Romania

**Status Index**

8.06  # 15  
on 1-10 scale  out of 129

**Economic Transformation**

7.96  # 16

**Governance Index**

5.89  # 32  
on 1-10 scale  out of 129
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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

<table>
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<th>Indicator</th>
<th>Value</th>
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<td>UN Education Index</td>
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<td>Poverty(^3)</td>
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<tr>
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<tr>
<td>Gender inequality(^2)</td>
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<td>Aid per capita</td>
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Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

In the last few years, Romania has consolidated the independence of its judiciary and seen solid results by flagship anti-corruption institutions DNA and ANI, which became recognized internationally. Dozens of ministers, former and acting senior officials and businesspeople have been investigated and some are serving sentences in jail.

The immediate impact of this has been the elevation of anti-corruption policy as the most important issue in Romanian politics, and conflicts over this are the main political fault line, replacing left vs. right as the axis upon which the country’s political system has revolved in the last ten years. The parties have used anti-corruption to position themselves and as a strategy to get rid of political opponents. The anti-corruption drive has also shaped the relationship between governments and successive presidents, the latter being largely supporters of strict anti-corruption policies and institutions while in office. Many appeals to a rather proactive Constitutional Court, though strategic and politically motivated, helped better define the separation of powers in Romania and create guarantees for the rule of law, for example, decisions to curtail the attributions of the intelligence services in penal investigations.

In office, governments and ruling coalitions spent a lot of time defending themselves against increasingly assertive anti-corruption prosecutors, by rewriting laws, manipulating institutions or launching vicious media campaigns against opponents and magistrates in the channels they control. This has significantly drained their energies away from governing and, as a result, policy development and implementation took a backseat.

After the center-left government fell in November 2015 in connection with a corruption scandal, the one-year caretaker government only had a limited mandate and time horizon without a majority in parliament, so it did not embark on systemic reforms, limiting themselves to a list of incremental changes, especially in the implementation capacity of the administration.
December 2016 parliamentary elections were won by the center-left party Social Democratic Party (PSD), with 45.5% of the vote. The electoral campaign was unusually disciplined and restrained, with an extreme nationalist party failing to enter parliament. However, PSD leadership quickly lost credibility and triggered mass protests. First, the party failed to nominate for prime minister Ms. Sevil Shhaideh, a Romanian from the Turkish minority whose husband is Syrian and believed too close to the Assad regime.

Second, in January 2017 PSD finally installed a cabinet perceived as lightweight, populated with followers of the uncontested leader of the party, Liviu Dragnea. Convicted of corruption, Dragnea was legally excluded from becoming prime minister himself, despite aspirations. The main priority of this cabinet, one never mentioned during the campaign, was to pass a general criminal pardon benefiting people investigated for corruption or with suspended terms (i.e., Dragnea), and to amend the criminal code to weaken anti-corruption investigating instruments.

The move, which came in the form of two executive decrees adopted literally overnight, provoked public outrage and a series of street protests in January and February 2017 of unprecedented proportions since the fall of communism. At one point, half a million Romanians were marching in the streets at freezing temperature, in more than 60 cities across the country and in the diaspora, demanding the repeal of the acts and resignations.

After a few weeks of procrastination in which Romanian anti-corruption marches became global news, the government backed off. The decrees were repealed, the Minister of Justice resigned and the amnesty plan was taken off the agenda for the moment. The intensity and creativity of the civic protests were unexpected and visibly caught the cabinet, the new parliamentary majority and even the opposition off guard. President Klaus Johannis emerged as the default winner as he had opposed the decrees all along. Dragnea also lost part of his power inside the PSD, being forced to share portfolios with other power groups through a cabinet reshuffle, while the criminal trial against him in a new file continues.

The main structural socioeconomic deficits (e.g., urban-rural disparities and an agricultural sector absorbing 30% of the labor force but generating only 7% of GDP) remained in place. The macro stabilization program which pulled the country out of crisis was on average successful and was tolerated by the population with less turmoil than in other EU states. Conversely, the reforms in key public sectors (energy, state-owned enterprises, health care) have not made much progress and Romania ended the 2007-2013 EU budget cycle at the bottom of the list of member countries in terms of effective absorption of structural funds.
History and Characteristics of Transformation

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, which only partly represented wider societal interests. It had not internalized the concept of popular sovereignty, even after the introduction of a general (male) vote after WWI. National mobilization became a substitute for modernization and an integrative strategy in the new, enlarged state with sizable minorities.

Despite the massive socioeconomic transformations forced upon the country by the communist regime after 1945 to 1947, the postwar political system in fact perpetuated important flaws 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 equality. 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 widespread shortages, economic decay and a recourse to the national-socialist mobilization around the leaders.

The regime collapse in 1989, in the midst of a genuine popular uprising, led to a power struggle among different segments of the nomenklatura rather than the promising beginning of a political transformation. Therefore, even though Romania was the only country in East-Central Europe to witness a violent end to communism, the revolution is still sometimes regarded more as 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 other Central European states seeking EU accession, Romania increasingly fell behind in the reform process during the early 1990s.

The first true rotation of elites happened as late as 1996, when the new center-right government started to implement what others had done five years earlier: restructuring the heavy industries and the mining sector, liquidating economic black holes, consolidating the banking system, privatizing large state-owned enterprises, liberalizing most input prices and establishing full currency convertibility.

The second decade of transition, after 2000, was characterized by the struggle between the center-left Social Democrats and their allies, who tried to pursue a pro-growth agenda and take advantage of the benefits brought by the EU membership, while in the same time preserving political control through mild authoritarianism and clientelistic party machinery; and the center-right, under various labels, most of the time in opposition in parliament, who after 2004 rallied behind president Băsescu and supported, out of conviction or only tactically, the agenda of the rule of law. In fact, after 2004 the fight against corruption, increasingly visible and successful, became the main issue
defining politics in Romania. It is the factor which can predict how coalitions form and what kind of formal and informal alliances will be made in parliament.

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 successive governments in the attempt to build clientelistic networks in territory. Pro-cyclical, spendthrift policies were common, while deficits were accumulated much faster than the (admittedly high) rate of GDP growth. Starting in 2010, the country has implemented a harsh austerity package which cost the leaders the following elections but restored the budget balances and formed the basis for robust economic growth after 2013.
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 rhetoric among some representatives of the Hungarian minority goes up and down with the political cycles, but their actions have stayed within the constitutional limits. Electoral support for radical groups remains marginal. Urban gangs sometimes settle scores violently but there is no territory they systematically control. The gun ownership rate is among the lowest in the world and violent crime is rare.

According to the 2011 census, approximately 10.5% of Romania’s citizens belong to national minorities. Ethnic Hungarians (Szeklers) form the largest minority (6.1%), followed by Roma (3.1%). Minorities are not discriminated against in the constitution, although some persons belonging to minorities face social exclusion and discrimination, especially the Roma.

Historically, Romania has been a nation-state defined largely in terms of ethnicity. However, in the past 25 years a visible process of accommodation with the “historical minorities” has taken place. Especially after EU accession, there has been a shift in theory and practice toward a model of civic, inclusive citizenship, with the European identity and rights as part of it. Enforcement of such rights may be imperfect at times but there is no serious challenge to the model.

The Romanian Orthodox Church (BOR) is relatively independent from politics, but it occasionally benefits from state financial support. Other recognized denominations get some funds, mostly for maintaining cultural monuments. Religious education was introduced as an optional subject in schools in the 1990s, but the impact of this change has remained largely symbolic. Social groups with religious affiliation (and not just to BOR) vocally oppose the introduction of additional rights for gay communities, but this has been a move to keep the status quo rather than taking steps back toward a more conservative regime. A petition for “traditional family,” meaning a
constitutional reform specifying marriage is between “man and woman,” was allegedly signed by three million Romanians and rhetorically supported by the mainstream parties, but it is unclear if the parliament will really initiate action on it.

Romania has reformed its state institutions since 1989 with increasing EU assistance and guidance. Administrative structures and resource allocation encompass the entire country. Infrastructure in rural regions remains underdeveloped, with a state administration lacking capacity to act effectively in cases of natural disasters like floods or wild fires. The EU accession process and Romania’s status as an EU member state as of 2007 have further consolidated basic administration and state functions throughout the country. Local deficiencies remain, but coverage and quality are gradually improving. The main risk to consistent functioning of the state administration remains corruption.

2 | Political Participation

Elections are in general free and fair, in spite of anecdotal evidence of fraud, unethical campaigning and voter manipulation, especially in poor rural areas. However, the strengthening of the judiciary and the anti-corruption offensive in the past 10 years led to a list of convictions on electoral fraud. As a result, the parties are today visibly more prudent in their campaigning methods and spending. The Permanent Electoral Authority continues to be a weak independent overseer. The requirements to register a new political party have been relaxed, but administrative barriers remain that make it difficult for newcomers to run in elections.

Parliamentary elections were held on 11 December 2016. The electoral turnout was only 39.5%, which has been the lowest rate in a national legislative election in East-Central and Southeast Europe since the end of state socialism (except for the 39% turnout in Romania’s 2008 legislative elections). On the other hand, the ballot was conducted relatively well and free of incidents in the day of elections. Comparatively, there were fewer allegations of fraud than ever before.

In 2015, the decision was taken to return to a proportional electoral system with closed party lists and 43 constituencies, after the single-member district system introduced in 2008 and used for two cycles had failed to overcome alienation among voters or to improve the quality of the political class. The requirements for registering a new political party have been relaxed, but new parties still have to gather a large number of signatures in order to participate. Only one new political party, originating in civil society, surprisingly succeeded to do so in 2016, building upon the success of the local elections.
Democratically elected rulers do have effective power to govern. No political enclaves exist, although interest groups and stakeholders may occasionally exert disproportionate influence and may be viewed as possessing some veto power. The influence of interest groups with economic or media power has diminished in the last years as a result of the anti-corruption campaign. The influence of the intelligence services, instrumental in this campaign, has become more recently a concern since they have been a collaborator of anti-corruption procuratura in the last decade. Intelligence services exert some degree of influence in all institutions. For example, the controversial PSD deputy and businessman Sebastian Ghiță in January 2017 claimed that the deputy director of Romania’s Domestic Intelligence Service (SRI) had helped the Anti-Corruption Agency to fabricate corruption cases in order to discredit Romanian politicians and business people. This led the SRI director to suspend his deputy.

Romania’s 1991 constitution guarantees the usual political and civil liberties, including freedom of expression, association and assembly. Rhetorical threats or, more often, attempts to discredit independent civil society have occasionally occurred, but these created no real effect in society. Several NGOs argued that the Romanian Information Service (SRI) increased its surveillance of civil society and collected sensitive personal data without a legitimate reason. The law on registering new political parties has to some extent been liberalized, but administrative obstacles remain for new actors who want to participate in elections.

 Freedoms of opinion and the press are generally protected, but the economic crisis has severely affected the sustainability of the mainstream media: fewer outlets, lower circulation and disappearance of genres (investigative journalism, political commentary). Social media has proved to be an imperfect substitute. At key moments, it played a role in mobilizing the public, such as in 2014 when the government was toppled in the wake of public outrage triggered by a corruption scandal (a deadly nightclub fire facilitated by officials neglecting inspections); or at the beginning of 2017, in the large anti-government protests. In the 2016 legislative elections, social media also pushed a new party that originated from a civic protest movement in Bucharest into parliament. But because social media is chaotic, unfiltered and “balkanized” (grouping people with the same opinions in echo rooms) it cannot function as a platform for balanced debates on important issues. The main TV stations have become cheap rent-by-the-hour platforms for business and political interests spreading propaganda and fake news. There is a general sense of tabloidization in which, while everybody is free to express themselves, nobody listens and no meaningful public conversation takes place. The media regulator (CNA) is weak and politicized.
3 | Rule of Law

State powers in Romania are nominally independent: the constitution provides for a separation of powers and checks and balances in the political system. In moments of intense political competition, the limits of the constitution are tested. Following its electoral victory, the PSD-led government in January 2017 adopted an emergency ordinance to retroactively decriminalize the abuse of public office in cases where the damage does not exceed 45,000 euros. By adopting the regulations, the government ignored the president’s resistance and intended to exclude the parliament from debating and approving the legislative amendment. Mass protests led the government to withdraw its ordinance on 5 February 2017.

Political actors appeal to the pro-active Constitutional Court to pass decisions which should be political routine. However, in spite of the high political polarization provoked by the anti-corruption campaign in the past ten years, and the controversial attempt to impeach the president in 2012, no major actor has significantly breached the basic separation of powers in Romania. In general, there is a tendency in parliament to use its legitimacy and sovereignty to put itself above the law, such as when a few mandatory decisions of the Constitutional Court were not incorporated into legislation, or when they try to protect their members against judicial investigations. However, the trend is toward improvement.

The consolidation of judiciary’s independence has continued apace, with solid results by the flagship anti-corruption institutions DNA and ANI, which was recognized internationally. The higher courts also guarded their independence, renewed their staff and passed convictions in high-profile cases with increasing confidence, in spite of the permanent barrage of slander thrown at them by the special interests in mass media (most of it). In a way, the open offensive in the public space against the judiciary is a sign of decreased control behind closed doors, indicating growing independence.

In 2016, senior public prosecutors, a new president of the High Court of Cassation and Justice and all members of the Supreme Council of the Magistracy were elected/appointed. Civil society organizations and members of the judicial community did not raise doubts regarding the integrity and professionalism of the appointed candidates. However, according to the European Commission report of January 2017, the selection procedure was not fully clear, open and transparent.

In its progress report of January 2017, the Commission noted that “Romania has made major progress” in protecting the independence of the judiciary, but should still improve the respect for judicial independence in Romania’s public life and finalize the reforms of its criminal and civil codes.
The situation has markedly improved over the last years: dozens of ministers and ex-ministers have been investigated and some are serving jail sentences. The National Anti-Corruption Agency (DNA) brought more than 1,200 cases of abuse of public office to court during the period from 2014 to 2016. In February 2017, DNA was investigating 2,151 cases of office abuse. Romania’s progress was also acknowledged by the European Commission in a 2017 report, stating, “Since 2013, the track record of the institutions involved in investigating, prosecuting and ruling on high-level corruption has been strong, with regular indictments and conclusion of cases concerning politicians of all ranks and parties, as well as civil servants, magistrates and businessmen.”

In January 2017, the newly elected PSD-led government adopted an emergency ordinance to retroactively decriminalize the abuse of public office in cases where the damage caused is less than 45,000 euros and weaken other instruments of investigation. According to many analysts, this legal act was intended to enable PSD Chairman Liviu Dragnea to clear his criminal record and become prime minister. A wave of mass protests led the government to withdraw its decree in February 2017, but analysts expected the governing parties to continue its attempts to weaken Romania’s existing integrity framework, this time more carefully, through the parliament.

On the other hand, following an interpretative decision of the Constitutional Court from 2016 “abuse in office” should be more narrowly construed by prosecutors, in the sense of “breaking a law.” A number of cases were returned by courts to DNA when the interpretation was too wide and unpredictable.

In line with EU norms, formal guarantees of due process, equal treatment and nondiscrimination are in place. However, court verdicts may be arbitrary sometimes as judicial practice has not yet been fully unified; there is a significant backlog of court cases in lower courts and civil matters. Human rights organizations report cases of police violating basic human rights as well as generally inhumane and degrading treatment in penitentiaries. The Roma communities continue to suffer from various forms of social and economic discrimination. The new criminal and criminal procedure codes have empowered investigators, primarily prosecutors, and introduced innovative elements for plea bargaining and a new formula allowing judges to give longer jail sentences for multiple offenses. Careful monitoring is necessary to make sure these new elements do not lead to abuse of the rights of the individuals under investigation, especially through longer preliminary detentions.

According to a U.S. State Department report, Romania had granted international protection to 274 refugees (July 2016) and relocated 554 refugees from Italy and Greece within the EU relocation scheme (December 2016). Public anti-refugee sentiment has increased despite Romania’s relatively low number of refugees.
4 | Stability of Democratic Institutions

While politics remained polarized and rhetoric high-pitched, the institutional framework in 2015 to 2016 withstood tensions, and norms and institutions prevailed over the momentary impulses of politicians. This message was subsequently reinforced in the November 2014 presidential elections, when not-so-subtle attempts to manipulate the electorate backfired in a spectacular manner. The elections of 2016 were also tense, but a cohabitation arrangement emerged fully in line with the result of the vote. However, the cohabitation arrangement collapsed after the government attempted to decriminalize corruption offenses in January 2017, triggering an escalating conflict between the branches of power. While the president initiated a referendum to prevent the government from implementing its decriminalization policy, the PSD leader threatened to impeach the president. There are several allegations that intelligence services exert influence over some top-level decision-makers, including the former Prime Minister Victor Ponta and the head of the Anti-Corruption Agency, Laura Codruța Kövesi.

Some political players, especially on the center-left and their more recent extremist outlets, have occasionally resorted to the abuse of power for party interests, putting democratic norms in doubt. Affiliate media channels have tried to undermine the credibility and independence of the judiciary or slander individual magistrates. However, the democratic norms and institutions have so far prevailed, with some support from international partners, in all the moments when they seemed threatened. A source of concern is the trend in Western Europe toward a more confrontational politics and populist-authoritarian solutions. If it continues this is likely to influence the situation in Romania at some point, and there are signs that political actors are trying to jump on the wave of populism.

5 | Political and Social Integration

The Social Democratic Party (PSD) reemerged as Romania’s strongest political party in the parliamentary election of 11 December 2016, winning 45% of the vote and 49% of the seats in the Chamber of Deputies. In January 2017, the governing coalition was led by PSD, included the Alliance of Liberals and Democrats (ALDE, 6% of the votes/seats) and was supported in parliament by the Democratic Union of ethnic Hungarians of Romania (UDMR, 6% of the votes, 21% of seats). The main opposition party was the center-right National Liberal Party (PNL, 20% votes, 22% seats) which together with the People’s Movement Party (PMP, 5% votes, 6% seats) and the newly established Union for the Salvation of Romania (USR, 9% votes, 10% seats) formed the legislative opposition. Originating from a local civic anti-corruption initiative in Bucharest, USR rapidly gained support through social media campaigning with its new faces and claims to promote public integrity. Extremist
parties, either nativist-xenophobic or extreme-left, did not manage to pass the thresholds this time as well, making Romania one of the few countries without such actors in the legislature.

During the last two electoral cycles (2014 and 2016) the main Romanian parties continued to rely on clientelism and personal loyalty in conducting elections and selecting cadres. However, the deterrence effect of the anti-corruption drive was visible: they were much more careful with the level and nature of spending in campaigns. In 2015, parliament returned to a proportional electoral system with closed party lists and 43 constituencies, after the single-member district system introduced in 2008 had failed to overcome alienation among voters. Party switching in search of individual or group benefits continued to weaken and delegitimize organizations at the national and local levels. The in-your-face clientelism was almost legitimized in 2014 when the government adopted a law that temporarily permitted acting mayors and local councilors to migrate between parties: about 20% of the local representatives changed their partisan affiliation during the first 30 of the 45 days permitted.

The party system has not substantially increased its responsiveness to societal constituencies. The political elite continues to be wary of civil society organizations (CSOs) that channel public interests and act as watchdogs. The political system lacks incentives and points of access allowing societal interest groups to participate in the decision-making process. When this happens, it is often triggered by EU-leaning NGOs and their requirements. Some civil-rights agendas have enough international backing and domestic standing to monitor governance and even topple an unpopular government. Environmental and human rights groups have gained increasing influence in 2013 to 2014 in terms of shaping policies on relevant modern issues. Capitalizing on this visibility, part of the active civil society from the past years has managed to form a civic party and get almost 10% of the national vote in December 2016, entering parliament. Other key democratic interest groups such as trade unions or business associations are increasingly irrelevant and politically bound.

Surveys show that the vast majority of citizens prefer democracy to any other political regime. When people say they do not like the direction the country is heading, this is mostly related to dissatisfaction with the quality of governance, not the democratic system as such. According to the Eurobarometer survey conducted in November 2016, 38% of the respondents were satisfied with the way democracy worked in Romania, which was 15 percentage points below the EU average and the fourth lowest among the Central and East European EU member states. The survey also showed that 24% of Romania’s citizens tended to trust in their national government, five percentage points less than an average of 15 East-Central and Southeast European countries. Parliament was trusted by 22% of citizens, four percentage points less than the regional average. Dissatisfaction and indifference with regard to
the existing democratic institutions was also manifested in the low turnout in the December 2016 parliamentary election.

However, the anti-corruption demonstrations in January 2017, which attracted several hundred thousand participants and turned out to be the largest protests since Romania’s democratic revolution, showed that primarily the younger generation and urban middle-class professionals were ready to defend democratic principles.

Levels of generalized trust are relatively low in Romania, though relatively high when it comes to EU institutions and the future of the continent (Eurobarometer, 2014). Many associations tend to advocate on behalf of the interests of specific social groups, whereas larger, internationally connected NGOs have struggled to build constituencies in society. An increasing concern is the infiltration of NGOs, independent groups and even political parties by the intelligence community, especially by granting them privileged access to resources.

The loud cry from below for better governance and against corruption, which was heard in the last round of elections, may be a unifying theme and a platform for creating a new type of civic self-organization. The spectacular election result of the new grassroots civic party in December 2016 shows that some forms of community self-organization may begin to function.

On the other hand, due to the county’s long authoritarian tradition, in poorer regions, people are more inclined to resort to state assistance and guidance than to self-organized societal groups. The international trend which emerged in 2016 toward more populist-authoritarian solutions may at some point influence Romania and reinforce the pre-existing social cynicism.

II. Economic Transformation

6 | Level of Socioeconomic Development

Significant urban-rural disparities, with deep historical roots, make social exclusion structurally ingrained in Romania. With a per-capita gross national income of $21,610 in 2015 (World Development Indicators), Romania has reached an income exceeding the average of 17 East-Central and Southeast European countries. Gender is scarcely a factor, as the GDI is close to 100% of the HDI, but other UNDP poverty-related indices indicate that poverty, though not extreme, is a real problem in part of society. FDI and economic growth are strongly focused on the capital city, a handful of other major cities and the Western regions, whereas underemployment and poor social services (including education) persist in the rural areas. Nationwide, the increase of life expectancy suggests improvements overall. The HDI has not declined
over the past years – on the contrary it has slightly improved in spite of the crisis (2008: 0.765, 2014: 0.793). Unemployment remains remarkably low (4.8% in mid-2016), due to the under-reported suboccupation of the people in subsistence agriculture and the external migration of the labor force to Western Europe. The situation of the Roma community deserves special attention: their access to education and health services (and less so to welfare support) continue to be serious issues.

### Economic Indicators

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Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
7 | Organization of the Market and Competition

Following EU accession, the institutions of a market economy were consolidated and include the freedom of trade, currency convertibility, strong anti-monopoly and anti-state aid regulators, transposing the EU rules. Whereas in the first phases of the transformational process, Romania was rightly criticized for reserving too large a role for the state in economic development, since then legacies of overregulation exist in parallel with virtually unhampered forms of business practice beyond the control of the authorities and regulations. Legal and illegal emigrant workers, mainly in other EU countries, and their remittances contribute substantially to the subsistence of families back home. One lingering issue is the quality 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 weak public institutions meant to tackle such problems. The procurement system, in principle compliant with EU rules, remains an avenue for clientelism and organized corruption.

Formal regulations prohibiting monopolies do exist, but the Competition Council and other market arbiters, in principle fully in line with EU rules, have sometimes been more timid in reality than they should be. In the last few years, the Competition Council took on a more active role, investigating cartels in various sectors and sensitive strategic markets, such as energy, have made steps to liberalize the market and render it more transparent. The market for public works and, increasingly, ITC services provided for public institutions raise questions in terms of political connections undermining competitiveness.

With EU accession, Romania has become a full member of the common market. All restrictions imposed by tariff and non-tariff trade barriers have thus been abolished, and there have been very few exceptions from this regime in the past years, all in line with EU norms. Inside the EU, Romania’s position has been largely in favor of the free trade agreements with United States, Canada and East Asia, as well as for the intra-EU liberalization of services.

The banking sector has been restructured to meet European standards and weathered the global economic crisis remarkably well. Foreign banks, mostly Austrian, Italian and French, held 90% of the country’s banking assets in 2014. The solvency of Romanian system was never at stake, even at the peak of the crisis, in spite of the market presence of some Greek banks. The share of nonperforming loans is declining and was 11% in 2016 (World Development Indicators). The bank capital-to-assets ratio was 8.6% in 2016. In general, there is strict oversight in the banking sector, so institutions behave cautiously, with a regulator leaning toward conservative views.
The price of this stability is more difficult access to credit by entrepreneurs. Politically motivated attacks on the system and a few populist pieces of anti-banking legislation adopted in 2016 were not important enough to create a real risk for the system.

8 | Currency and Price Stability

The exchange rate is managed, but floating. According to IMF reports in the last years, the real exchange rate is broadly in line with medium-term macroeconomic projections. The announced economic measures of the new government are expected to produce a higher than anticipated budget deficit, which would have a negative impact on inflation. However, the central bank is relatively strong and independent among Romanian public institutions. In good and bad times, it has withstood pressures from the government or populist politicians in the parliament. Its track record is of consistent anti-inflationary measures and strict banking oversight. The inflation rate reached historically low levels (below 1.5%) for a number of years in a row. Romania meets the technical standards for the euro zone but the political decision to adopt the euro has not been made yet.

The harsh austerity program introduced in 2010 has resulted in a rebalancing of the budget indicators, which allowed the country to withstand the challenges of the economic crisis and resume growth. Most salaries and social contributions have since been gradually restored without creating new imbalances. Inflation hit historic lows and budget deficits remain under control. Successive governments have not significantly increased public expenditure so far, although the electoral campaigns in 2012, 2014 and 2016 provided incentives for attracting voters through higher spending. The total public debt is moderate: below 40% of GDP in 2016.

9 | Private Property

Romanian legislation on the acquisition and protection of property rights is generally in line with the EU acquis, but there are still loopholes 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. According to the 2015 Doing Business Report, enforcing a contract takes 34 procedures and 512 days on average. The restitution of property nationalized by the communist regime still remains an issue, with delays and corruption affecting the process. A series of anti-corruption investigations initiated in 2014 revealed how a few criminal circles at the top of politics and administration exploited the property restitution system to unduly enrich themselves. Preliminary estimates of assets lost by the state or the rightful claimants amount to hundreds of millions of euros.
Romania’s infrastructure for facilitating private enterprise is firmly in place, and the inviolability of private property is firmly stated in the 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 to 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. The main difficulties 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. The advertised anti-bureaucracy drive announced in 2016 produced little impact on private enterprise regulations. Reforms in strategic sectors such as energy have been stalled for some years and the EU-inspired liberalization plans have been postponed, but their operation remains largely in line with market economy principles. A number of important privatizations (railways, a chemical plant, the energy sector) failed in the last years, due to a combination of adverse conditions, government indecisiveness and the perception that the interim technocratic cabinet of 2016 did not have the mandate to carry out large-scale privatization.

Welfare Regime

Social security is organized by the state and covers all relevant risks in principle; some non-profit charities have started to play a role, especially in partnership with municipalities. There are universal and targeted benefits, mostly in cash, available throughout the country. Health care is in theory available to all citizens throughout the state territory, but coverage is sometimes inadequate, especially in rural areas. Romania has one of the smallest health budgets in comparative terms and access to subsidized services and drugs can be erratic, depending on yearly allocations and informal filtering mechanisms (informal payments, preferential admissions to hospitals, etc.). A string of high-profile scandals in 2016 have exposed the top-level clientelism and theft in the medical sector and resulted in criminal investigations. They serve at least to shed some light on the sector and put pressure on decision-makers to address the problems.

Additionally, Romania has been less active than most other EU countries in dealing with the upcoming retirement of the baby-boomer generation (which emerged after the ban on abortions introduced in 1966). Early retirement has been widely used in the first decade of transition as an alternative to layoffs, with the result that today the employment rate in Romania is rather low by EU standards (63%) and so is the effective retirement age (around 56).

Social safety nets are in theory comprehensive, but many components are poorly targeted and often abused. The system is overextended compared to the resources available, promising more than it can deliver. Remittances are filling some of the
gaps, but these flows were strongly hit by the economic crisis in Southern Europe. The deficits in the public pension system continue to accumulate and no political actor has seriously addressed the crisis looming once the baby boomers retire.

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 threat to state welfare services is represented by a gradual depletion of assets and lacking infrastructure maintenance. The UNDP gender-related indices and other relevant indicators no longer display progress but rather stagnation. Disparities are first and foremost socioeconomic, and while the existing policies and institutions are consolidated enough to prevent open discrimination in law, they are not powerful enough to compensate for de facto differences and to achieve equality of opportunity. The UNDP gender-related indices show that Romania still relies on past equal-opportunity policies and some recent transition trends. Women are not disadvantaged in education and are even overrepresented in higher education (ratio of girls to boys enrolled in tertiary education is 1.2), but may earn less in similar positions in the economy. The ratio of gross enrollment in secondary education was 95% in 2015. The literacy rate was 99% in 2015. The plight of the Roma communities in terms of access to health care and education indicates a weakness in the Romanian state-provided services.

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 from the previous period. After years of impressive growth, the GDP contracted in 2009 and 2010, but recovered reasonably well afterwards, in spite of the low performance of some of Romania’s main trading partners (Italy, Germany), surging above 3% in 2013 and reaching 3.7% in 2015. Macroeconomic equilibrium held steady all during the documented period so that accession to the euro zone is possible once a political decision is made; unemployment did not increase markedly. The main concerns continue to relate to several structural weaknesses, such as the regional and urban/rural disparities – agriculture produces just 6% to 7% of GDP, despite employing 30% of the country’s workforce – and the high share of the gray, non-fiscalized sectors of the economy, which keeps the total tax revenues at around 31% to 32% of GDP, the lowest such figure in the EU.
12 | Sustainability

Environmental hazards in Romania have been to some extent reduced by deindustrialization in the 1990s, as well as by a wave of greenfield FDI by multinationals which introduced 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 northwest of the country, but the problem is by and large under control and the public is increasingly aware of it. The Danube delta wetlands continue to be 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 and funding. The city of Bucharest still treats only a fraction of its wastewater and Romania will be threatened with penalties by the European Commission from 2017 on for non-compliance in this sector. Nevertheless, in relative terms, progress has been substantial. Concerns about ensuring a reliable and clean drinking water supply, as well as about promoting renewable energies and energy efficiency, are being addressed in compliance with EU environmental standards and international conventions. As a car-producing country, Romania had an interest in imposing severe restrictions on the import of second-hand cars and encouraging buyback schemes. This was kept by successive governments and the results are remarkable in terms of pollution reduction and the improved state of the car fleet. Civil society has become stronger and more visible on environmental issues and held the government in check over various mining and drilling projects in 2013-2014. Romania has a balanced energy mix, with renewable sources in electricity covering 43% of consumption in 2013, after the very generous subsidies to such sources were in place for a number of years. There is increasing social concern about deforestation, in connection with new investments in the wood-processing industry in Romania. As a result, a monitoring scheme was created to detect and prevent illegal logging and civil society has become more vocal against the industry. The fact that a new civic party achieved almost 10% in the 2016 elections is a reflection of this preoccupation; it is expected to increase this pressure from the parliament, as it has strong eco-conservationist instincts.

The education system in Romania continues to function reasonably in terms of overall output figures, with OECD levels of literacy and coverage. The main problems are the visible erosion in the quality of teaching; fraud in class and national exams, which make the official figures an unreliable indicator of real achievement; increasing dropout rates, especially among vulnerable groups; and ineffective R&D spending, irrespective of whether the sums concerned are large or small, because the money does not finance projects and results, but mostly old-style state research institutions. These are systemic problems difficult to address by mere budget allocations; they demand deep sectoral reforms which are usually opposed by stakeholders. Moreover,
although government spending on education has slightly increased after the global crisis, distribution remains skewed in favor of higher education at the expense of primary and vocational schools. Many higher education institutions, public and private, are of doubtful quality, but cutting their finances or putting in place a fair evaluation system is blocked by their strong lobby in parliament. Many politicians double as university professors in search of prestige and extra money. The “scandal of the PhDs” which started a few years ago with the exposure of Prime Minister Ponta as a plagiarist, and subsequently many other top politicians, relatives of politicians and generals, clearly showed the deficiencies in the higher education system. Public spending on R&D has traditionally been below EU and OECD averages (around 0.4-0.5% of GDP) and is likely to remain so given constraints on public spending. Even if it is increases, the benefits are doubtful if the institutions of higher learning remain unreformed. Public spending on education overall has rarely surpassed 4% of the GDP. 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 lifelong training has not yet become popular: participation rates are below EU-27 and even EU-IO averages. Romania’s comparative shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%), as these are comparable to those of the most advanced EU-IO 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 below 90% of the OECD average in terms of reading and mathematical skills, and the gap is growing.
Governance

I. Level of Difficulty

The structural constraints on transformation in Romania are an aggregate of several factors. 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, a large part of the rural areas are still characterized by outdated agricultural production methods (though modern investments have started to change this in some parts), social marginalization, aging and depopulation. The EU grants have made a difference in mitigating this legacy, especially in physical infrastructure. But many ex-monoindustrial areas remain burdened with outdated industrial infrastructure and the global crisis has slowed down the inflow of FDI, which may have improved the situation. This legacy dates back to Ceausescu’s disastrous policies of the 1980s, but poverty and infrastructure deficits have tended to cement existing divisions. More than the Communist regimes in neighboring countries, the Romanian state severely underinvested in physical infrastructure (social assets, transportation, etc.). Membership in the European Union helped to 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 a positive influence on Romania’s transition management. As the years pass, the communist legacy should count less and less. However, the country’s political class has shown little management capacity and a disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. The labor force inherited from the previous regime was reasonably well educated, especially in technical fields, although to some extent rigid and inadaptable outside their niche of specialization. It functioned as a resource during the years of high growth and a safety valve through external migration when times turned sour: private remittances make up for insufficient public assistance to the elders and youngsters left behind. 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, it would be hard for the country’s resources to match them. More recently, concerns about the stability in the broader region of Eastern Europe have resurfaced, to add to an already long list of external challenges. On the upside, the energy independence of the country creates space for maneuver, which other governments cannot afford.
Romania’s civil society traditions have historically been weak, even before the disruptions of the communist period. Today, there is 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 organized groups. CSOs are still fighting an uphill battle to make their voices heard in matters of policies and governance, and the EU is too bureaucratic to function as an effective supporter of civil society since the more flexible bilateral donors left. 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, as does the 2016 accession to parliament and local councils of a civic upstart party with origins in civil society.

Outside the narrow circles of some politicians, commentators and the highly clientelistic media (in particular TV stations), the intensity of social conflict is rather low, though during electoral campaigns the rhetoric becomes more confrontational. Political conflict has so far cut across social and cultural cleavages rather than overlap with them, which has limited the risk of social fractures. 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, but fortunately without the episodes of open violence. Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as indicated by the demise of the traditional xenophobic Greater Romania Party (PRM) and the failure of other, younger extremist parties to take its place. The Hungarian ethnic party (UDMR) most of the time takes part as a junior member in government coalitions, be they center-right or center-left, contributing to an emerging practice of consociationalism. The 2014 election of a “double minority individual” – a German of Lutheran faith – as president of Romania by a sizable margin confirmed the trend. 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. Open conflict and violence have not occurred in spite of the hardships of the crisis and austerity policies; in the vast majority of cases, violence and abuse in public remained verbal and confined to a narrow section of politically inspired events. Overall, the low level of appeal of extremist parties is remarkable, but the current trend toward illiberal populism and a more confrontational style in Western politics may start to exert unwanted influence. The vast, and to some extent surprising, civic protests of January to February 2017 confirmed what some social analysts predicted: that there are two halves of the nation,
one more professionally mobile and civic-oriented (including the diaspora), the other
more rural and state dependent. While the second usually prevails at ballots, the first
mobilizes in various forms to keep the authorities in check. This process creates a lot
of friction, which luckily so far has been largely rhetorical and symbolic.

II. Governance 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. The big exception to this rule has been the successful anti-
corruption drive begun in 2005, with the institution-building component included.
But even this was achieved by a handful of skilled and determined political operators,
with massive support from international partners, and it was largely as a happy
succession of tactical decisions, rather than a pre-agreed plan in parliament or by the
government. The lack of strategization capacity has at times brought the reforms
process to a virtual standstill. Strategies do exist – in fact, they are too numerous,
centrally and locally – but fail to make any connection with the budget process, and
thus tend to remain wish lists decoupled from reality. Despite strict guidance and
prescriptions from international finance institutions and the EU, Romania fails to
implement well-designed structural reforms in important sectors such as education,
health care or management of state-owned enterprises (SOEs). Some results were
achieved when the global crisis created a deep sense of urgency among the political
leadership, showing that decisions are taken only when harsh realities necessitate
them, not in good times when resources are available. And anyway, this was mostly
about macro equilibria, not sectoral reforms (the micro level), where the weaknesses
remain in place. Many times, when good documents were adopted and partly
implemented, this happened because EU funding was made conditional upon such
decisions, so the national administration copied the relevant bit of EU acquis. In
general, a set of sectoral priorities is difficult to agree in the first place and when this
happens, it is changed by the next administration.

The government is committed to democracy and a market economy, but has had only
limited success in overcoming structural obstacles and implementing whatever it sets
its mind to, even when there is agreement on the plans among political actors. In
many cases, follow-through on reforms has been the main problem. Even when the
correct initial policy choices were made and accepted by domestic and international
partners, 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 and a sense of drift has taken its place. There is even the impression that strategizing and implementation capacity have paradoxically decreased, and not increased, in the past few years, after the worst of the crisis was over. The big privatization plans and investment strategies of the last years were a failure and the rate of absorption of EU funds during the cycle 2007 to 2013 is estimated at about 75%, the lowest in the European Union. The poorest performers were not the private companies or the local governments, but precisely the central ministries in charge of the large strategic projects. Also, frequent changes of government in recent years have prevented the consistent implementation of policies and restricted the success of structural reforms in administration and government. Large public infrastructure investments have largely stalled due to declining quality of the staff in ministries and agencies and significant cuts in capital investment budgets in 2015 to 2017. A much-anticipated energy strategy requested by Brussels for some years is nowhere in sight, undermined by the incapacity of top decision-makers to outline the main trade-offs, organize consultations with clear deadline and finally make a decision.

Across the board, the quality and consistency of policy-making in Romania is improving, albeit very slowly. The backbone of improved policy-making seems to be not so much the party-political leadership, but rather an increasingly well-trained and professional class of civil servants in the ministries, government agencies and counterparts in related 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 policy-making. However, this is done at the expense of transparency and sustainability. When good civil servants quit, for example to take positions in EU institutions, institutional memory is lost. Overall, the capacity to learn from past experiences is reduced, while at the political level, policy learning seems limited because vested interests and party-political calculus takes priority over the sober assessment of the effectiveness and net results of policies. Electoral years (2012, 2014, 2016) mark a low in the quality of the debate. In 2016, Romania had a caretaker, technocratic cabinet which made honest attempts to rationalize policy-making, but it could not score many points in the prevailing atmosphere of post-factual democracy. The newly elected government (2017) does not seem willing to take from this experience, and returns to populist policies, betting on a higher economic growth than expected.
15 | Resource Efficiency

Romania’s track record in resource efficiency is historically not very good. The process of decentralization by strengthening the competencies and fiscal resources of local government bodies has been in part reversed in crisis, or at least halted by temporary spending and staffing caps. The central government has used various mechanisms and legal loopholes to prevent local government from actually increasing its leeway or making autonomous decisions in a large number of policy fields. On the other hand, many local decisions, taken in the previous climate of loose budget constraints, were clientelistic or simply wasteful. The severity of the global crisis induced the government in 2010 to toughen budgetary discipline, curbing the overstepping of financial limits. However, while at the macro-level things were gradually brought under control, in many sectors and institutions suboptimal spending or outright rent-seeking have continued, most visibly in SOEs. The state apparatus has expanded back to pre-crisis levels, at the expense of public investments, when growth resumed. The public procurement process is severely affected by corruption and favoritism at all levels of governance. Benchmark analyses of unit costs show that public procurement produces too little in terms of useful output for the volume of resources it consumes, whether this is for services, public works or medical equipment and drugs.

Over the past years, policy coordination has been a low priority for the government, in spite of the favorable political conditions: a one-party government with a stable majority in the parliament and a long-term horizon; followed by a technocratic cabinet. Instead, the majority in parliament was engaged most of the time with clientelistic practices and internal battles. More importantly, an increasingly assertive and independent judiciary wreaked havoc among their ranks, with a string of high-profile corruption investigations and convictions which led to endless cabinet reshuffles, instability and increasing bafflement among its regional and municipal leaders. To the extent that positive outcomes were achieved, this was due to the residual professionalism within the ministries, where policy coordination manifested below the level of the political leadership, leading to a partial decoupling of bureaucratic ranks from the political levels. On the upside, macro balances were preserved throughout the period the central bank was insulated from pressures. 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).

Following adequate anti-corruption and transparency legislation put in place in previous years, activities by the National Anti-Corruption Directorate (DNA) and other elements of the judiciary have intensified lately and, the result of the reforms implemented years ago, started to produce results. An increasing number of top politicians from all parties were prosecuted and convicted during the period under
review, be they ministers or former ministers, members of parliament or powerful local politicians. This was done mostly in spite of – rather than because of – the actions of the majority in parliament, which most of the time has tried to subtly undermine this trend by replacing the effective heads of investigative agencies or weakening their institutions. However, these attempts failed, also due to the support and attention given to this area by Romania’s main foreign partners, and primarily monitoring by the EU Commission through the Cooperation and Verification Mechanism (CVM). The conflict over anti-corruption policies has become the most important issue in Romanian politics, and the cleavage has replaced left vs. right axis upon which the country’s political system has revolved in the last ten years. The major parties have all used anti-corruption policies as a reference in competition, and also as a strategy useful in getting rid of political opponents. Importantly, the corruption issue likewise affected relations between the government and the successive presidents of the country, who were by and large supporters of these policies and institutions while in office. In fact, anti-corruption is distinct from other policy areas in Romania, as planned reforms have actually been implemented, and with spectacular effect. Institutions were created and allowed to work and therefore substantial results can be seen today, some even being considered European Union best practices. At the same time, the new government (2017), at the beginning of its mandate, issued an emergency decree that would have decriminalized several corruption offenses and canceled some of the effects of sentences imposed by the anti-corruption institutions in recent years. This led to the largest display of popular anger since the fall of the communist regime.

16 | Consensus-Building

The political establishment has in principle accepted the goals of a market economy, democracy and NATO membership. No important political actor questions the EU membership, support for which remains high in the wider population. The implementation of these societal goals remains the problem, where the real actions of some parties and/or political actors may diverge from their official rhetoric. Most visibly this is the case with the rule of law and the independence of judiciary: large sections of the parliament, and often a majority of it, have acted occasionally as if they wanted back their own impunity. This, and not other ideological differences, is the explanation for the high level of political polarization and tumult in the last years.

All major political actors agree on consolidating a market economy as a strategic, long-term goal of transformation. No relevant political or social actor challenges the basics of the market economy in Romania, though attempts by vested interests to engage in rent-seeking remain frequent.
Despite difficult times, incessant high-level political politicking and the overall low level of public trust in institutions and political actors, support for anti-democratic actors in Romanian society remains remarkably low due to prior negative experiences with extremist parties. Social frustration due to economic hardships and incompetent governance may be high, but this has not yet translated into votes for extremist parties, as has been the case in the early 1990s. An ephemeral populist party made it into parliament in 2012 only to fizzle afterwards when its members migrated to other parties.

The main source of nationalist political rhetoric in 2016 was PRU (“the Dracula party”), an extreme-right offshoot created by an ex-PSD business and media mogul, in obvious coordination with PSD leadership. But they failed to make it into parliament, so the jingoism and anti-European language continues mostly on TVs, when various interest groups feel they may win influence by agitating such subjects. The main threat concerns the mainstream parties, in particular the center-left PSD, who may be tempted to once more adopt harsher rhetoric under the influence of new European populism.

Cleavages in Romania are on the one hand ethnic (there are sizable 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) are not organized politically, the Democratic Union of Hungarians in Romania (UDMR) consistently achieves a share of the votes similar to the Hungarians’ share in the population (6-7%). 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. The main cleavage threatening social cohesion and coherence as well as political peace in Romania concerns the growing socioeconomic disparities between urban and rural populations as well as between the winners and losers of the post-communist transition. The disparities are visible regionally: whereas the Bucharest-Ilfov development region has surpassed the EU average GDP/cap, predominantly rural regions in the northeastern and southwestern parts of the country have barely reached half that. There is no clear parallel between the rural-urban divide or regions and political parties. Although all parties remain strongly Bucharest-focused, party affiliations and voting cut across class and region, dissipating potential conflict lines.

Conversely, the main political conflict does not reverberate in society: the real political lines 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, championed by few and with some echo in society, but obstructed by larger parts of the political class which see their interests and traditional impunity challenged by a more independent judiciary.
The state formally 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 dialog with NGOs, despite manifold legal provisions to do so. Considerations of expediency prevail over broader consultation with organizations such as trade unions, business associations 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 marked exception from this pattern was the technocratic cabinet of 2016, who honestly tried to have a permanent dialog with civil society by creating a dedicated ministry for the purpose, led by a person chosen from the community of civil society organizations.

The gradual 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. However, 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 in 2007. A hard core of civil society and independent media people, acting mainly as freelancers and in social networks, have nevertheless remained strong advocates of cleansing politics, improving the quality of governance and defending the independence of the judiciary against politically motivated attacks. In addition, self-organizing groups with environmentalist leanings managed to trigger the largest anti-government street protests in the last decade, in Bucharest and a few other large cities, drawing at one point in 2013 tens of thousands of people. The initial rallies were organized in opposition to an unpopular mining project that the cabinet tried to rush through fast-track approval, but the protest subsequently escalated into one against bad governance in general. The same type of sudden mobilization through social media, this time involving the three-million odd Romanian diaspora in Western Europe, is also credited with overturning the expected results of the presidential elections in November 2014, when the electorate turned against the government-supported candidate and chose the underdog instead. And again, the same core street movement was at the origin of toppling the cabinet in 2014. Most important, a newly formed civic party with roots in these movements was formed in Bucharest at the beginning of 2016 and attracted almost 10% of the national vote in December 2016. Building upon this gradual evolution in civil society strength, hundreds of thousands of citizens across Romania went to the streets for several weeks in February 2017 to protest against the decriminalization of corruption by the newly-elected government.

Ever since the bloody revolution of 1989, Romania has been exceptional in its handling of its war-time past (as an ally of Nazi Germany) and its communist past. Ceausescu’s nationalistic denial of any Romanian involvement in offensive warfare, war crimes or the Holocaust continued in public debate after 1989. It was only in the
second decade of transition that former communist and President Ion Iliescu broke the taboo and admitted the Romanian role 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, even though it was hotly discussed in the first years after the overturn of the old regime. The body created to screen and expose former collaborators of the communist secret police has seen its works frustrated by bureaucratic obstacles; and anyway, the legislation’s aim is more to expose than punish. A listed fund set up in 2005 to compensate victims of communist expropriations (Fondul Proprietatea) was eventually taken over by a professional manager in 2010 and became more transparent. However, the issue of restitution remains thorny, especially after prosecutors revealed in 2014 the full extent of grand scale corruption which affected the restitution scheme. At the end of 2016, a new push is made in the attempt to investigate and bring to trial the political leaders responsible for the violent events in 1989 (the fall of Ceausescu regime) and 1990 (the miners’ march on Bucharest to suppress dissent).

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 primary coping strategies were largely guided by these 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 over the last decade, with permanent struggles between the president and a parliamentary majority over the rule of law, and the fact that electoral years (such as 2014 and 2016) are typically lost for reforms. On the downside, the country has been unable to use EU structural funds effectively: the rate of absorption of payments disbursed was probably around 75% for the 2007-2013 cycle, the worst among member states. This failure can be attributed to the lack of administrative capacity, incessant high-level politicking and outright corruption.

Romania continues to suffer from a relative lack of credibility as an international partner. Some problems are not of its own making: it has to endure a permanent negative barrage in tabloids and eurosceptical media, in countries like UK, Italy or France, where many Romanian citizens have gone in search of work or assistance. At the same time, the anti-democratic slips in the summer of 2012, during the presidential impeachment referendum, and the permanent offensive in parliament against anti-corruption institutions, led to open spats between ruling Romanian politicians and European leaders such as former EC head Barroso or German Chancellor Merkel, all of which were covered in main international newspapers. The
personal integrity problems faced at home by Prime Minister Ponta and several of his colleagues, after the media exposed various transgressions, further weakened the capacity of the government to engage with its European peers. Increased isolation from Romania’s traditional partners (EU, United States) occurred in the last few years, at least as far as personal rapports were concerned. Timid gestures at warming up Romania’s relationship with China instead, by promoting an unrealistic list of investment projects, could not dissipate this impression. While Standard & Poor’s upgraded Romania’s rating to the investor grade level in May 2014 and Romania successfully issued sovereign bonds, deficiencies in the business environment have constrained inflows of foreign direct investment. President Johannis, a member of the German minority, and his interim technocratic cabinet of 2016, have tried to mend fences but without spectacular results. On the other hand, Romania has remained a reliable NATO member and supporter of EU influence in a region where signals are increasingly mixed.

Given the country’s political infighting over the rule of law and the diminished credibility of its government leaders, Romania seems to have relinquished ambitions to act as a regional leader in southeastern Europe and the Black Sea region. In regional affairs, for example in the Ukrainian crisis, or in helping the Republic of Moldova along its European path, the feeling is that Romania has fallen short, its fractious domestic politics representing a permanent source of distraction from a more substantial foreign policy. Overall, Romania lacks both the standing and the political capacity to play a more active role in the European Union, unlike some other EU-10 states, most importantly Poland. The ability to influence foreign and EU policies requires high-level political engagement and a continuity in vision and actions, rather than the presence of a few competent administrators and diplomats. On the bright side, it must be said that Bucharest has never played the obstructionist card in EU circles and has remained a faithful NATO ally in good and bad times. It was a good partner in the EU and NATO with no erratic positions with regards to the main commitments, but a country with few ideas of its own and little implementation capacity. The diverging strategies pursued by various parties and institutions in the only part of the region where Romania has natural influence – the Republic of Moldova – made assistance for modernization and Europeanization in this country less effective than it could otherwise be.
Strategic Outlook

Romania is confronted with three types of risks which are exogenous to the system of governance, at least over the short term: (a) its difficult legacies, still present in its economic and social structure, though slowly fading away; (b) the chronic crisis of growth in the EU, the main trading partner; and (c) the rising tide of populism and authoritarianism in the region and, lately, in the Western world.

However, the main risks remain predominantly domestic pertaining to a weak system of governance, unable to prioritize, stick to simple strategies and implement policies; and the popular dissatisfaction with a political establishment perceived as self-serving. The unexpected result of the presidential elections of November 2014 and the urban uprising against the leftist government one year later were to a large extent caused by the mobilization and anti-system voting of the youngest, most informed and active strata of society (the large diaspora in Western Europe included).

The expectations were high that new and less corrupt actors would appear who could challenge the status quo and clean up politics. To some extent this happened in the local and parliamentary elections of 2016, when a newly formed, civic party gained seats in the Bucharest local council and the national legislature by proposing new faces and taking advantage of social media networks. Their challenge is now to make a difference and hold in check a cabinet relying on a strong majority of conservative forces (albeit nominally center-left) who intends to scale back a number of reforms implemented in the last years and, in particular, stop the anti-corruption fight.

Regarding the economy, the under-development 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, a trend which seems to continue in the post-crisis period. 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 Romanian migrant workers’ remittances (though remittance volumes dropped less than expected during the course of the crisis). 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 is likely to continue to apply macro discipline, although a generous expansionary program announced at the end of 2016 is likely to strain the public budgets.

There are no extremist actors represented in parliament, whether radical right or radical left; and the fact that the president of the country is belongs to an ethnic minority, but promotes with a centrist agenda is likely to diffuse whatever cultural tensions might have existed on the political scene. The anti-system challengers, if they will appear, are for the moment more pro-European – meaning, pro-modernization in a broader sense – because this is the fraction of the electorate which currently feels more disenfranchised and less represented by the mainstream parties. On the other
hand, under the influence of Western politics, and due to the weakened leverage of Brussels, populist-authoritarian slippages cannot be ruled out.

The epic struggle over the fate of reforms in the crucial field of the rule of law and the independence of the judiciary is likely to continue, with periodical resurgences of tension when important appointments must be made at the top of the system (lead judges and prosecutors). Romania is monitored by the European Union under the Cooperation and Verification Mechanism (CVM), but the institutions praised in the EU progress reports will continue to be under attack by politicians at home, increasing in proportion to their successes. The ruling coalition resulted from the 2016 elections looks especially keen on curtailing the powers of the judiciary.