

ROMANIA



Polity: Presidential-parliamentary democracy

Economy: Mixed capitalist (transitional)

Population: 22,400,000

GNP per capita at PPP \$ (1999): 5,647

Capital: Bucharest

Ethnic Groups: Romanian (89.5 percent), Hungarian (7.1 percent), German, Ukrainian, Serb, Croat, Russian, Turkish, Roma, and other (2 percent)

Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.95	↑ 3.85	↑↑ 3.19	↓ 3.31
Rule of Law	na	na	4.25	↓ 4.38
Economic Liberalization	4.63	↑ 4.50	↑↑ 4.17	↑ 4.00

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita (\$)	1,323.0	1,564.0	1,563.0	1,551.0	1,688.0	1,512.0	1,596.0
Real GDP growth (% change)	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6
Inflation rate	136.7	32.3	38.8	154.8	59.1	45.8	45.7
Exports (\$ millions)	6,151.0	7,910.0	8,061.0	8,431.0	8,302.0	8,503.0	10,366.0
Imports (\$ millions)	6,562.0	9,487.0	10,555.0	10,411.0	10,927.0	9,595.0	12,050.0
Foreign Direct Investment (\$ millions)	341.0	417.0	415.0	1,267.0	2,079.0	1,070.0	1,000.0
Unemployment rate	10.1	8.2	6.6	8.9	10.3	11.8	10.5
Life Expectancy (years)	69.5	69.5	69.1	69.0	69.3	69.5	69.0

INTRODUCTION

Romania has a political system fraught with the difficulties of transition. Despite the implementation of rudimentary changes necessary for the transformation to democracy, Romania has stagnated after ten years of change. Romania's constitution describes the country as a sovereign, independent, unitary, and indivisible nation state. The republic is governed by the rule of law and guarantees human rights, freedom of expression, justice, and pluralism. National sovereignty resides with the Romanian people, who are represented in parliament by democratically elected politicians.

The administration of President Emil Constantinescu, who was elected in 1996, was expected to herald a period of democratization and change. But in July 2000, Constantinescu announced that he would retire from politics after the November presidential and parliamentary elections. His decision came only months after the local elections revealed the extent of corruption in society. Constantinescu has consistently been a spokesman of liberalism, and his decision to retire marks his frustration with a system and a mentality that not only have failed him but have failed the development of the entire nation.

Even though Constantinescu's administration has tried to crack down on corruption, the problem is damaging political attempts to stabilize the economy. Strict policies to bring the economy in line with the criteria for accession to the European Union (EU) are putting tremendous pressure on an already ailing economy. This is having a detrimental effect on a society that is growing increasingly impatient with its lot in life. Privatization, banking, and taxation reforms were started to varying degrees during the period covered by this report, but the process has been cumbersome and slow. Romania has ambitious economic aspirations and, given time, could very well achieve success. But the transition is taking its toll, and the economic structure is buckling under the pressure.

The ruling coalition has proved to be weak and unable to agree on political and economic reforms necessary for continued development. Consequently, public confidence in the government has declined, and Romanians have begun to think they were better off under communism. While economic stagnation has affected the government, Romania's citizens have suffered most. They have borne the brunt of economic hardships and have blamed the Constantinescu administration for the deterioration of their situation over the past four years.

Thus, while the general election scheduled for November 26, 2000, is seen as a symbol of change, it is increasingly likely that Romania will revert to the post-Communist system of former President Ion Iliescu and his Party for Social Democracy—the very party that Romanians voted out in 1996. Romanians have tested liberalism and feel it has failed them. Any immediate relief seems unlikely. The Constantinescu administration has tried to strengthen political,

economic, and social structures, but corruption, bureaucracy, organized crime, and the administration's own inability to compromise have thwarted real progress. And while democratization is likely to continue under a new government, the country's problems will remain until both the government and society challenge them confidently. Society is disgruntled with the prolonged economic recession and, unfortunately, regards a step backward as a step forward.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.25	3.25	2.75	3.00

Romania's political system is fragile but not unstable. A democratic structure is in place, but political players are unable to function consistently. The existence of numerous political parties makes it difficult for one party to hold an absolute majority, and governments are usually a coalition of parties. Emil Constantinescu presides over the current ruling coalition, which is made up of five parties: the Christian Democratic Peasant Party (PNTCD), the National Liberal Party (PNL), the Democratic Party (PD), the Party of Social Democracy (PSDR), and the Democratic Alliance of Hungarians in Romania (UDMR).

The year 2000 began with a new prime minister at the helm. Mugur Isarescu, previously the governor of the National Bank of Romania (BNR), was elected by parliamentary consensus on December 22, 1999, to prevent governmental collapse. Isarescu replaced Radu Vasile, who was forced to resign when the PNTCD (the largest coalition party) withdrew its support with backing from the National Liberal Party (PNL), the Democrat Party (PD), and the UDMR. The political crisis exemplified the instability that Romania faces and put into question society's faith in its government. The coalition is unlikely to continue in its present form after the November general elections.

The most recent presidential and legislative elections occurred in 1996. The Organization for Security and Cooperation in Europe (OSCE) concluded that the elections to the 143-seat senate and the 328-seat chamber of deputies were "held in an atmosphere of calm, peace and normality with electors being free to express their views." The OSCE reported that in comparison to the 1992 elections, Romania had overcome a series of bureaucratic problems. In 1992, the OSCE feared that television coverage had encouraged prejudice, but by 1996 this problem largely had been curbed. In 1996, however, it did express concern about the absence of a permanent and professional central electoral bureau. This was considered a major weakness. The pro-Democracy Association, a national nongovernmental organization (NGO), was allowed to monitor the 1996 elections freely, and it concluded that the elections were free and fair.

Romanian law requires candidates to collect 100,000 signatures each before they can enter a presidential race. For the 2000 presidential election, the number of signatories has been raised to 300,000. Out of a population of 22.6 million, the number of signatories required cannot be considered onerous. However, candidates must collect signatures from a number of different counties and be at least 35 years old. There is also a two-term limit. In 1996, the presidential election took place in two rounds. Emil Constantinescu defeated Ion Iliescu of the Party for Social Democracy in Romania (PDSR) in the second round with 54.4 percent of the vote. Iliescu received 45.6 percent.

National elections were first held in 1990, and voter participation peaked at 86.2 percent. Since then, the euphoria surrounding national elections has diminished. In 1992 and 1996, voter participation steadied at 76.1 percent and 76 percent respectively.

The most recent local elections occurred on June 18, 2000. The elections were both free and fair, although certain organizational problems occurred. The opposition PDSR gained 714 mayoralties out of the 2,249 that were contested. Other parties performed as follows: the Alliance for Romania (ApR), 253 mayoralties; the National Liberal Party, 212; independent candidates, 126; the Democratic Convention of Romania (CDR), 125; the Greater Romania Party (PRM), 61; the Social Democratic Party, 54; the Romania National Party, 52; the Socialist Labor Party, 47; the Party of Romanian National Unity, 42; and the UDMR, 38. Voter turnout was only 46.9 percent. This was largely due to a local election boycott by many people who had invested in the fraudulent National Investment Fund. However, the vote was consistent with a downturn in local election voter trends, indicating deterioration in voter confidence. In the 1992 local elections, turnout was 72 percent. In 1996, it was only 56 percent. Details on female voter participation are unavailable.

The constitution and the 1992 electoral laws guide a democratic electoral system based on universal and equal suffrage. There have been few significant changes to the electoral laws, but since 1996 several ordinances have been passed or altered to make the general elections on November 26, 2000, flow more easily.

Romania's electoral system is multiparty based with viable parties, including minority groups, representing all sides of the political spectrum. The parties and coalitions represented in parliament function at the national and the local level. However, the growing number of corruption scandals at all levels of government has affected the parliament's legitimacy. The Adrian Costea money-laundering scandal is a case in point.

Due to the tentative relationship between the parties of the ruling coalition, it has been impossible to muster a majority vote to enact new legislation. The government, therefore, has relied on emergency ordinances to ensure the implementation of its proposals. These ordinances have added to the electoral bureaucracy and infringed on the sepa-

ration of executive and legislative powers. In February 2000, for example, the government issued an emergency ordinance to raise the threshold for representation in parliament to 5 percent. Instead of holding wide-ranging discussions within the two parliamentary chambers, a "political agreement" was made.

Law 27, adopted in 1996, lays out the requirements for official recognition of a political party. Political groups need the support of 10,000 persons and must be domiciled in at least 15 counties. Previously, a party needed the support of only 251 people. As a result, the number of political parties has dropped from more than 250 to just 57. Fifty-nine registered parties will participate in the November 2000 general elections.

Figures on party membership are unavailable. Women make up seven percent of the outgoing parliament. Hungarians, the largest ethnic minority, are represented in parliament by the UDMR. In elections the UDMR usually takes about 7 percent of the vote. This number is compatible with the size of Romania's Hungarian population as a whole. The UDMR is a member of the current ruling coalition.

Civil Society

1997	1998	1999-2000	2001
3.75	3.75	3.00	3.00

Civil Society in Romania is relatively vibrant but still lacks resources and funding. According to the U.S. Agency for International Development's (USAID) NGO Sustainability Index for 1999, there are an estimated 40,000 registered NGOs in Romania, 50 percent of which are assumed to be active. However, these data are unofficial. There are also no exact figures on membership in NGOs.

Romanian NGOs are nonprofit organizations and must be registered as such according to Law 21 (1924). In major towns and cities, Romanian NGOs are becoming more organized and are developing internal management structures. However, the overall lack of funding and resources has discouraged locally led philanthropy and volunteerism.

During the period covered by this report, there has been a marked increase in the number of NGOs, largely in the social sector. This could be related to the growing economic and political problems the country is facing. Romanian NGOs address an enormous range of issues. The Partnership for Change (PC), for example, concentrates on women's issues and works with the Trade Union Energetica Women's Organization to encourage greater awareness of gender issues. Another NGO, the Roman Women's Association in Romania (RWAR), was established in 1996 to address the status of women with regard to the labor market, education, spiritual life, social health assistance, health, family, and the protection of Roma women and children. The RWAR has more than 100 members and is the first NGO to address Roma rights.

Romania is the only country in Central and Eastern Europe that has not passed a modern law on associations and foundations. Law 21, passed in 1924, makes registration relatively easy and places few restraints on freedom of operation. Unfortunately, the law does not have adequate safeguards and is inconsistent with more recent legislation. For several years, Romanian NGOs have been pushing for legislative changes to bring the law in line with internationally accepted regulations. The 1998 Sponsorship Law allows tax deductions for individual and corporate contributions to NGOs. Another law passed in 1998 lets NGOs contract out for the delivery of social services.

Few Romanian NGOs have a board of directors or a clearly defined management structure. In major towns and cities, though, larger well-established organizations are beginning to develop. These NGOs tend to develop on a Western model, even though they might not receive funding from Western institutions. In 1996, a report by the Charles Stewart Mott Foundation recommended the establishment of resource, support, and training centers to help strengthen and develop the NGO sector. In response, the Soros Foundation, USAID, the Charles Stewart Mott Foundation and the United Nations Development Programme have implemented program, and the number of trained, experienced managers is growing across Romania. Since NGOs lack resources, though, it is difficult for them to keep trained, often unpaid, staff who are attracted by paid employment in business.

Funding for Romanian NGOs is low. Around 36 percent comes from abroad, but foreign donors have started to reduce the level of direct support. Instead, they are funding complete projects such as child welfare and community development programs. Some NGOs have begun to use new fund-raising techniques such as membership fees, direct mail campaigns, and public events. According to USAID, around nine percent of NGO's revenues come from individual donations, 11 percent from membership fees, and 13 percent from corporate sources.

The Sponsorship Law lets firms offer five percent of their profits in money or in kind to an NGO in exchange for certain benefits. However, a contractual agreement must exist between the firm and the NGO it wishes to fund. The government and parliament do not fund projects related to public participation, although there have been instances in which state-owned firms have supported NGOs. The majority of urban NGOs disclose their funding sources. They can generate an income if they use it for statutory purposes.

The government's relationship with NGOs is weak and ad hoc, but it can call upon NGO experts for advice. Both the government and parliament have special departments to deal with NGOs. On the local level, NGOs have direct access to elected officials and therefore can encourage the disclosure of information to the public. Councils can adopt legislation requiring them to meet with the public on a regular basis, and citizens have the right to demand meetings with elected officials. In reality, though, NGOs are rarely invited to join decision-making bodies at a national or local level.

NGOs have free access to the media, and they use this privilege to disseminate information to the general public. Local newspapers can concentrate on issues relating to the work of a particular NGO but they may not focus on the NGO itself. Consequently, the media helps limit the public's awareness. However, the sponsorship law did help encourage favorable treatment of NGOs by the print and broadcast media. NGOs rarely play an investigative role, and they have limited access to Western media. Training on how to take advantage of the media is a key element in NGO development.

The 1991 constitution stipulates that trade unions are free to function without political interference. All private sector employees have the right to join, form, or associate with trade unions. Out of 11 million workers, around 50 percent belong to 20 nationwide trade union confederations or smaller independent trade unions. There are three main trade union confederations: the Fratia National Trade Union Confederation (CNSLR-Fratia), the Alfa Workers' Confederation of Labor (Cartel ALFA), and the National Union Bloc (BNS). In 1995, they formed the National Inter-Confederate Committee.

Economic reform and restructuring have resulted in downsizing and redundancies. Consequently, membership in trade unions has declined. The National Association of Farmers of Romania and the Agrostar Trade Union represent farm workers in the workplace, while the National Peasant Party represents farmers in parliament. Small business associations, trade groups, and private enterprises may represent themselves in the chambers of commerce found in major cities.

The Romanian constitution guarantees the public's right to participate in politics. This includes freedom of association, freedom of expression, and freedom of information, and the right to make petitions. Citizens have no right to take action in the constitutional court, but they do have access to ordinary justice. NGOs are becoming more active in the political and policy process, but the most popular way to voice opinions is through public protest. NGOs are particularly involved in the policy-making process and are called on for expert advice. The constitution requires lawmakers to work with social organizations but does not specify the extent of public participation in the legislative process. The Statute of the Parliamentary Chambers neither calls for public participation nor requires public notification of proposed legislation.

Independent Media

1997	1998	1999-2000	2001
4.25	4.00	3.50	3.50

A large portion of the Romanian media has been privatized and is relatively independent. Nonetheless, there are barriers to collecting information. There are more than 100 private television stations and around 200 private radio stations. There are 15 national dailies and around 100 local and regional dailies, most of which are privately owned. State television and media control a large portion of the electronic

media, but this is changing rapidly. All of the major Romanian newspapers such as *Monitorul*, *Ziua*, and *Nine O'clock* now have their own Web sites.

There are several private newspapers, including *Evenimentul Zilei* (owned by the German group Grunne und Jahr/Bertelsmann), *Romana Libera*, *Adevarul*, *Libertatea* (owned by the Swiss group Ringier), and *Cotidianul*. The government paper, *Vocea Romaniei*, and the paper of the presidency, *Dimineata*, receive government subsidies. Minority groups also have their own newspapers such as the Hungarian *Romania Magyar Szó* and Germany's *Deutsche Allgemeine Zeitung*. The major private television companies with national distribution through cable television are Pro TV, Antenna 1, Tele 7 abc, and Prime TV. The main private radio stations include Radio Contact, Radio Pro-FM, Radio 21, Radio Uniplus, Radio Total, Radio Delta, Radio 2M+. In the year 2000, a major French media group, Hachette (Groupe Lagardere), launched Europa FM, the first FM radio station network with national coverage.

The state also has its own broadcasting stations. Television Romania (STVR) has three channels: Romania 1, TVR2, and Romania International. SRR, the public radio network, reaches audiences across Romania. While the major private television channels cover most of the urban areas through cable television distribution, the only channel that covers rural areas is Romania 1.

The National Audiovisual Council is the regulatory body for both state and private media. In 1992, the Romanian dual broadcasting system was established. In 1994, the Romanian Broadcasting Corporation and the Romanian Television Corporation were created. Over the past six years, they have transformed the state media into "editorially independent public services acting in the national interest."

Private media are not exempt from Romania's economic hardships and often are over-staffed, inefficient, and poorly managed. Consequently, they usually receive funding from private donors, the government, and their owners. Media groups, however, are beginning to take up the gauntlet. The Expres media group controls a magazine, a television station, and a radio station. Major television stations such as Antenna 1, Tele 7 abc, Dacia Europa Nova, and Ameron have corporate sponsors. Large media groups, including the Media Pro Group and Contact Belgium, fund major radio stations.

The major printing plants are generally privately owned. The largest press distribution company, Rodipet, is still state owned, but its share of the market is no more than 30 percent. The media law states that all radio and television stations must have a contract for the programs they broadcast. The law was an attempt to cut down on piracy and allow private distribution, but it is bureaucratic and could lead to unnecessary restrictions on programming.

Romanian media are largely independent. A wide range of newspapers, magazines, radio stations, and television stations represent a cross-section of views. However, since subsidies from owners are common, there is the potential for

media organizations to represent the owners' views. State-owned media tend to reflect the government line, and since they often lack funding, editors can be susceptible to political pressure. Journalists are also poorly paid and can be bribed to provide a favorable or unfavorable report.

Romania's constitution guarantees access to information. Previously, journalists and the public had little access to governmental information, but it is becoming more common for government ministries to post press releases and contact information on their Internet sites. Still, departmental secretaries can hamper direct contact with ministerial officials, and journalists frequently rely on unofficial sources. Since media regulatory bodies are appointed and controlled by parliament, the government, and the executive, they are open to political pressures.

Article 30 of the constitution establishes the right to freedom of expression and states that freedom of the press must not "be prejudicial to the dignity, honor, and privacy of the person, and the right to one's own image." It prohibits defamation of the nation and country, attempts to instigate wars of aggression, incitement to discrimination or public violence and "any obscene conduct contrary to morality."

The 1996 penal code determines the penalties for libel and slander. A journalist can receive up to two years in prison for libel and up to five years for reporting false information that endangers national security and international relations. Law No. 40 of the penal code states that libel and slander laws apply to "irresponsible" journalism. In 1999, six journalists were convicted of libel or slander. According to Freedom House's 2000 Press Freedom Survey, "one reporter was arrested for exposing corruption, two were attacked while investigating a construction site, and another was robbed of his manuscript and thrown from a moving train."

There are several journalistic and press associations in Romania, including the Romanian Press Club, the Committee to Protect Journalists, and the Independent Journalists Federation (IJF). The IJF was established in 1994 to promote free and independent media in Central and Eastern Europe and is a nonprofit organization. The IJF offers specific programs catering to female journalists. The Committee to Protect Journalists has documented at least 19 cases of harassment, legal action, and threats of violence against journalists in the past three years; however, this estimate is considered low.

Many women work in the media, but exact figures are unavailable. One only needs to look at newspapers, magazines, and television broadcasts, though, to determine the extent of female involvement. There is little evidence that Romanian women reach the highest echelons in private media organizations.

Internet penetration in Romania is between 1.6 and three percent, but access is generally good only in Bucharest and other major urban areas. There are no restrictions on Internet access to private citizens. In the past, Internet access has been confined to those who can afford it. This situ-

ation is changing rapidly, though, as Internet cafes spring up in major towns and more cities provide general-use terminals. Businesses, universities, libraries, and other public facilities that can afford the equipment and fees also provide Internet access. Nonetheless, Internet access is more expensive than in Western Europe and the United States, mainly because of telephone charges.

In its Survey of Press Freedom, Freedom House rated Romania “Partly Free” in 1991 and 1992, “Free” in 1993, and “Partly Free” from 1994 to 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
4.25	4.00	3.50	3.75

Legislative authority is the sole domain of Romania’s two houses of parliament, the senate and the chamber of deputies, and the executive is the government. The constitution sets out a general system of checks and balances between parliament and the government. The legislature is organized into parliamentary groups that can make proposals on the composition of permanent offices and committees. The legislature also has the power to express confidence in the government; provoke the government’s resignation; take to the supreme court resolutions on the impeachment of the president; and exercise political control over the authorities, the executive, and members of the government by raising questions and establishing committees of enquiry. It also elects members of independent bodies like the Higher Council of the Judiciary and the Court of Audit. While the executive is responsible for the implementation of domestic and foreign policy and for the general management of public administration, the legislative branch may express its dissatisfaction.

The legislature is responsible for passing constitutional, organic, and ordinary laws. Organic laws establish the system of governance and protect the population. For example, they define the structure and functions of political parties and general statutory rules. The government, through ordinances and emergency rulings, can amend laws, but parliament must approve the changes.

In 1999, parliament only adopted 59 out of 453 draft laws and ordinances. This low level of activity reflected the government’s fragility ever since the ruling coalition lost its majority in the Senate. Parliament’s inability to approve draft legislation has delayed important reforms, despite the government’s attempts to solve problems by passing emergency ordinances.

Generally, Romania’s legislative and executive bodies operate transparently. The constitution requires parliament to make its sessions public, unless it finds that a secret session is necessary. There is no constitutional provision requiring the presidency to operate transparently, but it does hold press conferences and release information. *Monitorul Oficial* pub-

lishes new laws on the day they are enacted, but there is no provision for public discussion of them in advance.

Under the constitution, the government must ensure that its activities are publicized. Article 31 establishes the public’s right to accurate information. Law 69/1991 also requires regional authorities to make their agendas public. Unfortunately, media frequently have difficulty obtaining information and must rely on anonymous sources for unsubstantiated information. Romania does not have a freedom of information act, but the constitution does guarantee freedom of access to information.

Romania is divided into territorial administrative units, or districts, such as Banat, Moldavia, and Transylvania. Local and regional administrations manage decentralized public services and enjoy local autonomy. However, local authorities have little power and are severely restricted by a lack of government funds.

The legal framework for decentralizing power was largely complete at the end of 1999. However, there have been problems in implementing the changes. The financial relationship between the central government and local governments is unclear, and there have been delays in the transfer of funds. Local governments rely on the central government for funds and grants from international institutions such as the European Bank for Reconstruction and Development (EBRD), the EU, USAID, and the UNDP. Funds from these institutions have helped municipal authorities establish the necessary infrastructure for generating revenues, but tangible improvements are few.

Romania’s civil service is overstaffed and open to corruption, particularly at the local level. According to the 1999 Civil Service Statute, civil servants can be appointed to positions in the government, prefect offices, local governments, or county councils for an unlimited period of time. The Ministry of the Civil Service coordinates their work. The successful implementation of the Civil Service Statute would be a major step toward creating a professional and stable civil service.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	4.25	4.25	4.25

Introduced in 1991, the Romanian constitution provides the basis for the legal structure of the country. The constitution is regulated, interpreted, and enforced by the constitutional court, which consists of nine justices who are appointed for nine years. The president, the senate and the chamber of deputies elect three judges each.

During the period covered by this report, elections dominated public life, and questions were raised about the

constitutionality of Ion Iliescu's presidential candidacy. The problem concerns Romania's two-term limit. While Iliescu has presided over Romania twice, his first term began before the constitution was implemented. However, complaints about Iliescu's candidacy have amounted to nothing, and he is still leading in the polls.

Romania's penal code came into force in 1996. At that time, debates were raging over a controversial provision that made homosexuality illegal. In 2000, the chamber of deputies overturned this provision. In practice, though, the new law, which awaits senate ratification, changes very little. Further reforms of the criminal code have been proposed, but the broad package has not been implemented.

The constitution states that the "individual freedom and security of a person are inviolable" and lays down strict guidelines for searching, detaining, or arresting a person. A person cannot be detained for more than 24 hours, and a magistrate must issue an arrest warrant. Warrants are valid for 30 days and can only be extended by a court ruling. The constitution also states that the residence or domicile of a person is inviolable. Only magistrates, prosecutors, and courts may issue search warrants. Security guards can enter a property without a warrant in the defence of national security and public order, or situations that affect public health and safety.

In criminal cases, there is evidence that suspects and prisoners are beaten and abused—especially crimes relating to homosexuality. Amnesty International has carried out detailed investigations into human rights abuses for several years. Throughout the 1990s, Amnesty International received information that implicated law enforcement officers in the use of excessive force in the restraint, arrest, and detention of prisoners. The organization's annual report for 2000 found that "reports of torture and ill-treatment by police officers continued. Detainees were frequently denied access to a doctor or a lawyer, which facilitated ill-treatment." The report raised concerns about domestic legislation that permits police officers to shoot criminal suspects, even if they pose no immediate threat. In 1999, police officers who sought to arrest three individuals suspected of cigarette smuggling shot and killed a 40-year old Roma man and injured his companions as they fled.

Due to the inefficiencies of the criminal justice system, excessive delays are common. An area that continues to be a problem is the alignment of Romanian law with EU laws and directives—a requirement for EU membership. While a reform program aimed at integrating the two systems is in place, progress has been slow. Nevertheless, there are signs that Romania's courts are becoming more efficient.

The constitutional framework guarantees equality before the law and secures freedom of the press, expression, movement, and conscience. Article 20 declares allegiance to the Universal Declaration on Human Rights. In September 2000, a Romania introduced by government ordinance legislation that prohibits discrimination on the basis of nationality, race, ethnicity, age, gender, or sexual orientation. The right to private property is guaranteed to all; Roma-

nians and foreigners alike are allowed to own property and establish businesses.

The constitution protects the rights of national minorities and calls on the state to create an environment in which minority groups can preserve, develop, and express their identity without discrimination. Hungarians are the largest national minority, equalling roughly eight percent of the population. The largest political representative of the Hungarians is the UDMR, which is currently a member of the ruling coalition. Although the government has an exclusive Department for the Protection of National Minorities, discrimination is still evident, particularly toward the Roma population. Many Roma have sought asylum in countries like Germany and Britain.

A revised law on remuneration for judges has increased personal financial independence and made the legal profession more attractive. Other recent initiatives have improved training, recruitment, and efficiency in the judiciary. In November 1999, the law on the organization of the judiciary was amended so that disciplinary measures can be taken if courts do not process cases in a timely manner. An emergency ordinance implemented in October 2000 also attempts to speed up court procedures. However, the courts are strongly linked to the Ministry of Justice and are not free from political influence. Judges are appointed by the president on the recommendation of the 15 members of the Higher Council of the Judiciary. Two important nongovernmental arbitration courts exist to stamp out bias and prejudice: the Commercial Arbitration Court, administered by the Chamber of Commerce, and the International Arbitration Court. Romania is a signatory to the 1958 New York Convention on international arbitration, the 1961 European Convention on International Commercial Arbitration, and the 1965 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (the ICSID Convention). Arbitration decisions are enforceable in Romanian courts.

There is a longstanding debate in Romania over the restitution of property seized by the Communists and the Nazis. Despite the lack of consensus about restitution legislation, properties have been returned to claimants at a faster rate since 1996. Under Romanian law, property is divided into three categories: dwellings and businesses, agricultural and forest lands, and community and religious assets. Each kind of property is subject to different restitution regulations and procedures. Claimants must be Romanian citizens or in the process of becoming citizens.

The courts are split into four different tiers. The ordinary court hears cases concerning no more than 10 million lei. County courts and the Bucharest City Court hear cases of more than 10 million lei. The third tier is the court of appeals, and the highest court is the supreme court. On average, the wait for trial is seven months to two years. Judgments take seven months to one year.

Romania adopted a law on business competition in April 1996. While business competition is openly encouraged,

the law is regulatory in nature and designed to prevent monopolies. It replaced a 1991 law and established both a Competition Council and the Competition Office. The law forbids anticompetitive practices such as fixing prices, market sharing agreements, rigging auctions, and other monopolistic behavior. The Competition Council also has the right to approve mergers. The informal market can effect competition at a basic level. Romania's economic difficulties have encouraged the shadow economy and diminished the effects of competition in the market.

A 1990 law on the formation, dissolution, and transfer of businesses is generally respected. However, there are some bureaucratic barriers to registering new businesses. Generally, routine business activities such as obtaining zoning permits, property titles, licenses, and utility hook-ups are time-consuming and cumbersome. In January 1999, this problem was partly resolved with the adoption of a new law designed to simplify registration for new enterprises. Other programs have also been launched to support start-ups and to assist with marketing and exports.

Individuals have the constitutional right to legal representation. When ethnic minorities require state defence, translations will be provided. When defendants cannot afford legal representation, the penal code allows the local bar association to appoint an attorney.

Corruption

1999-2000	2001
4.25	4.50

Corruption in Romania is so widespread that it adversely affects the political and economic stability of the nation. President Constantinescu cited corruption and incompetence in the political system as his reasons for retiring from politics. In a television address to the nation in July 2000 he said, "I can see the degradation of the political scene. . . . There is a blind fight for personal interests. People buy and sell places in parliament, using lies and blackmail." He referred specifically to a "mafia type system with links to official institutions." At a meeting of the Romanian Supreme Defence Council a month later, Constantinescu complained that the judicial system was dragging its feet on criminal investigations and corruption cases.

The Constantinescu administration has attempted to crack down on corruption. In May 2000, a new law was enacted to prevent and punish corrupt practices. There is also a new anticorruption and organized crime unit within the General Prosecutor's Office. In 1999, the National Office for the Prevention and Fight Against Money Laundering was set up to report cases for investigation to the prosecutor's office.

The constitution states that government ministers cannot hold private sector posts that are incompatible with

their ministerial role. The provision is vague and open to interpretation, but it does prevent certain conflicts of interest. There is no law requiring financial disclosure, but a new anticorruption law penalises private-sector behaviour that infringes on competition and the award of contracts; allows the identification, investigation, and seizure of profits from corrupt practices; and permits charges to be brought against members of political parties, trade unions, employers' organizations, nonprofit organizations, and international employees.

During the period covered by this report, two important anticorruption cases were being pursued. The first involves the French-Romanian businessman Adrian Costea and top government officials in the former government. In return for special favors, Costea allegedly bankrolled the Party for Social Democracy in the 1996 election campaign. Former President Iliescu and his colleagues strongly condemned the case as an example of political partisanship. Nevertheless, prosecutors have indicted at least two former officials and have received permission from parliament to pursue others. The Party for Social Democracy has struck back by accusing its political opponents of corruption related to privatization deals and the State Property Fund.

The second case involves the National Investment Fund (FNI), a high interest-earning trust company that collapsed in May 2000 after its executives embezzled funds. The collapse of the fund revealed the diversity of problems in banking and finance. When investors, acting on rumors of the FNI's collapse, attempted to withdraw huge sums from the fund, the capital markets regulator advised the fund to suspend trading and close its branches. Many Romanians lost their life savings, and the FNI's fund directors were accused of embezzlement. The Banca Commerciala Romana (BCR) and BANCOREX, the largest banks in Romania, were also rumored to have cash shortages, and the NBR stepped in to prevent their complete collapse. The incident was believed to have threatened national security and to have left many Romanians facing graver economic hardships. Romania relies on funds from the International Monetary Fund to help secure economic, political, and social stability.

Article 139 of the constitution establishes a Court of Audit that controls "the formation, administration and use of the financial resources of the state and the public sector." Parliament can request an investigation into the management of public resources. Members of the Court of Audit, who are appointed by the two houses of parliament, are independent and irremovable. The court has jurisdictional powers and reports to parliament annually about the administration and management of the National Public Budget.

Other anticorruption initiatives include the 1997-2000 governance program that aims to advance Romania towards EU integration. When President Constantinescu introduced the program when he became the chairman of

the newly established National Council Against Corruption and Organized Crime. Romania is also keen to establish a strong relationship with the South East European Cooperation Initiative (SECI), a regional center based in Bucharest to fight organized crime and corruption.

In 1999, 381 public officials were sentenced for corruption. In 1998, 534 officials were sentenced. During the period covered by this report, several leading politicians were under investigation in connection with the Costea scandal. In fact, Ion Iliescu, the head of the PDSR and the current leader in the presidential election campaign, was asked to give evidence to the French Commission investigating allegations of money laundering. Iliescu refused to testify until after the November 26 elections. As a French-controlled investigation, and not a Romanian investigation, the likelihood of prejudice is diminished.

Romania's complex bureaucracy increases opportunities for corruption, which is extensive in the civil service. Although it is possible to receive services without bribes, the process can be long and difficult. Almost all sections and levels of the civil service have been affected by bribery. The average salary of civil servants is unavailable.

Customs officials can be bribed easily. However, as a member of the Balkan Stability Pact and as a condition of accession into the European Union, Romania is attempting to tighten its border and customs controls. If successful, this could aid Romania in stabilizing markets and, thereby, attracting foreign investment.

Transparency International ranked Romania 68 out of 90 countries in its 2000 Corruption Index. Romania was ranked 63 in 1999 and 61 in 1998. This downward trend emphasizes the growing level of corruption in Romanian life. Despite attempts by the government to create an effective anticorruption information program, little progress has been made.

The absence of an effective governmental decision-making body has had a detrimental effect on the economy and society. Romania's political infrastructure is blighted by corruption and a continuous power struggle among influential groups, including the extreme right wing, the former Communists, the liberals, and the social democrats. The Constantinescu administration tried to remedy these problems but was prevented from making real progress by bureaucracy, corruption, and political infighting. The inability of various governments to implement the radical changes necessary to stabilize Romania's economy does not bode well for the future. Constantinescu seemingly had the will and the power to challenge the remnants of the Communist legacy, but it failed to succeed.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.50	4.50	4.00	3.75

Political and social development is severely affected by the unstable nature of the Romanian economy. The Constantinescu administration has considered various programs aimed at improving the effectiveness and the pace of privatization, regulating the taxation system, controlling inflation, and lowering unemployment, but their implementation has been sporadic and fraught with delays. Nonetheless, a glimmer of hope remains. For the first time in several years, Romania is expected to have positive growth in 2000. Exports are likely to reach an all-time high of more than \$10 billion. Likewise, the EU has already announced its expectations for the new government that will be elected in November 2000.

During the first 100 days in office, the new government must speed up the process of privatizing and restructuring key state enterprises, improve the legislative framework and the investment climate, improve the child protection system, and adopt economic measures to do away with corruption. This is a tall order for a country that has been unable to remedy these problems for eight years. Pressure from international bodies is adding to the atmosphere of frustration within Romanian society.

During the past year Romania has made a concerted effort to improve the state of the economy, but it has had little success. According to the U.S. government's 1999 Commercial Guide, private ownership in Romania accounts for 58 percent of gross domestic product (GDP), compared with 13 percent in 1989. Roughly half of the Romanian population is also employed in the private sector. However, the effects of a regional recession and the 1998 Russian economic crisis are still being felt. Unemployment is rising, and high inflation and high prices are taking their toll. The result has been an increase in corruption and the growth of the informal economy.

The informal economy is vast in Romania. Due to low levels of pay, high inflation, and rising unemployment, many Romanians can earn a higher income in the informal economy than at their regular jobs—if they have one. Observers estimate that the informal economy accounts for 30 to 40 percent of GDP.

There has been an increased effort in 2000 to limit the shadow economy. However, this has been targeted in a localized fashion and is dependent on the political leaning of the local government. For example, Traian Basescu, the mayor of Bucharest, has taken an aggressive stance on the black market. In August 2000, when he sanctioned the removal of illegal kiosks from the streets of Bucharest, the kiosk owners protested and the situation turned violent.

Although the move was in line with the government's democratization program and its efforts to stamp out corruption and organized crime, Basescu handled the situation with little sensitivity. In effect, he sanctioned the destruction of the livelihoods of many Romanians and sent them to join the masses of the poverty stricken. The move is unlikely to have improved the governments' standing in the forthcoming general election.

The impact of privatization on economic stability and social security has lowered the government's popularity. Privatization is a fundamental step toward developing a market economy in which democratic processes function freely. Unfortunately, privatization has been sporadic over the last decade and has been hindered by alterations to the official program. The uncertainties created by such activities have disrupted economic growth and deterred investors. And, once again, society has suffered the consequences of low incomes, high inflation, and high unemployment without any light at the end of the tunnel.

Bureaucracy dogs the privatization process in Romania. In December 1991, the National Agency for Privatization was formed, and a new privatization law was adopted. The law called for the establishment of a State Ownership Fund (SOF) and five Private Ownership Funds (POF) to oversee the process. In 1999, another privatization law was adopted to accelerate and liberalize the privatization process and to create a legal framework in which privatization can occur.

To some extent the law has been successful. Various privatization deals, including the sale of Dacia Auto to Renault, have been processed. Renault saw Dacia as the potential "car of the Balkans," but it has been disappointed somewhat with Dacia's progress. The same has been true of other privatization deals. The sale of the Petromidia oil refinery to Turkey in 1999 was considered a big breakthrough, but it fell through a few months later. A similar scenario is unfolding between the Romanian national telecommunications company, ROMTELCOM, and its new Greek majority shareholder, OTE. The experience of these companies is not encouraging for other potential investors.

Although the privatization process has not been reversed in the last year, PDSR presidential candidate Ion Iliescu wants to put privatization on hold until December 31, 2000, in order to prevent any action before the election that might go against the national interest. In the short term, this may draw some immediate benefits. In the long term, though, it will merely prolong discontent.

According to the U.S. government's 1999 Commercial Country Guide, 80 percent of Romania's farmland is now in private hands and accounts for 20 percent of GDP. Privatization in the agricultural sector has proceeded rapidly, but developments have been hampered by a shortage of investment, modern equipment, seeds, and fertilizers. Romanian harvests have been hit hard in 2000 by extreme cold, flooding, and drought. It is rumored that the wheat harvest, one of country's largest crops, will be exhausted by

late December. The poor harvests have led to shortages of crucial crops, higher prices, and more high-priced imports. This is hurting society and an already troubled economy.

Unlike the agricultural sector, privatization in the industrial sector has been tediously slow. Sixty-seven percent of industrial output is still generated by state-owned factories, which are generally oversized, inefficient, and overstaffed. The European Bank for Reconstruction and Development's (EBRD) 1999 Country Profile for Romania reported that industry accounted for 46 percent of GDP in 1989 and only 35 percent in 1999. The Romanian market is one of the largest in Central and Eastern Europe and has great potential, but industry continues to be a drain on the economy. In 1996, total losses by state-owned industries exceeded 6 percent of GDP. Seventy-five large firms, which are due to be restructured during the privatization process, generated the bulk of this.

Privatization in the banking sector is fundamental to the development of a stable market economy, but so far it has proved to be a time-consuming and expensive process. The collapse of the FNI and the virtual collapse of BANCOREX, which merged with BCR, resulted in a decline in public confidence. Numerous Romanian investors lost their savings in the FNI debacle and, as a result, lost the means to cushion the blow of economic hardships. In many cases, they lost everything they ever had. These Romanians are increasingly bitter and have staged protests calling for the government to compensate their losses. Likewise, the perceived fragility of BCR has added to society's woes. The prospect of placing their savings in a bank now has little attraction. And the government's failure to foresee the problems, and then to compensate for the financial loss, has threatened its stability and pushed up the cost of stabilizing banks that are earmarked for privatization.

Romania is reliant on IMF loans to help stabilize the economy and to attract further investments. But the government fell into trouble when it failed to begin the process of privatizing Banca Agricole, which was insolvent because of poor loans and was slated for privatization in September 2000. In response, the IMF suspended the third tranche of a loan while it assessed the situation. Luckily, when the IMF, the European Commission, and the World Bank met in June 2000 they agreed that the banking chaos had not damaged their relationship with Romania. IMF managing director Horst Koehler stated in May 2000 that "the situation is stabilized. The country has a clear economic policy direction, and this is macroeconomic stability, reform, structural change, cutting subsidies, making the economy competitive and strengthening the private sector."

The World Bank Group has proposed three possible steps for banking reform. First, to prevent future failures, there should be immediate long-term corrections to the health of banks that are going through the privatization process. Second, a coherent privatization and liquidation plan must be put into practice. Finally, there should be improved monitoring of the National Bank of Romania (NBR)

to keep pressures from building up in the banking sector again. To date, little has been done.

In 1990, a two-tier banking system was created, and some of the commercial banking functions of the NBR were spun off to the BCR. The NBR's statutes and the 1998 Law on Banking Activity govern the system. The NBR primarily makes monetary and foreign exchange policy, supervises the banking system, manages international reserves (gold, foreign currency, and special drawing rights), and issues currency. While the 1998 Law on Banking made the activities of the NBR relatively independent, the current prime minister, Mugur Isarescu, is the former head of the NBR. This fact has put into question the NBR's actual level of independence.

In comparison with other transition countries that have adopted a two-tier banking system, Romania has progressed quite smoothly. However, there have been some serious problems. In 1996, Banca Dacia Felix and Credit Bank were liquidated, and Banca Comerciala "Fortuna" had its license revoked. Euro Express Bank had its license revoked in 1997. In 1999, BANCOREX, Romania's third largest bank, came close to collapse when its board resigned. The NBR had to work quickly to prevent depositors from withdrawing their money. It placed BANCOREX under special administration and promised to work with the government on privatization plans for 1999 and 2000, but implementation of this program has been delayed.

Public awareness and support for the privatization process has declined over the past four years. A recent survey by Metro Media Transylvania Institute reveals that 51 percent of Romanians felt they were better off before 1990. In 1996, when Emil Constantinescu and the CDR took power, the public was optimistic that there would be a complete turn-around from communism. While the CDR supports privatization, Ion Iliescu's PDSR is ambivalent. As a result, the privatization process was extremely slow during Iliescu's administrations between 1990 and 1992 and between 1992 and 1996.

Macroeconomic Policy

1998	1999-2000	2001
4.50	4.00	3.75

The Romanian taxation system is in dire need of reform. On January 1, 2000, the corporate income tax rate was reduced from 35 to 25 percent, but little else changed during the period covered by this report. This move was in line with Romania's commitment to reduce and simplify the tax burden on individuals and companies.

In 1993, Romania introduced a value added tax (VAT) on most goods and services. In 1998, the basic VAT rate increased from 18 to 22 percent. Bread, fuel, and electricity for domestic use are just a few of the essential goods and services that were exempt from the VAT. These exemptions

were of some assistance to Romanians living below the official World Bank poverty line of \$1 per day. The VAT, which is now 19 percent and does not include the exemption, is generally in line with EU targets.

Although there are some VAT exemptions on essential goods, Romania's taxation system hits employers and employees hard. For example, social security contributions are intended to ease the pressures on a society in times of economic and political instability. At present, though, the system accounts for roughly 40 percent of the annual budget but fails to provide adequate insurance for those covered. The system is extremely expensive and has a disheartening effect on those Romanians who pay insurance taxes but receive little protection in return. Social security contributions are paid by employers at a rate of 23 to 33 percent of an employee's salary. Employers also pay a five-percent unemployment fund contribution and a two percent health fund contribution. In addition, employees pay an income tax ranging from 5 to 60 percent (averaging 28 percent), a three-percent pension fund contribution, and a one percent unemployment fund contribution. With a struggling economy, high prices, and high levels of taxation, the shadow economy is an alternative source of income that does not carry the heavy tax burden.

The Romanian national currency is the *leu*. Since the collapse of communism, inflation has been variable, and Romanians have had to bear the brunt of currency fluctuations. In 1997, the leu was freed from heavy regulation. That same year, the IMF forced Romania to unify the leu and make it convertible. However, the currency is still not convertible on individual current accounts and capital exports.

In 1993, inflation peaked at 292 percent. A tight monetary policy brought that level down to 27.8 percent in 1995, but it rose to 56.9 percent in 1996 and 155 percent in 1997. In 1998, inflation fell back to 59 percent. It fell to 35 percent in the first half of 2000. The decline in inflation indicated that the government eventually would get it under control. It was also beginning to have a positive effect on the export industry. Between January and August 2000, the World Bank reported that exports had increased by 25 percent compared to a year earlier, while imports had gone up 23 percent. In the second half of 2000, however, inflation rose again to 40 percent. Romania's struggle with inflation has had a demoralizing effect on the population. Tight monetary policy over a period of seven years has been trying and people are suffering under the pressure of unstable, rising prices and little change in their income. This is likely to be reflected in the November 2000 election when many votes will be cast for Iliescu. His election could lead to a reversal of economic reforms and a return to the old political regime.

The Bucharest Stock Exchange (BSE), which opened in June 1995, is a crucial part of the infrastructure needed for a functioning capital market. In 1996, Romania opened the RASDAQ, an over-the counter market modeled on the U.S. NASDAQ and intended to help the country cope with

the outcomes of mass privatization. In practice, the instability and lack of consistency of the privatization program, coupled with weak foreign and domestic investor confidence, meant that the volume of trading on the RASDAQ was low. Since BSE trade levels are also low, there is little optimism about the future. This general malaise is contributing to a negative sentiment in society.

In 1994, Romania adopted a securities law that established a National Securities Commission (CNVM) responsible for regulating primary and secondary securities markets. This commission established the BSE as a public entity, but the members of the private sector that form the Stock Exchange Association effectively run it. The Exchange Arbitration Court exists to settle disputes, but its structure manages to limit its benefits to only a few—a classic case of the rich minority getting richer and the poor majority getting poorer.

Microeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.50

Like Romania's macroeconomic policy, microeconomic policy is subject to bureaucratic delays, corruption, and a lack of funding. The implementation of essential property, business, and legal reforms has been a frustrating process complicated by Romania's steps toward EU integration. More recently, though, Romania's microeconomic infrastructure has begun to fall into place. But the changes have come too late to appease society and save the present government from defeat in the November 2000 elections.

Private property rights are guaranteed under Article 41 of the Romanian constitution, which states that "private property shall be equally protected by law, irrespective of its owner." Law 18/1995 established a land registry, but the system remains inefficient. In 1997, the World Bank approved a \$25.5 million loan in support of Romania's ongoing privatization efforts, particularly in real estate. The General Cadastre and Land Registration Project aims to establish an efficient, clearly defined system for securing land titles for real estate owners and a simple and cost-effective procedure for land transactions. The societal benefits of this project remain to be seen.

The majority of price controls were liberalized in 1997. Until then, the government had been cautious about removing price controls because it feared social unrest and political instability. Nevertheless, the prices of utilities and services still remain under the auspices of local administration and regulatory agencies.

Although the government is attempting to make it easier to operate a business, its lack of sophisticated equipment to process records frustrates the process. Consequently, even those Romanians who try to resolve their economic situation via legal channels often fail due to bureaucratic weak-

nesses. During the period covered by this report, however, there has been a marked change in the use of the Internet for business and publicity purposes. Nearly all government ministries now have official Web sites with email addresses for contacting ministers.

International trade in Romania is fairly liberal. In 1990, the state's monopoly on foreign trade was abolished, and tariffs with low average rates became the main instrument of trade policy. Customs duties range from 0 to 60 percent, but preferential tariff treatment is given to EU and European Free Trade Agreement (EFTA) members. The authorities have avoided the use of quantitative restrictions (licenses and quotas) on imports, despite difficulties in the balance of payments. While this might be attractive to foreign traders, it is having a detrimental effect on the government's efforts to stabilize the economy and is increasingly resented by society.

Romania is a member of the World Trade Organization (WTO). It also has signed agreements with the EU and EFTA and joined the Central European Free Trade Agreement. There are five free trade zones within Romania: Sulina, Constanta-Sud, Galati, Braila, and Giurgiu. Promoting international relationships and joining the various Euro-Atlantic institutions is regarded as a means of securing the market economy and generating support from an otherwise disgruntled society. Still, many Romanians feel that Romania has suffered from its concerted effort to join them.

Foreign investment has been positively encouraged in Romania but with little reward. Romanian law treats foreign investors and domestic investors the same way. According to figures released by the Commerce Registry of Romania, foreign direct investment up to the start of 1999 amounted to \$5.17 billion. The Foreign Investment Law stipulates that foreign investments are not subject to expropriation. Capital flow for investment is not restricted, but foreign investors must pay a 1.5 percent tax for transferable securities. Investments over \$50 million are granted customs exemptions and tax holidays.

In February 1999, the government suspended a number of tax breaks for foreign investors for one year. Although this was an initial turnoff for foreign investors, the government used the \$469 million it saved to help meet external debt obligations and to assist in gaining the release of the delayed third tranche of IMF aid.

Current government policy is to develop an energy sector that promotes a market-oriented economy. During the past four years, there has only been moderate change in the energy sector. Until recently, the government controlled energy prices so that per capita consumption was amongst the highest in the region. The doubling of energy prices in 1999 resulted in a much more efficient use of energy. However, high energy prices during the winter of 2000–2001 could have serious implications for an already struggling society.

Investors have eagerly anticipated the privatization of large state-owned energy monopolies. Romgaz, the gas provider, will be restructured into five separate units covering

extraction, distribution, and production. Renel, the electricity supplier, will be divided and sold in 2000 or 2001. Thirty percent of the national petrol company, Petrom, is being prepared for privatization. Conpet, the state pipeline company, will also be sold. Until these privatization programs are complete, private competition in the energy sector will be minimal.

Romania relies on Russia and the Middle East for its crude oil and natural gas supplies. These raw materials are processed in huge refineries at a high cost because of antiquated technology, but a World Bank/EBRD project to increase oil and gas production using new technology is underway. Investments by Western Atlas and M. Drilling have already raised Romanian production, and other foreign companies like Lukoil, Shell, Texaco, and British Petroleum are showing an interest.

The nuclear power plant in Cernovada, which produces 20 to 30 percent of Romania's electricity, was modernized with assistance from Canada. And since then, the plant's output has risen. When all four reactors are in use, the plant will be able to provide the majority of Romania's electricity supply and to reduce the inefficiencies of the current energy system.

Social Sector Indicators

Romania's political and economic transition has had a damaging effect on the population's standard of living. Society has born the brunt of the changes and blames the government. There is a growing belief that the country was better off under communism, and this sentiment could lead to a victory for PDSR leader Ion Iliescu in the November 2000 presidential election.

The net average dollar wage stood at \$92 at the end of August 2000. This is a decline from \$94 in 1999. However, prices have risen and the basic essential goods necessary for survival are in short supply. The unemployment rate reached 12.2 percent in February 2000 and is likely to continue rising. Of those unemployed, 26 percent benefited from unemployment subsidies, 9 percent from professional integration aid, 37 percent from support allowances, and 5 percent from compensatory payments. Twenty-three percent of those unemployed were bereft of any source of income. Restructuring plans for 64 major companies are likely to lead to further redundancies throughout 2000. Roma account for a large portion of the unemployed. The continued rise in unemployment will lower consumption levels, and a decline in the demand for goods will strain an already weak economy even further. This can only heighten animosities toward the Romanian government and threaten a

return to the days of Ion Iliescu.

Romania's social security system has failed the aged. Since the pension system is funded on a pay-as-you-go basis out of payroll taxes and budgetary transfers, it is vulnerable to demographic trends. Even though the retirement age for men and women has risen from 60 to 65 and from 55 to 60, respectively, the ratio of pensioners to the working population is expected to rise 20 percent by 2010. This, in turn, will threaten the financial integrity of the pension system. In 1997, pension system reforms were proposed, but little has been achieved.

When education reform began in 1998, the European Commission acknowledged that Romania's Ministry of National Education had taken major steps towards institutional and legislative reforms. Since then, though, the low rate of enrolment in higher education, coupled with increased poverty, growing income inequality, and weak social, educational and health care structures, has been an obstacle to the development of human capital.

In 1998, the infant mortality ratio was 23 per 1000, and life expectancy was 66 years for men and 74 years for women. The birth rate was estimated at 10 percent per 1000 in 1999. The poverty rate, which is rising along with unemployment, is currently 65 percent of the population. One-third is below the age of fifteen. This doesn't necessarily show a regression in Romania's political development but, rather, the costs of transition. Most Romanians who fall below the official World Bank Poverty Rate of \$1 per day will be in that position temporarily. Although there are signs of an economic turn around, Romania still has a long way to go.

As with education, Romania's health care system needs an enormous injection of funds. In 1994, there were 1.76 doctors, 4.3 nurses and midwives, and 7.7 hospital beds per 1,000 people. Health care workers are fully trained but lack the facilities to work. In 2000, the health care system experienced problems in the distribution and supply of medicines, and doctors across the country took to the streets when they had not received wages for two months. In response, the government passed an emergency decree allowing doctors to be paid from the National Health Insurance Fund. The budget also favors promoting education and health care above other sectors. The skill of Romanian doctors was shown in October 2000 when a groundbreaking liver operation was performed under the supervision of German physicians. Romania is the third country to ever attempt a liver transplant operation.

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