lost out in the reforms.

While many politicians from the first and second Iliescu presidency (1990 – 1996) returned to power “sadder and wiser” in 2000 after four years in opposition, most political parties featured younger management for the first time since the revolution of December 1989. However, the apparent stability of the political system was deceptive, and was based on shrewd control and clientelism rather than on a culture of constructive policymaking. Simulated reforms, etatism, nationalist rhetoric and blurred distinctions between the state, parties and private sector remain very much present in Romania to this day. Not expecting to lose the 2004 parliamentary and presidential elections, the Social Democrats – led by Prime Minister Adrian Năstase, who ran for the presidency that year – took advantage of the previously implemented structural reforms and managed the economy prudently, ending their mandate with low deficits and stable growth perspectives.

Impressive growth indeed did come between 2004 and 2008, but not under a leftist cabinet and president; the PSD lost the elections in a cliffhanger to Traian Băsescu, former mayor of Bucharest, and an uneasy center-right coalition manufactured in parliament after the close of balloting. This is when the main political cleavage of the second decade of transition became apparent. On one side of this dividing was a minority of the political class, led by the president, which aimed at making the judiciary independent and powerful; on the other was a large majority that opposed agenda. All subsequent regroupings in the legislature or changes in allegiance by party factions,

individual members of parliament or cabinet members were centered on this fundamental dimension of reform: whether to sincerely embrace the rule of law, or treat it as window-dressing for the benefit of the European Commission. Romania's EU accession in January 2007 did not alter this dynamic. If anything, it weakened the pro-reform camp, since after this date the European Union lost its ability to threaten a delay in accession as a means of exerting influence on Romanian politics. There have been two attempts to impeach the president – one in 2007 and another 2012 – both of which were defeated in popular referenda. Each had originated in this need by the political majority to deprive Băsescu of the power to appoint the general prosecutor and the chief of the National Anti-Corruption Directorate (Direcția Națională Anticorupție, DNA). The subsequent rounds of elections (in 2008, 2009 and 2012) were fought for more or less the same thing, though under changing economic and social circumstances.

Before the global economic crisis hit the country, these political battles were fought against a background of robust economic growth, which was incompetently managed by the government. Pro-cyclical, spendthrift policies were common, while deficits were accumulated much faster than the (admittedly high) rate of GDP growth. After 2009, these trends were set in reverse, and considerable political capital was spent in the process of structural adjustment by 2012.

In brief, Romania's first decade of transition was hamstrung by hesitations over price liberalization and employment reductions, producing legacies of bad credit, backlogs in large-scale privatization and hidden unemployment. The changes in government and the absence of a coherent plan with sufficient public and political backing has resulted in erratic transformation policies, especially regarding privatization and its ever-changing regulatory and institutional framework. This has made both the Romanian population and international investors extremely wary. Overall, the hesitation over engagement in profound transformation has been self-defeating. Critical resources for constructive policies have been depleted by the loss of initial momentum and the country's lack of competitiveness for Western investment even within the former Eastern bloc. However, the economic crisis of 2009 – 2011 ultimately managed to improve reform discipline in Bucharest.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is uncontested throughout the territory. Autonomist and secessionist rhetoric among some representatives of the Hungarian minority has entered the political debate, but their actions have stayed within the constitutional framework, and electoral support for radical groups remains marginal. Urban gangs sometimes settle scores violently among themselves, but there is no territory they can systematically control.

By historical tradition, the Romanian concept of the nation-state is defined strongly in terms of ethnicity. The Romanian constitution defines the nation in ethnic terms ("national sovereignty resides with the Romanian people") and provides the usual guarantees of liberal constitutionalism. Attempts to introduce a civic concept of identity that includes the strong Hungarian and Roma minorities have thus far failed to find acceptance beyond formal legal texts. A number of these attempts have been based on the idea of cultural autonomy and group-based rights, however, which may represent a departure from liberal universalist principles.

Support for nationalist-extremist, openly anti-Semitic and xenophobic parties and movements has been declining for some years, a positive trend that unlike in some other European countries has not reversed during the crisis years. For example, the traditional extremist, xenophobic and anti-Semitic Greater Romania Party (PRM) has been out of Parliament since 2008.

The state's constitution and official citizenship policies face no direct challenge, but political rhetoric and everyday practice often deviate substantially from inclusivist concepts of the nation and civil rights.

Since the end of communism, the Romanian Orthodox Church (BOR) has remained relatively independent from politics; its main concerns in public life have been securing the restitution of confiscated property and acquiring state subsidies for the

Question
Score

Monopoly on the
use of force
10

State identity
9

No interference of
religious dogmas
9

building or rehabilitation of churches. The BOR managed to introduce “religious education” as an optional subject in schools in the 1990s, but the impact of this change has been largely symbolic; religious dogma does not have an impact on state policymaking. Laws on registration continue to pose obstacles for minor denominations, as does the government’s distinction between recognized and unrecognized churches.

Romania has reformed its state institutions since 1989 with increasing EU assistance and guidance. Administrative structures and the allocation of resources encompass the entire country. The EU accession process and Romania’s status as an EU member state as of 2007 helped to further consolidate basic state and administrative functions throughout the country. Local shortcomings remain, but coverage and quality are gradually improving. The main risk to consistent functioning of the state administration remains corruption.

Basic
administration
10

2 | Political Participation

Elections in the period under review included local and parliamentary elections in 2012, along with the referendum to impeach President Băsescu in August 2012.

Free and fair
elections
8

The regular elections held on 9 December 2012 were largely free and fair, although reports of fraud, unethical campaigning and manipulation, as well as the mutual accusations of unfair behavior by the leading political parties, were detrimental to the status of democratic institutions. The Permanent Electoral Authority continues to be a weak independent overseer.

The referendum held in August 2012 marked a clear regression in terms of democratic procedures, with the government and the parliamentary majority attempting to curtail the independence of the judiciary, bend the electoral rules and visibly manipulate the electoral lists from the uppermost level (through the Ministry of Interior). Strong diplomatic intervention from the European Commission, various EU member-state governments and the U.S. governments was necessary to hold things on the right path.

There are no relevant de jure restrictions on suffrage, and no groups are barred from expressing their passive or active electoral rights. The high electoral thresholds for parties (5%) and for political alliances (8% – 10%) have been criticized as being slanted in favor of the major contenders, resulting in a substantial loss of votes for smaller parties.

Democratically elected rulers do have the effective power to govern. No political enclaves exist, although some interest groups and stakeholders have disproportionate political influence and may be viewed as possessing limited veto powers. Interest groups with substantial economic or media power can influence governance, meaning that Romania ranks high in state capture indices. After 2006, when county presidents

Effective power to
govern
9

began to be elected directly, power networks in the main political parties became decentralized. As a result, regional party bosses have increasingly gained control of the state apparatus within their constituencies, including the ability to direct the flow of EU funds.

Romania's 1991 constitution guarantees the usual political and civil liberties, including the freedoms of expression, association and assembly. In practice, civil society's association and assembly rights are hampered by administrative means, and the activities of NGOs critical of state actions may sometimes be obstructed at local or national levels. Political parties and government agencies have recently sought to co-opt or even hire particularly critical civil society representatives or NGOs. Alternatively, they have tried to discredit these individuals or organizations by employing smear campaigns conducted through politically biased media sources. In 2008, a retroactive law with unclear provisions was passed requiring associations and foundations to be dissolved if anybody considered their name to be objectionable. The law was amended in early 2009, and no NGOs ultimately reported episodes of significant harassment based on its controversial terms, but its existence was a sign of the lingering pressure that regime-critical groups must face in Romania.

Association /
assembly rights
9

The freedoms of opinion and the press are generally protected, but the economic crisis has severely affected the sustainability of the media. There are today fewer outlets, circulation has fallen, and genres such as investigative journalism are disappearing. Most media outlets continue to demonstrate a clear political preference. The quality of in-depth analysis and public interest reporting on political topics has deteriorated rapidly over the last few years, while the media regulator (CNA) has shown susceptibility to political pressure. Increasingly, journalistic professionalism is overruled by the vested interests and political affiliations of the media outlets' owners.

Freedom of
expression
7

3 | Rule of Law

State powers in Romania are nominally independent. The constitution provides for a separation of powers and checks and balances within the political system. However, the intense political polarization of 2012, culminating in the attempted abuses by the government and legislative majority against the judiciary, the Constitutional Court and the administration during the 2012 impeachment referendum, indicated serious cracks in the rule of law.

Separation of
powers
7

This episode demonstrated the political elite's disrespect for the separation of powers and proper democratic procedure as values in their own right. The new parliamentary majority formed in the first half of 2012 has repeatedly obstructed or ignored decisions by the National Integrity Agency (ANI) and even the Supreme Court.

The ongoing conflict between the executive and legislative branches on the one hand, and a judiciary with the power to engage in anti-corruption prosecution on the other, has threatened the independence of the judiciary and has been detrimental to public trust. Parliament has frustrated the National Integrity Agency (ANI) by screening its members.

Independent
judiciary
8

However, top officials across the whole political spectrum, including the ruling parties, were investigated and convicted for the first time in the modern Romanian state during the period under review. Moreover, magistrates at the highest level have been subject to investigation, another novelty and sign of change. The judiciary's top self-governance body (the Superior Council of Magistracy) has demonstrated increasing independence from political power in the past year.

During the period under review, politicians in Romania were caught between the priority attached by the public, vocal NGOs and the European Union to the fight against corruption and their own wariness of a strong and independent judiciary. A growing number of top politicians, civil servants and magistrates have been investigated and prosecuted for corruption, culminating with former Prime Minister Năstase, who is currently serving time in jail. However, political backing for such developments remains half-hearted at best. Smear campaigns in political media against institutions or individuals who have promoted anti-corruption measures intensified in 2012, but this is also a sign of the measures' improving effectiveness.

Prosecution of
office abuse
7

In line with EU norms, formal legal guarantees of due process, equal treatment before the law and nondiscrimination are in place. However, EU monitors have criticized the arbitrariness and incoherence of some court verdicts, as well as the backlog of court cases. Human rights organizations continue to report cases of police violating basic human rights as well as generally inhuman and degrading treatment in penitentiaries, among other complaints. As underlined by EU reporting, Roma communities continue to suffer from various forms of social and ethnically based discrimination.

Civil rights
8

4 | Stability of Democratic Institutions

The ability of democratic institutions (government, president and parliament) to work together was seriously compromised in 2012, when the escalation of political polarization led to an attempt to impeach the president of the republic. This was the result of almost two years of accumulating pressure, with the leftist opposition politically exploiting the austerity measures implemented by the center-right government. When the government and majority in the parliament finally changed in April 2012, all major policies and reforms were abandoned and a full political war was begun. According to a report by the Council of Europe's Venice Commission, the impeachment referendum campaign indicates "a lack of respect for institutions"

Performance of
democratic
institutions
7

and “a disregard of the principle of loyal cooperation between the institutions.” Despite the impact of the global economic crisis and consistent criticism/guidance provided by the European Union, the new ruling majority focused on politicking and populist measures rather than joint crisis management and democratic cooperation, putting all sensitive reforms on hold until after the parliamentary elections in December 2012.

Although political actors do accept democratic institutions in principle, they are not above bending the democratic principle of the separation of powers or the rules of democratic procedure. All relevant political players have occasionally resorted to the abuse of democratic instruments for party interests, as well as to the use of strategies of doubtful democratic quality, including populist measures, the use of media outlets to make accusations obstructing democratic decision-making, and criticizing magistrates or the Constitutional Court for political reasons. In normal times, such abuses are limited to the political culture rather than being played out through the formal mechanisms of democracy. However, the campaign for the impeachment referendum in the summer of 2012 went further, raising real doubts as to the democratic commitment of a large part of the political class.

Commitment to
democratic
institutions
8

5 | Political and Social Integration

In the parliamentary election of December 2012, the Social Liberal Union (USL) of Prime Minister Victor Ponta won absolute majorities in both chambers of parliament. The USL is an electoral alliance formed in February 2011, joining the Social Democratic Party (PSD), the National Liberal Party (PNL) and the Conservative Party (PC). Following the local elections of June 2012, the National Union for the Progress of Romania joined this alliance. The main opposition party is the liberal-conservative Democratic Liberal Party (PDL), which formed an electoral alliance with two smaller parties (Civic Force (FC) and the Christian-Democratic National Peasants' Party (PNTCD)) for the 2012 elections. While the governing coalition attained 58.6% of the votes cast for the first chamber of parliament, the opposition alliance got just 16.5%. A new fringe populist party (PP-DD) collected 14.6% of the votes, but its members are expected to migrate to mainstream parties once in parliament.

Party system
7

Changes in the electoral system introduced two cycles ago have failed to fully produce the expected positive effect on the political landscape. First, the parliamentary and presidential elections were separated by prolonging the president's term of office to five years. This attempt to depoliticize electoral procedures failed, as the narrow victory in the presidential elections of November 2009 triggered a government crisis after less than one year of PDL–PSD coalition. Second, the shift from a proportional to a mixed electoral system was intended to enhance the societal roots of the political parties, but any such positive effects were largely offset by the

high degree of politicking during the economic crisis and the ongoing clientelism within the party system. On the upside, the high electoral threshold means that party fragmentation is low, with two large centrist coalitions and two junior parties in parliament following the December 2012 elections. Less positively, the quality of individual legislators has arguably declined, while the incidence of cross-party migration by individual members of parliament has increased.

The party system has not substantially increased its responsiveness to societal constituencies, although a certain process of decentralization has shifted power from national to regional party leaders. However, the political elite continues to be wary of civil society organizations (CSOs) that channel public interests and act as watchdogs. Correspondingly, the political system lacks incentives and points of access allowing NGOs and other societal interest groups to participate in the decision-making process. Some NGOs and their civil-rights agendas have enough international backing and domestic standing to influence politics to some degree, while some environmental groups have gained increasing influence in terms of shaping public policies. Other key democratic interest groups such as trade unions are weakly developed and politically bound, and are weak social partners in their own right. The supermajority that took power in the Romanian parliament in December 2012 may also contribute to a reduction of responsiveness to social groups.

The falling popularity of anti-democratic or extremist parties continues, a sign of the consolidation of democratic institutions and political culture. However, according to a 2012 Eurobarometer survey, Romania has the European Union's lowest share of citizens satisfied with the functioning of democracy (tied with Bulgaria and Greece). Polls indicate that the general level of trust in fundamental democratic institutions (government, parliament, judiciary) remains low. Ratings for political parties are even lower. The never-ending series of corruption scandals and the prevalence of public infighting can largely explain the ebb in political trust, but to date this has not translated into support for anti-system parties or movements. The attempts by the government in office and the parliamentary majority to manipulate the electoral rules and ignore the Constitutional Court during the August 2012 referendum to impeach the president signaled a regression in terms of democratic consolidation. However, the manipulations were blocked with the strong support of international partners, and this burst of anti-democratic spirit has not spread to the wider population.

Levels of generalized trust are relatively low within Romania. Civil society organizations (CSOs) tend to advocate on behalf of the interests of specific social groups, whereas larger, internationally connected NGOs tend to be quite isolated from constituencies in Romanian society, although it may be assumed that constituencies for and awareness of such organizations are growing at least within the urban middle class. Due to the country's long socialist tradition, people are more inclined to resort to state assistance and guidance than to self-organized societal groups. Those who have benefited most substantially in the course of the

Interest groups

7

Approval of
democracy

7

Social capital

6

transformation process often opt for a highly individualistic approach. Advocacy organizations and civil society coalitions tend to focus (with increasing effectiveness and influence) on single issues, most prominently anti-corruption, the environment, or conflicts of interest and electoral transparency. Conversely, the role of broad, general-purpose NGOs with substantial national and/or international funding and expertise seems to have declined following EU accession (and thus the replacement of pre-accession European Commission funding with structural programs administered by national ministries, which prefer “tame” projects to watchdog or activist NGOs). Moreover, in the 2012 electoral year there were attempts by politically affiliated economic and media groups to co-opt and/or manipulate anti-government civic protests. Typically, social capital is interpreted as traditional networks of solidarity found in rural environments, rather than in the dynamic urban circles characterized by strong service sector employment, internationalization and prosperity.

II. Economic Transformation

6 | Level of Socioeconomic Development

Significant urban–rural disparities with deep historical roots make social exclusion structurally ingrained in Romania. Gender is scarcely a factor, as the Gender-related Development Index (GDI) score is close to 100% of the Human Development Index (HDI) score, but other UNDP poverty-related indices indicate that poverty, though not extreme, is a real problem. FDI and economic growth are strongly focused on the capital, a handful of major cities and the western regions, whereas underemployment and poor-quality social services (including education) persist in the rural areas. Nationwide, the steady increase in life expectancy suggests improvements overall. The country’s HDI score has not declined over the past years – indeed, it has slightly improved despite the crisis (2008: 0.765, 2011: 0.781). The World Bank praised Romania for its achievements in poverty reduction in the years prior to the economic global crisis. The situation of the Roma community deserves special reference, however, as its members’ limited access to education and health services (and less so to welfare support) continues to be a serious issue.

Question
Score

Socioeconomic
barriers
7

Economic indicators		2009	2010	2011	2012
GDP	\$ M	164345.7	164792.3	182610.7	169396.1
GDP growth	%	-6.6	-0.9	2.3	0.4
Inflation (CPI)	%	5.6	6.1	5.8	3.3
Unemployment	%	6.9	7.3	7.4	-
Foreign direct investment	% of GDP	3.0	1.9	1.4	-
Export growth	%	-24.7	12.5	10.3	-0.8
Import growth	%	-46.7	14.2	10.9	-3.1
Current account balance	\$ M	-6955.0	-7258.0	-8344.0	-6346.0
Public debt	% of GDP	23.8	31.1	34.2	37.0
External debt	\$ M	120091.6	124358.1	129821.8	-
Total debt service	\$ M	16344.1	18585.8	19096.0	-
Cash surplus or deficit	% of GDP	-8.2	-6.7	-5.1	-
Tax revenue	% of GDP	16.3	16.8	17.9	-
Government consumption	% of GDP	18.5	7.1	6.3	6.6
Public expnd. on edu.	% of GDP	4.2	-	-	-
Public expnd. on health	% of GDP	4.4	4.8	4.7	-
R&D expenditure	% of GDP	0.48	0.47	-	-
Military expenditure	% of GDP	1.4	1.3	1.3	1.3

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Following EU accession, market-economic institutions are in place and include the freedom of trade, currency convertibility, strong anti-monopoly and anti-state-aid regulators, and transposition of EU rules into national law. Whereas Romania was rightly criticized for retaining a large economic development role for the state in the first phases of the transformation process, since that time legacies of overregulation have coexisted with virtually unhampered forms of business practice that are beyond the control of the authorities and regulations. The remittances of legal and illegal emigrant workers, mainly in other EU countries, contribute substantially to the subsistence of families staying at home in Romania. One lingering issue is the quality

Market-based
competition

8

of management in state-owned enterprises (SOEs), mainly the energy and extractive sectors, where politicization is widespread. Tax evasion and the informal sector are still sizable, which is a symptom of the weakness of public institutions meant to tackle such problems.

Formal regulations prohibiting monopolies do exist. However, the Competition Council and other market arbiters – though fully in line with EU rules – are weaker and more timid in reality than they should be. After 2009, the Competition Council took on a more active role, investigating cartels in various sectors, but other bodies such as the energy regulator have remained weak and politicized.

Anti-monopoly
policy
8

With EU accession, Romania became a full member of the common market. All restrictions imposed by tariff and non-tariff trade barriers have thus been abolished. There have been very few exceptions departing from this regime in the past years, and all have been in line with EU norms.

Liberalization of
foreign trade
10

The banking sector has been restructured to meet European standards, and in fact has weathered the economic crisis of the past years reasonably well. Foreign banks hold 82% of the country's banking assets. In 2012, the International Financial Reporting Standards (IFRS) system replaced the Romanian accounting standards. The new standards resulted in lower provisioning requirements for banks. All banks except one have a capital adequacy ratio above the regulatory minimum of 10%. After several profitable years, the solvency of Romanian banks is no longer an issue, but loan delinquencies have increased and the banks have proved risk-averse in issuing business credits. The share of nonperforming loans increased to 14.1% of total loans in 2011. As the banks were already overly cautious, they avoided the risk of insolvency, but this caution has meant they have contributed little to the recovery of the economy.

Banking system
9

8 | Currency and Price Stability

Romania is still perceived as a risky country, in spite of its relative stability throughout the crisis, its implementation of an austerity package and its occasional praise from analysts, who have noted that it has performed better than expected. There have been no major recent swings in the exchange or inflation rates. This stability persisted even through the tumultuous year of 2012, characterized by sharp political infighting, uncertainty and frequent government changes, with four cabinets taking turns in office between January and December. Inflation was kept under control, though it remains above the Maastricht target; this caused the central bank to postpone the planned date for euro adoption, initially scheduled for 2015.

Anti-inflation /
forex policy
9

The Romanian government implemented a harsh austerity program beginning in early 2010, with 25% cuts in public salaries and other social spending, and an increase in

Macrostability
9

value-added tax (VAT). The budget deficit was thus cut from an official level of 5.7% in 2008 (but in fact much more, as future spending increases were legislated toward the end of that year) to 4.4% in 2011. The pressure of international partners contributed substantially to this outcome, as a €20 billion package from the IMF and the European Union contained strict conditionalities. However, the successive governments and political majorities also displayed a level of discipline above expectations, especially since 2012 was an electoral year with three rounds of bitterly contested ballots. The flexibility of the national currency (the lei) also helped to rebalance the economy through the crisis.

9 | Private Property

Although Romanian legislation on the acquisition and protection of property rights is generally in line with the EU *acquis*, there are still shortcomings in the protection of intellectual and industrial property rights, despite stepped-up efforts to prosecute copyright-related crimes both in the arts and the software industries. Overall, Romania is gradually becoming more business-friendly in terms of procedures and the time it takes to accomplish them. The restitution of property nationalized by the communist regime also remains an issue, though this is less serious today than in past decades, as most restitution cases have been closed. However, following a string of decisions by the European Court of Human Rights, a substantial financial settlement that has been postponed several times in the past will come due in 2013, potentially creating additional problems for the state budget.

As an EU member state, Romania's infrastructure for facilitating private enterprise is firmly in place, and the inviolability of private property is guaranteed in constitution. Expropriation for reasons of public utility is clearly defined in law, and is rather difficult to implement in practice. On average, the state offers competitive taxation regimes for foreign investors. With respect to the number of official procedures required to start a business, Romania fares reasonably well in World Bank's *Doing Business* rankings. However, the main difficulties in the country are not related to establishing a company, but rather in operating it afterward given the maze of frustrating procedures required by the state bureaucracy in areas such as tax payments or inspections, to name just two issues. In strategic sectors such as energy, privatization plans have been stalled for some years, but remain largely in line with market-economic principles. The privatization of state companies restarted as a result of IMF conditionalities. Under its two-year precautionary deal with the IMF, the Bucharest government must sell state-owned stakes in key energy and transport companies, including Transgaz (15%), Romgaz (10%), Hidroelectrica (10%), Nuclearelectrica (10%), Oltchim (full privatization) and Tarom (20%). Additionally, 20% of the Romanian post should be privatized, along with CFR Marfa (rail freight).

Property rights

9

Private enterprise

9

10 | Welfare Regime

Social security is organized by the state and covers all relevant risks in principle. As the incidence of poverty indicates, social security functions on a subsistence level throughout the country. Similarly, although health care is in theory available to all citizens throughout the state territory, coverage is inadequate, especially in rural areas. Romania has one of the smallest health budgets (and corresponding low life expectancies) in the EU-10, and access to subsidized services and drugs can be erratic. Additionally, Romania has been less active than most other EU countries in dealing with the upcoming retirement of the baby-boomer generation. Early retirement has been widely used, especially in the first decade of transition, and the employment rate in 2010 was only 59% (Eurostat figures). Social safety nets are in theory comprehensive, but many components are poorly targeted and often abused. The system is overextended based on the resources made available to it, and promises more than it can deliver. As part of the austerity package introduced in 2010, the government started to address some of these problems, trying to eliminate overspending and abuse, especially in the area of disability benefits. At the same time, a “minimum pension” was put in place to extend assistance to the poorest categories of elderly people who had not contributed within the state pension system.

Social safety nets

7

Romanian society retains elements of uneven and/or discriminatory access. Education, basic social security and health care offer limited compensation for social inequality. Egalitarian attitudes are widespread in the state-provided services, but a lack of resources constrains implementation. In the long run, the main threats to state welfare services lie in the gradual depletion of assets and progressive infrastructure decay. The UNDP gender-related indices and other relevant indicators no longer display progress, but have rather evinced stagnation. Disparities are first and foremost socioeconomic, and while existing policies and institutions are consolidated enough to prevent open discrimination in law, they are not powerful enough to compensate for de facto differences or to achieve true equality of opportunity. The UNDP gender-related indices show that Romania still benefits from past equal-opportunity policies and some recent transition trends; women are not disadvantaged in education and are even overrepresented in higher education, but may earn less than men when holding similar positions in the economy. The plight of the Roma communities with respect to access to health care and education reveals a weakness in Romania’s state-provided services, however.

Equal opportunity

7

11 | Economic Performance

Romania has suffered due to the global crisis, but the consensus of the analysts is that things could have been much worse, comparatively speaking. The crisis revealed the structural weaknesses and vulnerabilities underlying the substantial growth rates

Output strength

7

characterizing the previous few years. Thus, after several years of impressive growth, GDP contracted by 6.6% in 2009 and a further 1.6% in 2010. Net FDI inflow increased sevenfold from 2003 to 2008, but dropped back to the 2005 level in a single year of the crisis, and has remained feeble since. Similarly, the volume of remittances had climbed steeply for a few years leading up to 2008, but collapsed afterward as labor markets in Spain and Italy deteriorated. The crisis affected imports rather than exports, but all three economic sectors – primary, secondary and tertiary – experienced a comparable degree of contraction.

However, the economy did recover somewhat during the period under review, showing GDP growth of around 2% in 2011. Inflation has remained under control all along, showing temporary surges above 5% in 2009 and 2011, but hovering around this value on average, and even showing a downward trend toward the period's end. The unemployment rate did not increase dramatically during the crisis; at the peak of the crisis, a small rise from the 5% to 6% range to the 7% to 8% range was evident, but the rate had fallen again to 6.6% by the end of 2012. The European Union and the IMF put pressure on the successive Romanian governments to reduce spending and restore order in public finances by addressing fiscal imbalances and taking unpopular measures (e.g., levying social contributions on pensions, raising VAT, cutting salaries of state employees, etc.).

At least one structural weakness related to regional and urban/rural disparities remains, however. Agriculture produces just 6% to 7% of GDP, despite employing 30% of the country's workforce. Another source of concern for the future is that 2012 was essentially time lost in terms of economic reforms, as it was spent in bitter political infighting related to three rounds of electoral campaigning (local, national and an impeachment referendum).

12 | Sustainability

To some extent, environmental hazards have been reduced by deindustrialization, as well as a wave of greenfield investments by foreign companies that have generally made use of new technologies. Implementation of the EU acquis forced many heavy industrial plants and energy producers to make new investments in order to comply with modern standards. Industry-related air pollution remains an issue in some cities and in the northwestern part of the country. The Danube delta wetlands are threatened by water contamination. Very few cities and no smaller settlements had wastewater treatment plants or ecologically sound landfills a decade ago; massive investments began only shortly before accession, driven by EU pressure. The city of Bucharest still treats only a small fraction of its wastewater. In brief, though Romania has managed to close negotiations on the relevant acquis chapter, the main problem in practice is implementation. Nevertheless, in relative terms, progress has been substantial. Concerns about ensuring a reliable and clean water supply, as well as

about promoting energy conservation and efficiency, are being addressed in compliance with EU environmental standards and international conventions. Being a car-producing country, successive governments have had an interest in slowing the import of second-hand cars; thus, they applied high taxes to used auto purchases, while implementing a cash-for-clunkers buyback scheme similar to that of Germany's. The two measures together have led to a palpable renewal of the country's overall car fleet, as well as a reduction in traffic compared with the situation in neighboring countries.

The main problems with Romania's education system and R&D investment record concern not the general level of education, but rather an uncontrolled mushrooming of private higher education institutions and a visible erosion in the quality of teaching. Likewise, although government spending on education has improved the allocation of resources, it remains skewed in favor of (public) higher education. Overall, state controls on quality lag; a law adopted in 2010 tried to address this issue, but the stricter standards introduced were again lowered when the center-left returned to power in 2012. If Romania is to attain a position of economic competitiveness and close the substantial urban-rural educational quality gap, substantial investment in improving primary education will have to be made throughout the country. Public spending on R&D is far below EU and OECD averages, and is likely to remain so given the severe constraints on public spending in 2012 and 2013. However, basic educational achievements are in place: literacy rates are high, general primary and secondary education enrollment is good. The skewing of the female-to-male enrollment ratio, which is close to 100% in primary and secondary education but 134% at the tertiary level, is typical for post-communist countries, especially in Southeastern Europe. Adult education and continuing training has not yet developed societal roots; participation rates are below EU-27 and even EU-10 averages. Romania's comparative shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%), as these rates are comparable to those of the most advanced EU-10 countries. Rather, deficits appear in the quality of the system's output: In cross-national tests, for example, Romanian secondary students score at a level just 90% of the OECD average in terms of reading and mathematical skills.

Education policy /
R&D
7

Transformation Management

I. Level of Difficulty

The structural constraints on transformation in Romania are an aggregate of four key factors, some of which are positive, others negative. The key challenge is the socioeconomic imbalance between a few affluent urban centers and the rural provinces. Despite the global crisis and internal disparities, socioeconomic transformation in Bucharest, Constanta and some Transylvanian cities has produced a middle class and a vibrant service sector. By contrast, rural areas are characterized by outdated agricultural production methods – though modern investments have started to change this in some areas – while some ex-monoindustrial areas remain burdened with outdated industrial infrastructure. Part of this legacy dates back to Ceausescu’s austerity policies of the 1980s, but poverty and infrastructure deficits have tended to cement existing divisions. More than the Communist regimes in neighboring countries, Romania’s state severely underinvested in physical public infrastructure (social, transportation, etc.). Membership in the European Union helped spur the implementation of rational agenda-setting and programs directed toward specific transformation deficits (e.g., rural development and administrative capacity building), both of which have been positive influences on Romania’s transition management. However, transformation managers within the country’s political class have shown considerable irresponsibility, with a disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. Lastly, the global economic and financial crisis has hit Romania hard, severely reducing options and resources available for transformation management. Even if the necessary political courage and vision were present, the country’s meager resources would make it difficult to act ambitiously.

Structural
constraints

4

Romania’s civil society traditions have historically been weak, even before the disruptions of the communist period. Today too, there are a comparatively small number of active and sustainable NGOs working in the country. Participation in public life and in voluntary associations remains limited. Despite reforms driven by EU accession, institutional stability and the rule of law suffer from significant deficits and a lack of anchorage in a society used to a high degree of informality and even bargaining when the law is enforced. In contrast to Bulgaria or Serbia, Romanian communism was anti-intellectual in its approach to active, competent NGOs and

Civil society
traditions

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think tanks. CSOs are still fighting an uphill battle to make their voices heard in politics. However, with improving living standards, a burgeoning service sector and rising educational standards, a clientele and constituency for CSO work and employment is growing incrementally. Effective public campaigns against corruption or for environmental causes exemplify this trend toward modernization.

Outside the narrow circles of politicians and commentators, the intensity of social conflict is rather low, though the August 2012 referendum on the president's impeachment caused more than usual. Hitherto, political conflict has cut across social and cultural cleavages rather than being aligned with them, which seriously limits risk. One exception may be the position of the Roma minority within society and the discrimination it faces; this has seemed to continue despite official integration strategies and a ban on the use of discriminatory language.

Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as is indicated by the demise of the voraciously anti-Hungarian Greater Romania Party (PRM) and diminution of other extremist voices. Hate speech and intolerance by the media and some public authorities have instead been directed against sexual minorities, who are socially stigmatized and have few vocal advocates. Given the current economic crisis and its social consequences, as well as the major regional and social inequalities within Romania, the low level of appeal exerted by extremist parties is remarkable. Explanations may be found in a general turn away from politics (manifesting also as low turnout at the elections), as well as in the adoption of populism and crude politicking by leaders of the mainstream parties, who are able to say things in public that would render them outcasts in Western Europe. On a positive note, despite the widespread discriminatory attitudes, open conflict and violence have not been an issue even during the current crisis-ridden years; in the vast majority of cases, violence and abuse in public remains verbal.

Conflict intensity

3

II. Management Performance

14 | Steering Capability

Romania continues to be characterized by a deeply ingrained tradition of simulated reforms and state capture, which has tended to be combined with a structural skepticism among the population vis-à-vis state policies and the frequent subversion of their implementation. These obstacles have at times brought the reform process to a virtual standstill. Strategies do exist – in fact, they are too numerous, both on the central and local levels – but are typically disconnected from the real budget process and thus tend to remain wish lists decoupled from reality.

Question
Score

Prioritization

6

Despite strict guidance and prescriptions from international financial institutions (IFIs) and the European Union, Romania typically has either failed to implement well-designed structural reforms or seen required legislation blocked as a result of political crises. This political weakness has negatively affected reform in sectors such as education, health care and the management of state-owned enterprises (SOEs). Populist measures taken on the eve of the 2012 elections exacerbated the government's financial position in the wake of the crisis. The deepening of the crisis in 2010, which enhanced the sense of urgency on the part of the political leadership, did produce some better results in terms of reform outcome and implementation, though this too was combined with massive international interference. It appears from this record that reforms and a modicum of macroeconomic responsibility can best be achieved in Romania only at the 12th hour, when they are imposed by harsh realities, rather than in good times when resources are plentiful.

The government is committed to democracy and a market economy, but has had only limited success in implementing reforms and overcoming structural obstacles. In many cases, follow-through on reforms has been the main problem. Even when the correct initial policy choices were made and accepted by the European Union and IFIs, the government failed to take the same care with actual implementation, instead allowing interest groups to sabotage strategic orientation through party politicking or simulated implementation. External pressure and conditionality declined after the country's EU accession, but gained significance again following the onset of the global crisis. Political instability and the lack of popular support for austerity measures from 2010 on had to be compensated for by external pressure, not only as the reform agenda was set, but also during the process of monitoring and enforcing implementation. The year 2012 in particular was dominated by power struggles at the expense of pressing policy priorities.

The quality and consistency of policymaking in Romania is improving across the board. To be sure, in some policy areas deemed vital by vested interests, such as anti-corruption or judicial reform, the political elite has opted to withstand pressure from Brussels and continue with unproductive politicking. However, the backbone of improved policymaking seems not to be the party-political leadership, but rather an increasingly well-trained and professional class of civil servants in the ministries and government agencies, as well as their counterparts in think-tanks. Below the scrimmage of politicking, hot political issues and vested interests, these civil servants have achieved some degree of consolidation and coherence in policymaking. This is nevertheless done at the expense of transparency and sustainability; when good civil servants quit, taking positions in EU institutions, for example, institutional memory is lost.

Overall, the capacity to learn from past experiences appears to be declining, at least at the party-political level; here, the ability to engage in policy learning appears limited, because vested interests and party-political calculus takes priority over the

Implementation

6

Policy learning

6

sober assessment of the effectiveness and net results of policies. The electoral year 2012 marked a low in the quality of the political debate, which often sounded strikingly decoupled from reality.

15 | Resource Efficiency

Romania's track record in terms of resource efficiency is not historically good. The process of decentralization, in which attempts were made to strengthen the competencies and fiscal resources of local government bodies, has been in part reversed by the crisis, or at least halted by temporary spending and staffing caps. The central government has employed various mechanisms and legal loopholes to prevent local governments from actually increasing their policy flexibility or making autonomous decisions in a larger number of policy fields. On the other hand, many local decisions made in the previous climate of loose budget constraints today appear clientelistic or simply wasteful. The severity of the crisis induced the national government to toughen budgetary discipline in 2010, curbing the practice of overstepping financial limits. However, while things were gradually brought under control at the macro level, suboptimal spending practices or outright rent seeking have continued in many sectors and institutions – in energy, for example, or even SOEs in general. The center-left government that took power in early 2012 and reinforced its majority in later elections seems particularly keen to accommodate its clients by expanding the state apparatus back to pre-crisis levels, at the expense of public investment.

Efficient use of assets

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The harsh political polarization of 2012, along with two cabinet turnovers, left policy coordination as a comparatively low priority. To the extent anything in this area was achieved, it was due to the residual professionalism within the ministries, where policy coordination manifested below the level of the political leadership. The independent and wayward activities of the president are bound to have negative effects on policy coherence and coordination. On the upside, macro balances were preserved throughout the period under review due to the activity of a powerful finance minister who holds no further political ambitions, as well as the conservative stance of the central bank. On the downside, sectoral reforms placed on the agenda in previous years (health care reform, decentralization) were stalled or even went into reverse (in the case of education). Economic policy coordination was particularly weak, with a high-profile attempt to privatize a chemical plant ending in fiasco.

Policy coordination

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Adequate anti-corruption and transparency legislation is in place, and activity in the area by the National Anti-Corruption Directorate (DNA) and other elements of the judiciary has intensified. An increasing number of top politicians from all parties were prosecuted and convicted during the period under review, the most prominent case being that of former Prime Minister Năstase, who is now serving time in jail. On the other hand, this must be attributed to increased independence within the

Anti-corruption policy

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judiciary rather than to the policy preferences of a certain government. On the contrary, the current center-left majority, which held power for most of 2012, has clearly demonstrated its displeasure with this current state of affairs. It has sought to undermine the controversial anti-corruption institutions both by passing new legislation and by seeking to influence the institutions' personnel selection decisions. The by-product of this struggle has been that the relevant agencies are developing a professional ethos of their own in the face of political interference and opposition. The frequency of corruption scandals and indictments involving high-ranking politicians, civil servants and businessmen suggest that corruption is endemic, but also that the visibility and effectiveness of prosecution are improving. Despite assertive actions by CSOs and other watchdogs, access to information remains problematic, as it runs against the grain of the political elite's traditional understanding of politics. There was no visible improvement in the public procurement system during the period under review; on the contrary, the European Commission suspended disbursement of funds to Romania in 2012, and applied financial corrections to existing projects, largely due to irregularities in procurement practices.

16 | Consensus-Building

The political establishment has in principle accepted the goals of a market economy and democracy. The problem remains the implementation of these societal goals, as the actions of some parties and political actors occasionally diverge from their official rhetoric. This is most visibly the case in issues dealing with the rule of law and the independence of judiciary; a significant share of parliamentary members, and indeed often a parliamentary majority, have occasionally acted as if they wanted to return to the previous status quo. This, rather than ideological differences, explains the political polarization and tumult that marked 2012.

Despite the economic crisis, incessant high-level political politicking, and the overall low level of public trust in political institutions and actors, support for anti-democratic actors in Romanian society remains remarkably weak. The level of diffuse populist or antidemocratic sentiment is probably much higher, but this does not translate into votes for overtly extremist parties as it has in the past (or does today in some neighboring countries). A new fringe populist party collected around 14% of the votes in 2012, but its legislators are ultimately expected to migrate to mainstream parliamentary parties. The most concerning trend during the period under review was the radicalization of mainstream party rhetoric – especially in the case of the National Liberal Party, which has increasingly given signs of populism and xenophobia.

Consensus on goals

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Anti-democratic actors

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Cleavages in Romania are on the one hand ethnic (given the Hungarian and Roma minorities), and on the other hand social, class-based and rural-urban. Whereas the Roma (estimated at some 3% of the population) have not organized well from a political perspective, the Democratic Union of Hungarians in Romania (UDMR) consistently achieves a vote share comparable to Hungarians' share in the population at large (6% to 7%). Although this means that the ethnic cleavage is translated into politics, the UDMR's involvement in almost every government over the past decade and a half has set an important standard of consociationalism and integration.

Cleavage /
conflict
management
8

The main cleavage threatening social cohesion, coherence and political peace in Romania concerns the growing socioeconomic disparities between urban and rural populations and between the winners and losers in the transformation process.

In January 2012, approximately 15,000 people protested against the government's austerity and health care reform measures. The protests escalated into violent clashes with the police, leading to several dozen injuries and approximately 40 arrests. Opposition politicians tried to capitalize on the demonstrations, and called for the president's resignation as well as new elections.

Regional socioeconomic disparities have increased between urban centers such as the Bucharest-Ilfov development region, where standards of living have surpassed 75% of the EU average, and the predominantly rural regions in the northeastern and southwestern parts of the country, which have reached barely half the average EU level.

The rural-urban and regional divides are not clearly reflected in the political parties. Although all parties remain strongly Bucharest-focused, party affiliations and voting practices cut across class and region, dissipating potential conflict lines. Moreover, in the years after 2006, the parties have undergone a process of decentralization, with county council presidents becoming directly elected and thus becoming both more visible and more powerful.

Conversely, several key political conflicts have little resonance within the broader society. The real political battle lines today are between groups competing for power and access to public resources. A related conflict concerns the reform of the judiciary and the anti-corruption fight, which championed by a few leading political figures and does draw some support within society, but is obstructed by larger parts of the political class that see their interests and traditional impunity threatened by a more independent judiciary.

The state engages with think tanks and NGOs, but such consultation often results from Western pressure or a particular NGO's increasing popularity, or occurs when the state administration itself lacks the competence required to perform a certain task. In general, the government does not appear to welcome a broader policy dialogue with CSOs. Considerations of expediency prevail over broader consultation with

Civil society
participation
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organizations such as trade unions or churches. At best, politicians cooperate with an elite circle of think tanks and NGOs that are not necessarily representative, and only to the extent that these organizations further their political interests. The gradual increase in career permeability between the government bureaucracy and representative political institutions on the one hand, and civil society and advocacy organizations on the other, may be considered a positive trend. Unfortunately, some of the relatively few critical voices have been effectively silenced by co-optation into administrative and political responsibilities, or have migrated into business or consulting spheres following the international donors' withdrawal from the region after EU accession. Civil society groups became more prominent during the anti-government street protests in early 2012, and the fact that they were able to secure a cabinet change could be understood as a sign of strength. On the other hand, these protests were comparatively small compared with those elsewhere in Europe, and in part turned out to have been politically manipulated. A leading local activist who ran independently for mayor of Bucharest won 9% of the vote in the June 2012 local elections, which is quite a performance given his complete lack of resources.

Ever since the bloody revolution of 1989, Romania has been exceptional in its handling of its wartime (as an ally of Nazi Germany) and communist pasts. Ceausescu's nationalistic denial of any Romanian involvement in offensive warfare, war crimes or the Holocaust was perpetuated in the post-1989 public debate. It was only in the second decade of transition that President Ion Iliescu, a former communist, broke the taboo and admitted the part Romania had played in the Holocaust. The pressing issue of communist repression and expropriation was also a point of contention after 1989. Post-communist lustration was never actually implemented in Romania, unlike in some neighboring countries, though it was hotly discussed in the years directly following the overturn of the old regime. The body created to screen and expose former collaborators with the Communist secret police has seen its work frustrated by bureaucratic obstacles; in any case, the governing legislation's aim was more to expose than to punish. A listed fund set up in 2005 to compensate victims of Communist expropriation (Fondul Proprietatea) was eventually taken over by a professional manager in 2010, gaining transparency thereafter. However, the issue of restitutions remains thorny, with a final deadline from the European Court of Human Rights (CEDO) to produce a settlement looming in early 2013. Long delayed compensations may be provided in cash, listed shares or in-kind property, but the impact on the budget no matter what the ultimate mix is likely to be substantial.

Reconciliation

8

17 | International Cooperation

Overall, Romania has made effective use of international support from the European Union, the European Bank for Reconstruction and Development (EBRD), the IMF and the World Bank during the course of the current crisis. Indeed, the country's

Effective use of support

8

primary coping strategies were largely guided by the international organizations. On average, the consensus among experts is that the country has performed better than might have been expected, especially in the area of macroeconomic stabilization. This is particularly true given the bitter political polarization and the fact that 2012, a year with three rounds of electoral balloting, was almost lost in terms of reform implementation. On the downside, the country has been unable to use EU structural funds effectively; the rate of absorption of payments disbursed was just 12% to 15% at the end of 2012 (the sixth year of a European budget cycle), with rates as low as 6% to 7% within some operational programs. This can be attributed to the lack of administrative capacity, incessant high-level politicking and outright corruption.

Romania's problem with establishing credibility as an international partner is multifaceted. First, there is the negative image of Romania in other European countries, in particular in the euroskeptical United Kingdom, and in Italy and France, where many Romanian citizens have gone search of work or assistance. Moreover, the antidemocratic slips of the government and parliamentary majority in the summer of 2012, during the presidential impeachment referendum, led to open spats between top Romanian politicians and European leaders such as European Commission President José Manuel Barroso, German Chancellor Angela Merkel and European Council President Herman Van Rompuy, all of which were covered in mainstream international newspapers. These incidents did little to contribute to making this ruling coalition, or the country in general, a trusted partner within the European Union. Following the parliamentary elections of December 2012, with a confirmed center-left cabinet in place, the president and prime minister signed a cooperation agreement promising to stop attacking each other. If the pact holds up until the presidential elections scheduled for the end of 2014, the country may experience a period of relative calm and a renewed focus on policy, a condition sorely missed in the last few years. However, the rapprochement could be overturned if the new government continues to fight, overtly or covertly, against the independence of the judiciary.

Credibility
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Given the economic crisis and the country's political instability, Romania seems to have relinquished ambitions to act as a regional leader in southeastern Europe and the Black Sea region. Overall, now that EU membership has been achieved, regional cooperation has markedly declined as a political priority. Relations with neighboring Moldova constitute an exception. With the change of government in Chisinau in mid-2009, Bucharest has taken a more active stance as Moldova's advocate within the European Union, but its capacity to open doors is very limited. Overall, Romania lacks the political capacity to play a more substantial role in the European Union, unlike some other EU-10 states. The ability to influence foreign and European policies requires high-level political engagement and a continuity of vision and action, rather than the presence of a few competent administrators and diplomats.

Regional
cooperation
8

Strategic Outlook

The risks Romania faces in the economic field are of divided origin, stemming on the one hand from structural legacies, and on the other from the ongoing global economic and financial crisis. However, the country's political risks are predominantly self-inflicted.

Economically, the underdevelopment of the agricultural sector and of rural areas in general constitutes a heavy burden. The positive effects of pre-2009 economic growth were unevenly distributed territorially and across social groups. FDI flows to Romania have always trailed those in other new EU member states, and are sensitive to international downturns both small and large. The same is true of migrant workers' remittances (though remittance volumes dropped less than expected during the course of the crisis). Consequently, domestic consumption will be a key issue affecting economic recovery in the next few years. However, due to the austerity program forced on the government by previous overspending, the recovery process cannot bank on significant short-term increases in domestic consumption (which is partly dependent on remittances). Investment and exports will thus be critical factors as well. Fiscal limitations will make it difficult to engage in any creative solutions beyond following the recommendations and conditions set by the European Union and international financial institutions.

Romania's main hope for the medium and long-term future is therefore to muddle through the crisis without major setbacks, while relying on a gradual recovery in Europe, particularly in the big EU member states that are its main trading partners, and from which its relatively diversified economy could benefit. In the meantime, if the ruling coalition can refrain from tampering with judicial independence, the institutions associated with the rule of law may also consolidate and become truly independent. However, this will require a forbearance not previously shown by the government in power, and signs at the beginning of 2013 were not positive in this regard. On the upside, in spite of the crisis and prevailing social frustration, an intensely polarized electoral year ended without Romania developing a truly right-wing, xenophobic and isolationist movement to replace the antiquated Greater Romania Party (PRM), which remained shut out of parliament.