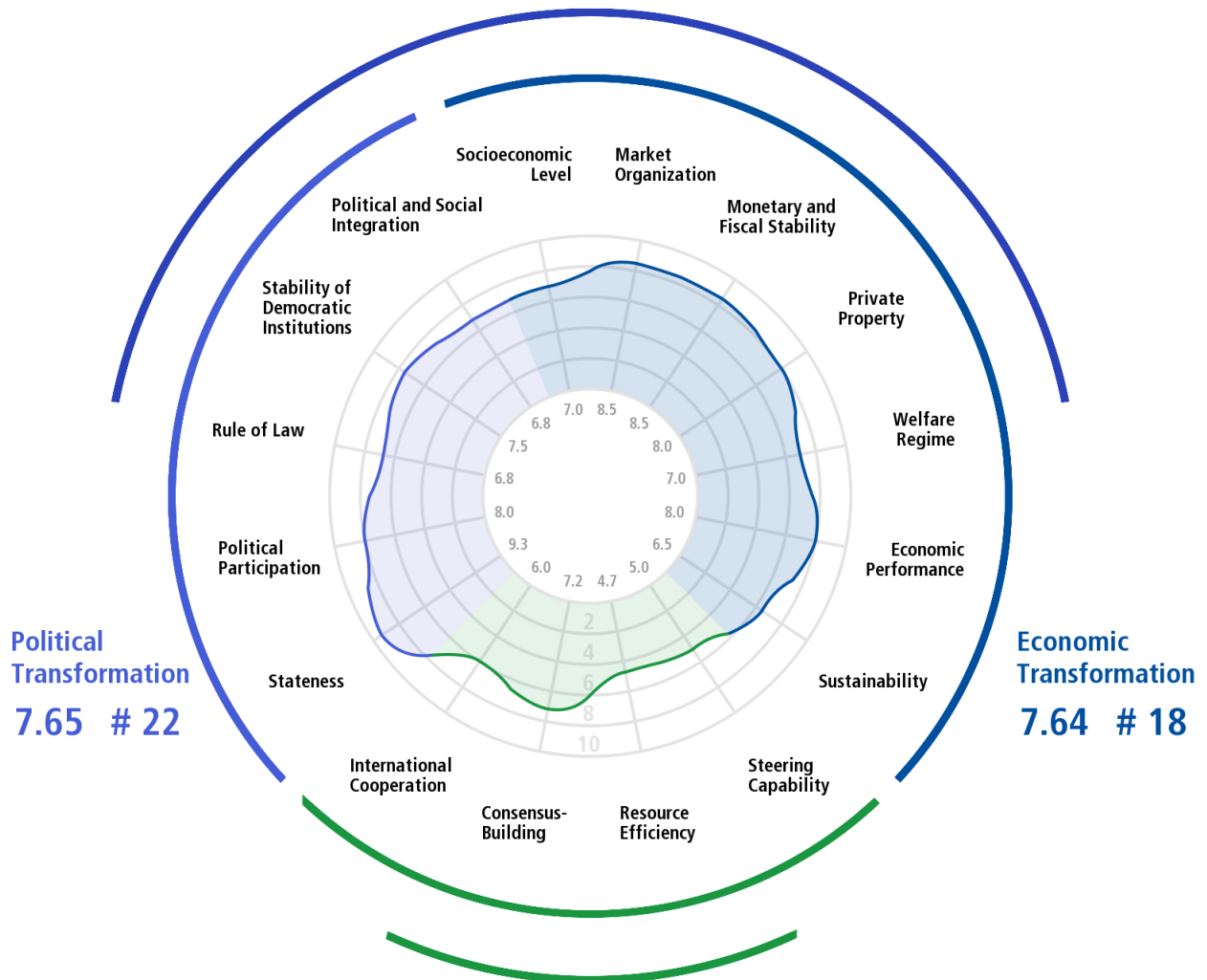


# Romania

## Status Index

**7.65 # 17**

on 1-10 scale out of 137



**Political Transformation**  
**7.65 # 22**

**Economic Transformation**  
**7.64 # 18**

## Governance Index

**4.85 # 74**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Robert Schwarz**

Phone +49 5241 81 81402  
[robert.schwarz@bertelsmann-stiftung.de](mailto:robert.schwarz@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>19.5</b>	HDI	<b>0.816</b>	GDP p.c., PPP \$	<b>28206</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.6</b>	HDI rank of 189	<b>52</b>	Gini Index	<b>35.9</b>
Life expectancy	years	<b>75.3</b>	UN Education Index	<b>0.762</b>	Poverty <sup>3</sup>	% <b>13.2</b>
Urban population	%	<b>54.0</b>	Gender inequality <sup>2</sup>	<b>0.316</b>	Aid per capita \$	-

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

The beginning of 2017 represented a significant change of course in Romanian politics. The ruling center-left coalition dropped any pretense of having any other priority than pushing back against the rule of law and anti-corruption institutions, which have built over the past year and a half. The new government attempted to decriminalize corruption offenses, which triggered a large-scale conflict between the branches of executive power (the cabinet and the president), as well as between the ruling coalition and civil society, with regular protests organized over the last two years in support of the rule of law.

These developments put the new government on a collision course with European institutions, in particular the European Commission, and other foreign partners, as the recriminations between Bucharest and its international partners became increasingly visible. Events reached a climax at the end of 2018, when Romania took over the rotating presidency of the Council of the European Union.

Anti-corruption policy remains the most important theme in Romanian politics. Conflicts over whether it should be terminated or not have been the main political fault line, replacing the left-right cleavage upon which the country's political system had revolved over the last 10 years. Romania's political parties have used anti-corruption policy to position themselves and as a strategy to get rid of political opponents. The newly formed parties – Save Romania Union (a political party that formed out of various civil society movements), and Freedom, Unity and Solidarity (the new party of former Romanian prime minister Dacian Cioloș) – have placed the fight against corruption at the core of their policy agenda. In 2018 and the electoral year 2019, this political alignment – for-versus-against the anti-corruption agenda – largely overlaps with the prevailing alignment in Europe, pitting pro-European progressives against euroskeptic populists, meaning that the alignment in Romania could gain greater structural depth.

The anti-corruption drive has also shaped the relationship between successive governments and presidents, with presidents largely supporting Romania's strict anti-corruption policies and institutions while in office. The numerous appeals to the Constitutional Court have forced the court to become more active, making its semi-political nature more apparent and further straining the constitutional system. In office, the ruling coalition has spent most of its time and energy defending its leaders against prosecutors by rewriting laws and twisting institutions in order to bring the judiciary back under political control, pursuing administrative procedures to replace leading public prosecutors, and orchestrating media campaigns against magistrates on government-friendly TV stations or online. There have been threats to adopt broad amnesties or pardons for serving politicians under investigation or impeach the president if he continues to frustrate such efforts.

This conflict has drained energy away from the act of governing, and as a result policy development and implementation has taken a backseat, even more than in previous periods. Frequent ministerial changes have prevented the consistent implementation of policies. In this respect, 2017 to 2018 marked a peak, with three prime ministers and numerous ministers having been replaced under the same parliamentary majority for reasons related exclusively to the intra-party politics within the Social Democratic Party (PSD). Large public infrastructure investments have stalled due to the declining quality of ministerial staff and significant cuts in capital investment budgets during the review period. Except for the rise in public salaries and pensions, very little of the ambitious governing agenda announced at the beginning of 2017 was implemented during the first half of the government's mandate.

The main structural socioeconomic deficits (e.g., urban-rural disparities and an agricultural sector that absorbs 30% of the labor force but generates only 7% of GDP) persist. Reforms to key public sectors (energy, state-owned enterprises, health care) made little progress and in some cases (energy) things went into reverse, with price controls and other restrictions introduced in 2018 against the provisions of the European sectoral reform package. GDP growth was robust (6.9% in 2017) and unemployment remained low (below 4%) due to Romania's post-crisis recovery and the relatively favorable international context. However, an increasing budget deficit toward the end of 2018, a spike in inflation and a sudden devaluation of the national currency are straining the system.

## History and Characteristics of Transformation

The modernization of the unified Romanian state between the two world wars had its origins in the mid-19th century. Western models of statehood, democracy and the market economy were transplanted to a largely rural Romanian society, with significant ethnic diversity in cities and some provinces. The result was 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) suffrage 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 1947, the postwar political system perpetuated important flaws of the old period, especially during the last 10 years of Nicolae Ceausescu's autarchic rule, a period often described as "sultanistic communism." Communist elites perceived the state and the bureaucratic apparatus as their properties, rather than neutral policy instruments. This resulted in rampant nepotism, etatism and fake equality. By the early 1980s, the combination of a foreign policy partly decoupled from Moscow and Stalinist domestic control through forced industrialization had run its course, resulting in widespread shortages, economic decay and a return to nationalist propaganda with socialist undertones.

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 regarded by some as a "palace coup" by the nomenklatura rather than a clear break from the past. The market economy and pluralist democracy were not exactly popular among the new leaders. Adding to that the distinct disadvantages in comparison to other Central European states seeking EU accession, Romania fell gradually 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 in the region had done five years earlier: restructuring heavy industry and the mining sector, liquidating economic black holes, consolidating the banking system, privatizing large state-owned enterprises, liberalizing most input prices and establishing currency convertibility. The social and political resistance to reforms was high and included several rounds of violent street riots against the perceived agents of change, be they urban strata or reformist parties. These chaotic and violent protests, famously carried out by the miners coming from Jiu Valley throughout the 1990s, were most likely instrumentalized by conservative forces and remnants of the old intelligence services.

The second decade of transition, after 2000, was marked by the struggle between the center-left Social Democratic Party (PSD) and their allies – which tried to pursue a pro-growth agenda and take advantage of the benefits brought by EU membership, while at the same time preserving

political control through mild authoritarianism and a clientelistic party machinery – and the center-right, under various labels, which was for most of the time in opposition and, after 2004, rallied behind President Băsescu and supported (out of conviction or only tactically) the rule of law agenda. In fact, the fight against corruption, increasingly visible and successful, became the main issue defining politics in Romania after 2005. It became the key factor determining the formation of government coalitions, and formal and informal parliamentary alliances.

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. From 2010, a harsh austerity package was implemented. The austerity package cost the leaders who implemented the package the following elections, but balanced the government budget and formed the basis for robust economic growth after 2013. The anti-corruption drive was also successful, leading to numerous investigations and convictions of high-level public officials, businesspeople and media moguls. The success of this drive made Romania the star pupil among new EU members states for about 10 years, before a coalition of socially conservative forces started to push back against the rule of law.

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

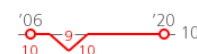
The state's monopoly on the use of force is uncontested throughout the territory. Autonomist rhetoric among some representatives of the Hungarian minority goes up and down with the political cycles, but their actions have stayed within the constitutional limits. Electoral support for radical groups remains 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 individuals belonging to minorities face social exclusion and discrimination, in particular the Roma. The most politically active ethnic minority, the Hungarians, accepts by and large the existing nation-state but consistently presses for greater local autonomy. No such action has taken place outside the boundaries of the constitution.

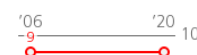
The Romanian Orthodox Church (BOR) is relatively independent from politics, but it occasionally benefits from state financial support. For example, a national orthodox cathedral was consecrated in December 2018 to mark the centenary of the unification after the First World War, with the building benefited from generous financing from state and local budgets. Other recognized denominations receive some funding, 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 oppose the introduction of additional rights for gay communities. A referendum "for the traditional family" was held in October 2018 to restrict the constitutional definition of marriage to between "man and woman." However, the proposal failed due to low voter turnout, despite

Question  
Score

Monopoly on the  
use of force  
10



State identity  
9



No interference of  
religious dogmas  
9



the support of the government, most mainstream parties and the majority of established religious groups, including the increasingly visible and politically assertive neo-protestants with roots in the United States.

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 partly underdeveloped, with a state administration lacking capacity to act effectively in cases of natural disasters like floods or epizooties. 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 risks to the consistent functioning of state administration remain political clientelism and corruption.

Basic  
administration

9



1

## 2 | Political Participation

Elections are in general free and fair, in spite of occasional evidence of fraud, unethical campaigning or 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.

Free and fair  
elections

9



1

The last round of elections was for the parliament in December 2016. The electoral turnout was below 40%, one of the lowest in a national legislative election in East-Central and Southeast Europe since the end of Communism. On the other hand, the ballot was conducted relatively well and free of incidents in the day of elections: there were fewer allegations of fraud than ever before.

The requirements for registering a new political party were relaxed prior to the last elections, although new parties still have to gather a large number of signatures in order to participate. Only one new political party, originating in civil society, succeeded to do so in 2016, building upon the success of the local elections.

A referendum “for the traditional family” was held in October 2018 to restrict the constitutional definition of marriage. Since the government, mainstream political parties and the religious establishment were in favor of the redefinition, with only a few civil society groups opposed to it, there were concerns that the vote would be manipulated, especially in rural areas. For example, voting was extended to the whole weekend (two days) and an existing electronic system to prevent multiple voting was not used. However, the consultative referendum failed due to low voter turnout and there was little evidence of fraud or pressure on citizens to vote.



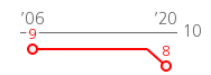
Democratically elected rulers do have effective power to govern. No political enclaves exist, although interest groups and stakeholders may occasionally exert disproportionate influence and may be viewed as possessing some veto power. The influence of interest groups with economic or media power had diminished for a while as a result of the anti-corruption campaign, but re-emerged in 2017 to 2018. The influence of the intelligence services, instrumental in this campaign, has become a greater concern more recently since they were for a number of years collaborating with anti-corruption prosecutors. Intelligence services exert some degree of influence over all institutions. The new ruling coalition, which took office in January 2017, has started to push back against this influence: the so-called fight against “the deep state.” However, the government’s efforts are unconvincing as its connections with the deep state are no less strong. Moreover, these are not honest efforts to improve governance effectiveness, but self-serving attempts to control judiciary, and weaken the checks and balances of the state. Public administration has been hollowed out by increased political clientelism leading to counter-selection, including in top echelons of the civil service. Several sectors (e.g., taxation or energy) were severely affected by hasty and poorly prepared decisions with major impact, followed by backtracking, equally hasty amendments and confusion.

The Romanian 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 occurred with increasing frequency during the review period, especially in the aftermath of the large anti-government protests at the beginning of 2017. Strict new legislation adopted by the European Union (e.g., GDPR and the Anti-Money Laundering Directive), implemented in bad faith, pose a risk for small civil society organizations and independent media, who find it difficult to comply with complex bureaucratic requirements and face large fines for minor misconducts. Some of the most visible civil society and investigative journalism groups were inspected by the authorities as soon as the new EU rules became effective; large fines were imposed for trivial gaps in the paperwork. It is this selective and disproportionate enforcement of rules by governments with illiberal agendas, which has led to debates about the “shrinking space for civil society” in Romania and across the whole region.

Freedoms of opinion and the press are in principle protected, but the economic crisis and the emergence of social networks have severely affected mainstream media: fewer outlets, lower circulation and disappearance of genres (investigative journalism, political commentary, social reportage). 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 throughout the frequent anti-government protests in 2017 – 2018. In the 2016 elections, social media also pushed a new party that originated from a civic protest movement in Bucharest into parliament. In the same vein,

Effective power to govern

8



1

Association / assembly rights

8



1

Freedom of expression

7



1

opposition to the “anti-gay referendum” of 2018 was mobilized largely online. 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. Moreover, it is affected by coordinated trolling and hate speech, some of it originating from Russia, but mostly produced inside Romania by illiberal party activists and contractors. As their economic basis has eroded over the past decade, 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, politicized and fails to perform its function: penalties applied for grossly distorted news programs are selective and biased against channels that criticize the ruling coalition. There has been no visible improvement in the media space as a result of CNA action.

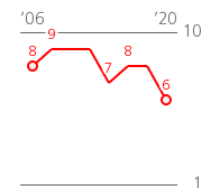
### 3 | Rule of Law

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 current ruling coalition led by the Social Democrats adopted an emergency ordinance to retroactively decriminalize certain offenses related to corruption. Mass protests forced the Social Democrats to temporarily drop the idea, although the political fight over control of the judiciary has only intensified in the past two years, with the possibility of a broad amnesty, covering political leaders convicted or under investigation, always in the background.

Actors on both sides of the political spectrum appeal to the increasingly pro-active Constitutional Court to pass decisions that should by routine be political. Although no major actor has significantly breached the basic separation of powers in Romania, there is a tendency in parliament to use its sovereignty to put itself above the law, such as when votes are held to protect members of parliament from judicial investigations. Attributions regarding the appointment and dismissal of senior judges were taken away from the presidency and re-centralized in the Ministry of Justice, as was the situation before the accession reforms negotiated with the European Union. The government and the ruling coalition have increasingly applied pressure on the whole judiciary and individual magistrates: formally, by reducing their independence; and, informally, by creating instruments of intimidation, such as a special section in the prosecutors’ system for investigating magistrates perceived as politically controlled by the ruling parties. A high-profile case against the former head of the Anti-Corruption Unit (DNA) was launched as soon as the section was set up, aimed at stopping her from becoming head of the newly established European Public Prosecutor’s Office.

Separation of powers

6



The autonomy of the judiciary has been increasingly under threat. As soon as it took power in January 2017, the new center-left coalition made clear that their main aim was to curtail the independence of prosecutors, decriminalize certain offences associated with corruption, and replace the head prosecutors at the DNA and Prosecutor's Office with more pliant individuals. To that purpose, the coalition deployed a broad array of tools, from new legislation to disciplinary procedures to the creation of new institutions (e.g., a special judicial section dedicated to investigating magistrates). Furthermore, intense media campaigns against magistrates were orchestrated on government-friendly TV stations and online. Some of these efforts were successful, such as the dismissal of the head of DNA before the end of her mandate and, later on, the investigation against her by a new, politicized unit of the procuratura, while other attempts failed, such as the attempts to pass amnesties, which were blocked by large street protests or presidential vetoes.

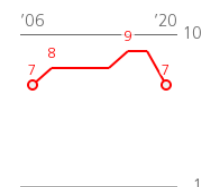
The necessary corrections to the Criminal Code mandated by the Constitutional Court a few years ago have been neglected by the Ministry of Justice. This shows that they were only a cover, as most Romanians suspected from the beginning, to bring the judiciary back under political control, an effort which has consumed most of the time and energy of the Romanian political class over the past two years. From a model pupil and EU success story of judicial reform, Romania has quickly been relegated by the European Union to the category of problem country, alongside several other Eastern Europe regimes that exhibit illiberal tendencies and attempt to curtail judicial independence. The 2018 MCV report (a European Commission judicial and anti-corruption monitoring mechanism, which was introduced when Romania and Bulgaria joined the European Union) is very clear in this respect and makes a stark contrast with reports prior to 2016, when Romania made steady progress.

Corruption has always existed within the judiciary (judges and prosecutors). Though it has become more apparent over the last 15 years, with more trials and convictions. This has created tensions within the profession, with a group of magistrates allying themselves with the political powers in opposing the Anti-Corruption Unit (DNA). On the other hand, some anti-corruption prosecutors made mistakes in their investigations or even initiated high-profile cases against politicians on weak evidence, which led to acquittals and the loss of credibility for the whole institution.

In January 2017, the newly elected center-left coalition adopted a government ordinance to weaken instruments of investigation and decriminalize abuse of public office in cases where the damage was less than €45,000. 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 the act after a few weeks, but the governing parties subsequently engaged in a war of attrition aimed at weakening Romania's existing integrity framework through legislative and administrative actions.

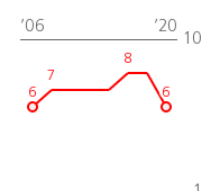
#### Independent judiciary

7



#### Prosecution of office abuse

6



As a result, the judiciary has become less assertive over the last two years. While ongoing investigations initiated against senior officials continue, few new high-profile cases have been initiated over the last year. There is a visible loss of drive and morale in the core units of the procuratura, particularly following the dismissal of the head of the DNA in 2018. On the other hand, a number of high-profile acquittals and several mismanaged DNA investigations have cast a shadow over the quality of the work of some DNA territorial offices. This has made it easier for politicians who oppose the anti-corruption agenda to take the moral high ground and push for legislation curtailing the independence of judiciary.

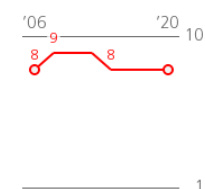
As a result, clientelism has continued and probably increased in the state apparatus, as people with low qualifications but strong party connections have been appointed to senior public positions. The Court of Accounts, which in any case had been largely ineffective, was neutralized with the appointment of a new leadership made up of people who were previously in charge of the largest local infrastructure program in Romania, widely regarded as an instrument to recruit mayors and ensure their loyalty to the ruling parties: there is little chance that mayors will expose fraud and inefficiencies in money transfers they had managed.

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, and the local level of the judiciary has remained largely below the radar of the European Commission's high-profile monitoring. Human rights organizations report cases of police violating basic human rights as well as generally inhumane and degrading treatment in penitentiaries. The issue of the overcrowded prisons, while real in some instances, has been used politically as a pretext for the passing a broad amnesty, which would benefit corrupt officials. A law that would compensate for poor prison conditions by reducing the length of sentences passed in 2017 under the threat of EU penalties. However, the law has failed to produce any significant improvements in the prisons with the worst conditions. Often the idea of protecting civil rights is turned on its head and used to justify impunity for politicians and powerful individuals.

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. Public anti-refugee sentiment has increased, despite Romania's relatively low number of refugees, and is likely to be exploited in the 2019 elections.

Civil rights

8



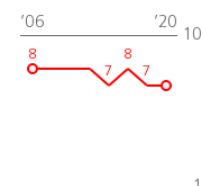
#### 4 | Stability of Democratic Institutions

While politics remained polarized and rhetoric high-pitched, the institutional framework by and large withstood tensions, and norms and institutions prevailed over the momentary impulses of politicians. The new government installed at the beginning of 2017 attempted to decriminalize corruption offenses, which triggered a conflict between the branches of executive power (the cabinet and the president), as well as between the ruling coalition and broader civil society. Over the last two years, civil society groups have staged regular protests in support of the rule of law. There has been the looming threat that the political majority will impeach the president, who has frustrated their legislative efforts to decriminalize some forms of corruption and tighten political control over the judiciary. On the other hand, allegations have surfaced of undue influence by the intelligence services over key decision-makers in the past, including prime ministers, party leaders or magistrates. The Constitutional Court has become more active and has been called to decide on issues that should normally be addressed in the political process. Extreme polarization and the uneasy cohabitation between the parliamentary majority and the president blocked normal political decision-making. Under this pressure, the semi-political nature of the Constitutional Court has become more apparent, which has increased public frustrations.

Some political players, especially on the center-left and 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, slander individual magistrates, undermine democratic institutions and norms, and undermine European values, adopting an agenda imported from the east. The government is sometimes perceived as window-dressing, not the place where real decisions are made; real power and control over public resources is held by a small number of individuals who, because of their criminal record, cannot formally be members of the cabinet but pull the strings from behind the scenes. In spite of this, democratic norms and institutions have so far just about prevailed, with support from international partners, in moments when they seem threatened. A source of concern is the trend in Western Europe toward a more confrontational politics and populist-authoritarian solutions. If this broader tendency is confirmed in the run-up to the 2019 European Parliament elections, it is likely to influence the situation in Romania. There are signs that political actors in Romania are trying to jump on this wave of populism.

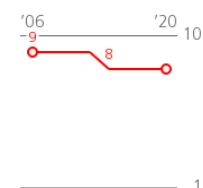
Performance of democratic institutions

7



Commitment to democratic institutions

8



## 5 | Political and Social Integration

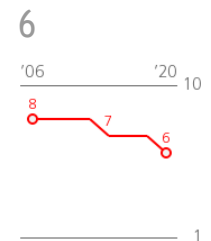
The Social Democratic Party (PSD) re-emerged as Romania's strongest political party, winning by a landslide in the 2016 parliamentary election. In January 2017, a governing center-left coalition was installed, including a liberal splinter group, the Alliance of Liberals and Democrats (ALDE), and supported in parliament by the ethnic Hungarian party. The notable surprise of the elections was a newcomer, the Union Save Romania (USR), a political formation emerging from a Bucharest-based anti-corruption initiative. USR joined the larger National Liberal Party (PNL) in parliament to form the opposition and, through the new people promoted to parliament and the party's actions in support of public integrity, managed to maintain visibility and their electoral base over the last two years.

Extremist parties, either nativist-xenophobic or extreme-left, did not manage to surpass the electoral threshold, making Romania one of the few countries without extremist actors in the national legislature. However, the election campaigns of the nominally socialist PSD are marked by heavily xenophobic, pro-clerical and anti-Western undertones, making it difficult for other actors to overcome it on the right. A splinter group from PSD with socialist defectors, led by former Prime Minister Victor Ponta, formed at the beginning of 2019 and will take part in the next round of elections.

With the exception of USR and another centrist, pro-European upstart led by former prime minister and EU Commissioner Cioloș, which joined together for the 2019 European Parliament elections under the name of USR-Plus, mainstream Romanian parties continue to rely on clientelism and personal loyalty in conducting elections and selecting cadres. The anti-corruption drive over the last decade and a half has had a moderate deterrence effect. For example, political actors are today more careful about the level and nature of spending in campaigns, as was visible in the “traditional family referendum” of 2018.

Overall, the ballot for the European Parliament elections in May 2019 will be more diverse and the choice broader than in the past, replicating a wider European move of political realignment around the eurocentric and euroskeptic poles. Though only five political actors (including the Hungarian ethnic party) have a realistic chance of surpassing the electoral threshold and making it into the European Parliament, according to current opinion polls, suggesting that the degree of fragmentation in the party system is not very high. Polarization and the intensity of debates are higher now than in 2016 or during the previous European Parliament elections, precisely because the two main political cleavages (concerning anti-corruption policies, and pro-Europeanism versus xenophobia) tend to overlap much more clearly than before. To exploit this, President Johannis decided to call a national consultative referendum, to be held together with the European Parliament elections, on an as-yet-undefined

Party system





question concerning judicial independence. The calculation is that pro-European voters will be further energized by the referendum topic and show up at the polls in higher numbers.

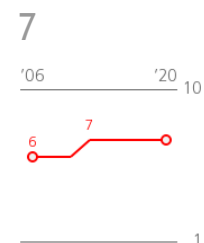
The party system has been in general slow to respond to societal pressure and concerns. The mainstream political establishment continues to be wary of civil society organizations (CSOs) that channel public interests or act as watchdogs. The political system is still full of obstacles to the participation of societal interest groups in the decision-making process. However, there were a few success stories over recent years, as groups managed to break through into the political arena or block detrimental decisions. The civil rights agenda has enough international backing, domestic standing and civil society engagement to prevent backsliding (e.g., the anti-LGBT amendment to the constitution), and even topple unpopular ministers or cabinets. Environmental and human rights groups have gained increasing influence over recent years, while the large protests against decriminalization and anti-judiciary measures of the center-left ruling coalition in 2017 to 2018 acted as a catalyst for upstart civic parties.

On the other hand, key democratic interest groups (e.g., trade unions or business associations) are increasingly irrelevant or politically bound. The Economic and Social Committee, an advisory platform with a formal role in government decision-making, was emasculated by the current ruling coalition in 2018. There is a sense that institutions have been hollowed out or by-passed, and that power is disproportionately concentrated in the hands of a few individuals at the top of the ruling parties, who may or may not hold public positions.

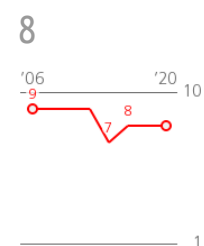
Surveys show that the majority of citizens still prefer democracy to any other political regime. When people say they do not like the direction the country is heading, this is mostly related to dissatisfaction with the quality of governance, not the democratic system as such. According to the Eurobarometer survey conducted in the spring of 2018, Romanians' trust in national political institutions is low (19%), but that trust in corresponding EU institutions is high (52%, above the EU average of 42%) and there is optimism about the future of the European Union (65%). This contrast is not unique to Romanians but is a regional pattern in most Central and Eastern Europe, which is usually interpreted as a sign of democratic aspiration and dissatisfaction with the quality of domestic governance. In other words, citizens require democracy as well as good governance. It also explains the lower electoral turnout in Romania than in Western countries.

However, the series of large anti-government and pro-rule of law demonstrations, which began January 2017 and attracted tens to hundreds of thousands of participants, show that younger Romanians and urban middle-class professionals are ready to defend democratic principles. The activist nuclei, which emerged from these mass movements, did not turn toward anarchism or anti-system ideologies, but formed new civic parties that will compete in the 2019 elections.

Interest groups



Approval of democracy

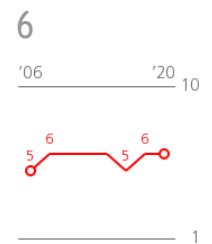


Levels of generalized trust are traditionally low in Romania, though trust in EU institutions and the future of the continent is relatively high. Many associations tend to advocate on behalf of the interests of specific social groups, while internationally connected NGOs have struggled to build constituencies in society. Two key concerns are the infiltration of independent groups and even political parties by the intelligence community, in particular by granting these groups or parties privileged access to resources (including EU funding); and the ruling coalition’s replication of the anti-Soros/“foreign agents” discourses and anti-NGO legislation adopted by other illiberal regimes in the region.

The more informed, activist middle class, especially in large cities, is increasingly effective in organizing itself, either in the form of political parties or issue-oriented movements, advocating for causes like better health care, environment or local development. Large social service-providing NGOs have consolidated, some working successfully as subcontractors of local governments in areas of elderly or homeless care; a group has started a very visible fund raising campaign and is about to build the first new non-profit hospital in Romania after 1989, completely without state help.

On the other hand, these cases remain the exceptions. Due to the country’s long authoritarian tradition, in poorer regions most people are inclined to resort to state assistance and guidance than to self-organization. Mainstream parties, which used to control their political base through clientelism, are likely to exploit the new wave of populist nativism in European politics, by reinforcing the pre-existing social cynicism and distrust in liberal values of the losers of the post-Communist transition. According to the European Quality of Life Survey 2016, Romania scores below the EU average on generalized trust, though slightly higher than most of its Balkan neighbors.

#### Social capital





## II. Economic Transformation

### 6 | Level of Socioeconomic Development

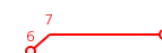
Significant urban-rural disparities, with deep historical roots, make social exclusion structurally ingrained in Romania. With a per capita GDP at PPP of \$25,500 in 2017, Romania has reached an income exceeding the average of 17 East-Central and Southeast European countries. Gender is not a significant 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 parts 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 slight increase in life expectancy over the last decade suggests overall improvements. The HDI has not declined over recent years. On the contrary, it has slightly improved despite the crisis (2008: 0.77, 2014: 0.79, 2017: 0.81). Unemployment remains remarkably low (below 4% at the end of 2018) due to underemployment in subsistence agriculture and emigration of Romanian workers to Western Europe. On the other hand, the rate of labor force participation tends to be significantly lower than in Western Europe, due to early retirement and rural household occupations. The situation of the Roma community deserves special attention, as their access to education and health care services (and to a lesser extent welfare support) continue to be serious issues.

Question  
Score

Socioeconomic  
barriers

7

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1

Economic indicators		2015	2016	2017	2018
GDP	\$ M	177893.5	188494.1	211406.9	<b>239552.5</b>
GDP growth	%	3.9	4.8	7.0	<b>4.1</b>
Inflation (CPI)	%	-0.6	-1.5	1.3	<b>4.6</b>
Unemployment	%	6.8	5.9	4.9	<b>4.3</b>
Foreign direct investment	% of GDP	2.4	3.3	2.8	<b>2.9</b>
Export growth	%	4.6	16.0	10.0	<b>5.4</b>
Import growth	%	8.0	16.5	11.3	<b>9.1</b>
Current account balance	\$ M	-2155.8	-3960.5	-6754.9	<b>-10756.7</b>

Economic indicators		2015	2016	2017	2018
Public debt	% of GDP	39.4	38.9	36.9	<b>36.7</b>
External debt	\$ M	96448.3	96116.9	114007.2	<b>112116.3</b>
Total debt service	\$ M	23704.9	18823.7	20551.2	<b>21557.5</b>
Net lending/borrowing	% of GDP	-1.4	-3.1	-3.0	-
Tax revenue	% of GDP	18.9	16.7	15.5	-
Government consumption	% of GDP	13.7	15.1	15.7	<b>16.6</b>
Public education spending	% of GDP	3.1	-	-	-
Public health spending	% of GDP	3.9	3.9	-	-
R&D expenditure	% of GDP	0.5	0.5	0.5	-
Military expenditure	% of GDP	1.5	1.4	1.7	<b>1.9</b>

Sources (as of December 2019): 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. These include the freedom of trade, currency convertibility, strong anti-monopoly and anti-state aid regulators, and the transposition of EU rules. While 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. The remittances of legal and illegal emigrant workers, working mainly in other EU member states, contribute substantially to the subsistence of families in poorer regions. 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 deal with such problems. Informal employment differs from region to region. The highest proportion is observed in the northeast, where the informal sector accounts for 40% of total employment. On average, in Romania informal employment amounts to between 17% and 20% with an upward trend. The procurement system, in principle compliant with EU rules, remains an avenue for clientelism and organized corruption. According to the World Bank's 2019 Doing Business report, it is relatively inexpensive to establish a business in Romania (0.4% of average income per capita), but it takes six procedures and 35 days to do so, placing the country at a meager rank of 111 out of 190 in the "starting a business" sub-index.

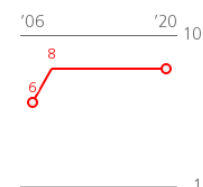
Regulations prohibiting monopolies do exist, but the Romanian Competition Council (RCC) and other market arbiters, in principle fully in line with EU rules, have been in the past more timid than they should be. In the last few years, the Competition Council took on a more active role, investigating cartels in various sectors and sensitive strategic markets, such as energy, banking or telecoms, made steps to liberalize the market and render it more transparent. One of the RCC's main priorities in recent years has been the enforcement of antitrust policy by detecting and sanctioning cartels.

The market for public works, especially at the local level, has always been sensitive to the risk of clientelism and corruption. More recently, the ICT services for public institutions, including projects with EU funds, emerged as a high concern, with media uncovering illicit cartel practices, political interference and intelligence services' influence on a grand scale.

There has also been an increasing preoccupation in the retail sector, although to some extent this was politically motivated: there has been increasing pressure on market arbiters like the Competition Council or the energy regulator to play along with the government's more populist agenda, bashing multinational companies and introducing price controls. However, these developments remained largely in the realm of campaign rhetoric.

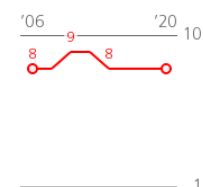
### Market organization

8



### Competition policy

8



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 European Union, Romania's position has been largely in favor of the free trade agreements with the United States, Canada and East Asia, as well as for the intra-EU liberalization of services, which will create a clear advantage for freelancers based in Romania and operating in the common market.

The banking sector has been restructured to meet European standards and has weathered the global economic crisis reasonably well, without public bailouts. Private ownership is high, around 91%. Foreign banks, mostly Austrian, Italian and French, held 76% of the country's banking assets in 2018. The solvency of Romanian system was never at stake, even at the peak of the crisis, despite the presence of some Greek banks. The share of nonperforming loans declined steadily after the crisis, dropping to 5.5% in 2018. The bank capital-to-assets ratio was 8.9% in 2017, up from 2014 but slightly below the pre-crisis level.

In general, there is strict oversight in the banking sector, so operators behave cautiously, with a regulator leaning toward conservative positions. The price of this stability is a more difficult access to credit by entrepreneurs. Politically motivated attacks on the system and a few populist pieces of anti-banking legislation adopted in 2016-7 were not important enough to create a real risk for the system. However, a tax introduced overnight at the end of 2018, targeting key sectors (including banks) and dubbed the "tax on gluttony," increased uncertainty in the market and led to a decline in banking stock, especially of banks with domestic owners. The tax was (unclearly) defined as applying to the whole stock of assets and tied to the interest rate (ROBOR indicators). After broad opposition, protests from the banking sector and business associations, and reminders from the European Central Bank that it was not consulted, the government has stated that it would significantly and retroactively alter the tax, although the details are still not clear.

## 8 | Monetary and fiscal stability

The exchange rate is managed but floating. According to IMF reports in the last years, the real exchange has been broadly in line with medium-term macroeconomic projections. The economic measures of the center-left government produced a higher than anticipated budget deficit in 2018 and as a result a concerning spike in inflation to 4.6% in 2018. This is substantially above the Maastricht target that countries must be ready to fulfill when they join the eurozone, and above what the Romanian Central Bank was forecasting at the beginning of the year.

A devaluation of the leu of about 2.5% followed in early 2019, against both the euro and the U.S. dollar. The financial markets have become visibly more nervous in

Liberalization of foreign trade

10



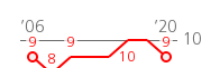
Banking system

8



Monetary stability

9



anticipation of increased budget deficits, and the continuation of the populist attacks by leaders of the ruling coalition on multinational companies, foreign-owned banks and the leadership of Romania's central bank. Erratic attempts to introduce interest rate caps through various poorly drafted regulations have fueled this nervousness on the markets.

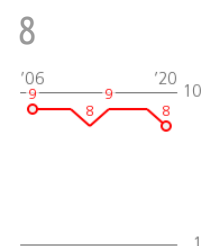
So far, the central bank has remained relatively strong, independent of political power and committed to monetary stability. It has withstood pressure from and occasionally fought back against the government and populist politicians in the parliament, stressing its record of consistent anti-inflationary measures and strict banking oversight. The issue of Romania joining the eurozone was again put on the discussion agenda at the beginning of 2019, but with an imprecise target date between four to 11 years.

The austerity program introduced during the global economic crisis eight years ago led to a rebalancing of the budget indicators, which allowed the country to withstand the challenges of the economic crisis and resume economic growth after 2012. Most salaries and social contributions have since been gradually restored. Inflation hit historic lows and budget deficits remained under control for several years, with successive governments maintaining control over macro indicators, despite campaign pledges to increase public spending. However, the situation started to change in 2017 and especially in 2018, when a combination of tax cuts and significant expenditure increases (mostly public sector salaries and special, non-contributory pensions) pushed the budget deficit toward the limit of 3% permitted by the EU Stability and Growth Pact (2.2% of GDP in October 2018). In a report published in mid-2018, the European Commission warned against such a rapid increase in the deficit in times of economic growth, because insufficient funds are spent on public investments and because this trend restricts fiscal options when the economy slows. In the current structure, it is unlikely that the government's fiscal policy will be compliant with the Maastricht rule of 1% structural deficits across the whole economic cycle. Total public debt remains moderate, below 40% of GDP in 2018, but the trend is upwards.

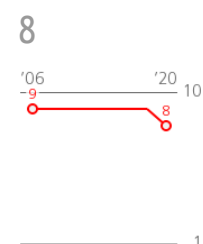
## 9 | Private Property

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 2019 Doing Business Report, Romania ranks mid-level among EU member states in terms of the ease of registering a property. In general, the country scores well when it comes to bureaucratic procedures, in terms of speed and costs, ranking toward the top of the EU table on

Fiscal stability



Property rights



most components related to the ease of doing business. Things change when the judiciary comes into the picture, such as in situations when contracts need to be enforced through the courts, as the waiting time and vulnerability to corruption are high. A series of anti-corruption investigations initiated in the last few years revealed how a few criminal circles represented at the top of politics and public administration have exploited the property restitution system to unduly enrich themselves. Public property tends to be less protected and more prone to abuse, especially at the local levels.

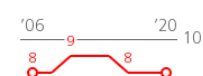
Romania's infrastructure for facilitating private enterprise is firmly in place, and the inviolability of private property is firmly stated in the constitution. Expropriation for reasons of public utility is clearly defined in law and is rather difficult to implement in practice. On average, the state offers competitive taxation regimes to investors, although the instability of the legal framework, especially in fiscal and taxation policy, remains an issue. With respect to the number of official procedures required to start a business, Romania has been doing 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 frequent de-bureaucratization initiatives amount to little, in spite of the support given by foreign partners, such as the European Commission (EU funding mechanisms) or the World Bank (economic governance) in the form of regulatory impact assessments. Reforms in strategic sectors such as energy have been progressing for some years according to the European Union, but began to stall toward the end of 2018. In the last days of 2018, the government adopted overnight a legislative package, which targeted strategic business sectors (energy, banking, telecom) with extra taxes. The declared intention of the legislation was to prevent tax avoidance and collect extra funds. While the problem may be real and general in the European Union, the solution found and the manner of its implementation were amateurish. Details are still not clear two months after the law was introduced, and the law may still be substantially modified or withdrawn altogether.

## 10 | Welfare Regime

Social security is organized by the state and covers in principle all relevant risks, while 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 available to all citizens throughout the state territory, but coverage is sometimes inadequate, especially in rural areas. Romania has one of the smallest health care budgets as a percentage of GDP in the European Union, and access to subsidized services and drugs can be erratic, depending on yearly allocations and informal filtering mechanisms (e.g., informal payments, preferential admissions to hospitals). A string of high-profile scandals in

### Private enterprise

8



1

### Social safety nets

7



1

the last years have exposed the top-level clientelism and theft in the medical sector and resulted in criminal investigations. The salaries in the health care sector were substantially increased over several consecutive years and in this respect, the situation has visibly improved. However, doctors and nurses continue to emigrate to the West faster than medical schools can produce cadres due to reasons other than the salary level, such as lack of facilities and clientelism in the system.

Romania has been less active than most other EU member states in addressing its demographic problem. Particularly concerning is the upcoming retirement of the baby-boomer generation, born after the Communist ban on abortions introduced in 1966, because the three main components of the social safety net (pensions, health care, social protection) are funded entirely through taxes on labor.

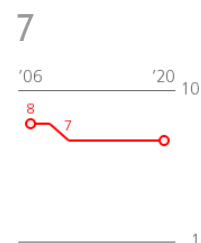
Early retirement was widely used in the first decade of transition as an alternative to layoffs, which further reduced the number of contributors and increased the number of beneficiaries.

Another effect of massive early retirements is 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, sometimes abused and rigid at the point of use. The system is overextended compared to the resources available, promising more than it can deliver, in spite of the frequent budget increases lately. This is especially the case for poor municipalities, as the state has gradually transferred responsibility for social assistance to the local level over the past decade. Remittances from the 3 – 4 million Romanians working abroad, mostly in the European Union, are filling the gaps to some extent. 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. Access to free public services or public administration in general is often subject to informal filters (social capital, informal payments), and sometimes conditions. 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 sufficiently consolidated to prevent open discrimination in law or penalize discrimination when

Equal opportunity



it happens, they are not powerful enough to compensate for de facto differences and to achieve equality of opportunity.

The gender difference in labor market participation in Romania is the largest in the European Union after Malta and Greece. This is a consequence of the lower retirement age for women, which was the norm under Communism, as well as the underemployment of women in the formal sector of the economy, and overrepresentation of women in informal sectors and household work, especially in rural parts of the country.

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.

In spite of having a female prime minister for more than a year, female representation at the top of the politics and business remains weak; even the current prime minister does not have real decision-making power but merely acts as a ceremonial figure. The plight of the Roma community in terms of access to health care and education indicates a weakness in Romanian state-provided services.

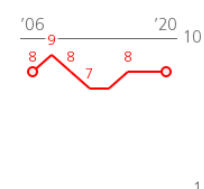
## 11 | Economic Performance

The global crisis at the end of the last decade revealed the structural weaknesses and vulnerabilities in the Romanian economy and welfare systems. It also represented an opportunity to stop the emerging bubbles in some sectors (retail credit, real estate), rebalance the economy and recalibrate the state apparatus. GDP growth recovered quickly after the crisis, increasing to 3.5% in 2013 and pushing above 5% in 2016 to 2017, in spite of the more sluggish pace of growth of Romania's main trading partners in the European Union or chronic stagnation in some other EU member states (e.g., Italy). Macroeconomic equilibriums were preserved during the whole period. As a result, accession to the eurozone will be possible in a number of years once a political decision has been made. Though concerns about macro imbalances and surging public deficits resurfaced in 2018, as inflation hit 4.6%, the highest rate since the crisis, and the current account deficit went up by 57% compared with the previous year. The budget deficit also got closer to the EU limit according to government calculations (2.9%) or broke through this ceiling according to ESA methodology, which excludes one-off revenues (3.3%).

Unemployment remains negligible (below 4%) and unlikely to grow. 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 the 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 30% of the GDP, the lowest level in the European Union. More recently, the pace of public

Output strength

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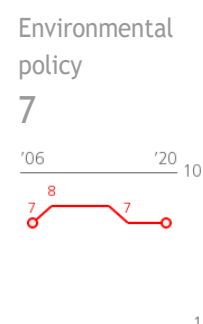
expenditure increased in 2017 to 2018 due to public administration salaries (both central and local). Combined with a low rate of capital investment, surging inflation and exchange rate instability, this has raised doubts about the sustainability of the current positive trends.

## 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 before EU accession; massive investments were driven by EU pressure and funding. The city of Bucharest still treats only a fraction of its wastewater. Romania has been threatened with penalties by the European Commission for non-compliance with wastewater and landfill requirements. Nevertheless, progress over the long term has been substantial, especially in terms of public awareness about the problems.

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. However, the scheme had to be abandoned in recent years, as it was not fully compliant with EU rules. As a result, the number of used cars brought from Western Europe, in particular diesel cars, exploded in Bucharest and the major cities. Around 400,000 secondhand diesel cars were bought and registered in Romania in 2017 alone. The current center-left coalition has been hesitant to replace the old eco tax with a new one out of fear that it will be unpopular with voters.

Civil society has become stronger and more visible on environmental issues and held the government in check over various mining and drilling projects, as well as on the sensitive subject of logging and deforestation. Romania has a balanced energy mix, with renewable sources in electricity covering a high fraction of consumption. At one point in 2018, Romania took top spot in the European Union for wind energy, with 35% of the domestically generated electricity coming from wind power. There is growing public concern about deforestation, in connection with new foreign



investments in the wood-processing industry in Romania. Media investigations that uncovered cases of illegal logging made this industry unpopular with the broader public. A monitoring scheme was created to detect and prevent illegal logging and civil society has become more vocal against the sector. The significant presence of the upstart civic parties with environmental leanings in the national parliament, and probably soon in the European parliament, is a reflection of this social preoccupation, and indicates that the subject of environmental balance and conservation will remain on the political agenda.

The education system in Romania continues to function reasonably in terms of quantity indicators, 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 unreliable indicators 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. On the other hand, R&D spending in the private sector tends to be lower than in Western countries.

These systemic problems are difficult to address by mere budget allocations; they demand deep sectoral reforms, which are usually opposed by stakeholders (e.g., public sector research institutions or trade unions). 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 the strong lobby of rectors and parliamentarians, who double as university professors in search of prestige and extra money. The “scandal of the PhDs” – which started years ago with the exposure of plagiarism by Prime Minister Ponta and subsequently many other top politicians, magistrates and generals from the intelligence services – clearly showed the deficiencies in the higher education system and how the PhD programs were used fraudulently for political networking and recruitment at the top echelons of power.

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 the constraints on public spending and especially the inability of the research sector to effectively absorb funds when they are available. Even if it increases, the benefits are doubtful if the institutions of higher learning and the state research sector remain unreformed. 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 have not yet become popular: participation rates are below EU-27 and even EU-10 averages.

Education policy /  
R&D



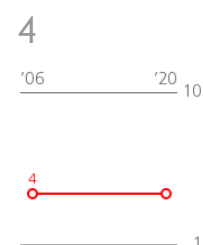
Romania's comparative shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%), as these are comparable to those of the most advanced EU-10 countries. Romania's score in the U.N. Education Index (stable around 0.75) is at the regional average. Rather, deficits appear in the quality of outcomes (e.g., the actual performance of graduates). In cross-national tests, for example, Romanian secondary students score below 90% of the OECD average in terms of reading and mathematical skills, and the gap is growing. The total student population in Romania has dropped by half over the last decade due to demographic changes and emigration. This should put pressure on universities, both public and private, to reform and consolidate, but there is little sign of this happening.

## Governance

### I. Level of Difficulty

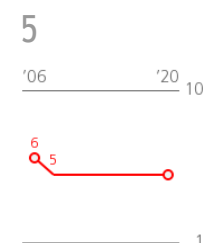
The structural constraints on transformation in Romania are an aggregate of several factors. The key challenge is the socioeconomic imbalance between a few affluent urban centers and the rural provinces in the east and south. Despite the global crisis and internal disparities, socioeconomic transformation in Bucharest, Constanța and some Transylvanian cities has produced a middle class working in the technology and service sectors. Part of the agricultural sector, benefiting from substantial private investment, also became visibly more efficient over the past decade. By contrast, a large proportion of rural areas are still trapped in archaic production methods, under-employment, social marginalization, population aging and depopulation. EU grants have brought about some improvement, especially in physical infrastructure. But many Communist mono-industrial areas remain burdened with outdated industrial infrastructure. 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 infrastructure (e.g., social assets, transportation). 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, this 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, even though somewhat rigid and inflexible outside their niche 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. More recently, concerns about political stability throughout Eastern Europe have resurfaced, to add to an already long list of external challenges. On the upside, the relative size of the country and its energy independence create some space for maneuver.

Structural  
constraints



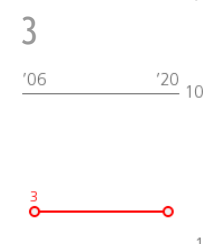
Romania's civil society traditions have historically been weak, even before the disruptions of the Communist period. Today, there is a comparatively small number of active and sustainable NGOs working in the country. Participation in public life and in voluntary associations remains limited. Despite 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 and actively discouraged any form of social organization outside those controlled by the state. CSOs are still fighting an uphill battle to make their voices heard in matters of policies and governance, and the European Union 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 constituency for CSO work and employment is growing incrementally. Effective public campaigns against corruption or for environmental causes exemplify this trend toward modernization, as the success of new centrist parties with roots in civil society movements testify, especially after 2016.

#### Civil society traditions



Outside the narrow circles of the mainstream politicians, commentators and the highly clientelistic media (in particular the oligarch-owned TV stations), the intensity of social conflict is rather low, though the rhetoric becomes more confrontational during electoral campaigns. 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 episodes of open violence. Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as indicated by the disappearance of the traditional xenophobic Greater Romania Party (PRM) and the failure of newer extremist parties to take its place. The ethnic Hungarian party (UDMR) is often a junior member in governing coalitions or has an agreement with the ruling coalitions, be they center-right or center-left, which contributes to the emerging practice of consociationalism. The 2014 election of a “double minority individual” – a German of Lutheran faith – as the 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. Sometimes this rhetoric turns into anti-EU and anti-modernization discourse. 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 feeble appeal of extremist parties is remarkable, but the current trend toward illiberal populism and a more confrontational style in Western politics is beginning to exert an influence. The large civil society protests of 2017 to

#### Conflict intensity



2018 against the government and its anti-rule of law policies confirmed what some social analysts had 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 has been managed within the framework of democratic institutions so far. Irrespective of the intensity and polarizing effect of public language in politics and the media, the large-scale street protests in recent years have been remarkably peaceful, even by the standards of Western Europe.

## II. Governance Performance

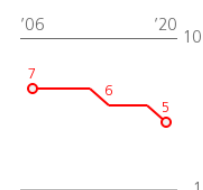
### 14 | Steering Capability

Romania continues to be characterized by a deeply ingrained tradition of simulated reforms and state capture, which has tended to be combined with a deep skepticism among the population vis-à-vis state policies, low trust in institutions and hence a tendency to subvert the implementation of policies or find ways around them. The big exception to this rule has been the successful anti-corruption drive started in 2005 that includes an institution-building component. But even this was achieved by a handful of skilled and determined political operators, massively supported by international partners, and was largely a fortunate succession of tactical decisions, rather than a pre-agreed plan in parliament or by the government. The lack of strategic 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 European Union, 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 before Romania's accession to the European Union or in the aftermath of the global crisis, while there was a sense of urgency among the political leadership. But in general decisions are taken only when harsh realities force 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. If anything, the erratic public management of the current center-left coalition (in power

Question  
Score

Prioritization

5



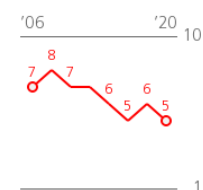
since the beginning of 2017), the promotion of visibly incompetent ministers and an exclusive focus on undermining institutions that uphold the rule of law have demotivated the remaining competent bureaucrats and accelerated the loss of capacity in the public administration. Romania's presidency of the Council of the European Union, beginning in January 2019, will only make these shortcomings more visible.

The ruling coalition is in principle committed to democracy and a market economy, but 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 are made, government fails to take the same care with actual implementation and instead allows 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 been prevalent. The impression is that strategizing and implementation capacity have paradoxically decreased, rather than increased, over the past decade, when the worst of the crisis was over. Laws are poorly drafted, substantial changes are announced overnight with little consultation and then endless corrections are made in a haste after the changes become effective. This has led to a high degree of instability and unpredictability, especially in the taxation and regulatory regimes. The absorption of EU funds remains among the lowest in the European Union and subject to data manipulation or post-factum corrections, making the absorption rate appear higher than it actually is. The poorest performers with respect to the use of EU funds were not the private companies or local governments, but precisely the central ministries in charge of the large strategic projects. 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. In this respect, 2017 to 2018 marked a peak, with three prime ministers and countless ministerial changes under the same parliamentary majority, for reasons related exclusively to the intra-party politics within the PSD. 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 during the execution. Except for the rise in salaries and pensions, very little of the ambitious governing agenda has been achieved.

Across the board, the quality and consistency of policy-making in Romania is declining. Before 2017, Romania had a number of political cabinets and one technocratic caretaker cabinet, which made some attempts to rationalize policy-making, learn from past mistakes and better integrate the Romanian bureaucracy into the EU bureaucracy in crucial sectors. However, the increasingly polarized political and media atmosphere since 2017, with post-factualism and recriminations occupying the whole public space, have reversed the trend. Most of the political energy and policy-making capacity of the center-left coalition were absorbed in the struggle to change rules and reduce the independence of the judiciary. Toward the

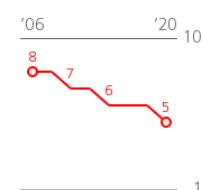
#### Implementation

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#### Policy learning

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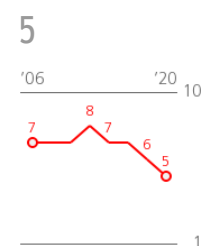


end of 2018, the fight over the political control of magistrates and the anti-corruption agenda led to public recriminations between the Romanian government and senior EU officials, precisely at the moment when the country will assume the presidency of the Council of the European Union and is supposed to coordinate the whole common policy agenda of the 28 EU member states (including the Brexit process). Overall, the capacity to learn from – or even to remember – past programs and experiences has declined. Institutional memory in central government is weak and dependent on the fate of the individual civil servants who carried out such programs in the past. Policy learning at the top is limited, because vested interests and party-political calculations take precedence over the sober assessment of the effectiveness and net results of policies.

## 15 | Resource Efficiency

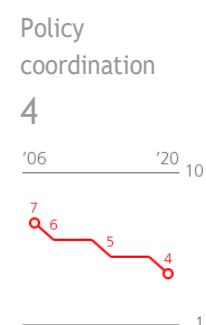
Romania's track record in resource efficiency is weak. The process of decentralization by strengthening the competencies and fiscal resources of local governments was partially reversed during the global economic crisis. Governments since 2017 have reverted to the historic practice of frustrating autonomous decision-making at the local level, in parallel with relying increasingly on local clientelism and arbitrary resource allocations in order to preserve the unity of the ruling coalition, while undermining domestic institutions protecting the rule of law and, increasingly, EU institutions. On the other hand, many local decisions, taken in the climate of loose budget constraints encouraged from the center, are also clientelistic or simply wasteful. Such is the case of the disproportionate public salary rises in 2017, which created cash flow problems in smaller municipalities and diverted resources away from investments. Suboptimal spending or outright rent-seeking have continued, most visibly in SOEs, where plans to introduce better corporate management regulations, as proposed in preceding years, were scrapped. Decapitalization of SOEs by the government, which wants to squeeze SOEs of additional resources to increase social spending, became more severe. At the end of both 2017 and 2018, the government cut funds set aside for investment projects by SOEs in the energy sector to increase the state budget. The public procurement process continues to be 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. Competent civil servants who continue to work in the ministries are demotivated by the abysmal quality of political leadership and the relentless conflicts over the independence of the judiciary, and are increasingly disengaged.

Efficient use of assets

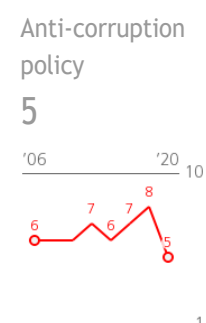




Since 2017, policy coordination dropped even further down the agenda of government priorities, in spite of the favorable political conditions: a solid majority in parliament, legitimized in un-contested elections and a clear four-year time horizon. Romania's presidency of the Council of the European Union in the first semester of 2019 should have been the highlight of this boost in policy coordination capacity, exerted EU-wide. Instead, two years of political instability has followed 2017, with the ruling coalition toppling two of its own prime ministers through censorship motions, because they were less than enthusiastic in implementing the real governing agenda: curtailing the powers of the judiciary, amending laws so that political leaders can avoid jail and dismissing the chief prosecutors. Furthermore, conflict with the European Commission or European Parliament was not spared in this fight, which affected the quality of EU policies implemented in Romania. The majority in parliament was largely engaged in clientelistic practices and internal battles. The frequent replacement of ministers led to inconsistent sectoral policy-making (e.g., in education, transportation and regional development) in the space of just one year. There is an increasing public sentiment that the policy agenda is not determined in the cabinet or in ministries, but by a few party leaders and their advisors with no formal executive power. 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.



The beginning of 2017 marked a complete reversal in anti-corruption policy in Romania. The new government turned out to be openly hostile to the previous agenda and – to the extent that the European Commission and European Parliament monitored and supported anti-corruption policies in Romania through a dedicated mechanism (MCV) – openly hostile to EU institutions as well. Even though there was little discussion during the electoral campaign about anti-corruption measures, the true priorities of the new administration became clear immediately after the administration took office: stopping prosecutors who target political leaders, replacing the heads of the public prosecutor, reinstating political control over magistrates, changing the Criminal Code so as to make investigations more difficult and legislating amnesties and/or pardons for those already convicted (e.g., the leader of the main ruling party and de facto key decision-maker in government). This agenda set the ruling center-left majority on a collision course with President Johannis, Romania's EU partners and a sizable segment of the Romanian public. Since the beginning of January 2017, regular street protests have been organized in support of the rule of law.



Appropriately for the age of post-fact democracy, half-truths were used to justify the new agenda, such as prisons were overcrowded, hence the need for an amnesty; the Constitutional Court mandated corrections to the Criminal Code, consisting largely of better defining some offences; and that the intelligence services had taken part in criminal investigations and controlled magistrates. However, these justifications were

used in bad faith, as no plan was advanced to improve conditions in prisons and the proposed legislative amendments went much further than the marginal corrections demanded by the Constitutional Court, leading to the complete abolition of some corruption-related offences and the emasculation of the anti-corruption institutions. In this bitter and polarized atmosphere, with smear campaigns against magistrates orchestrated in the oligarch-owned media, morale in the anti-mafia public prosecutor offices has visibly dropped and the number of new investigations has decreased.

## 16 | Consensus-Building

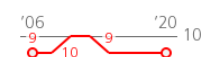
The political establishment has in principle accepted the goals of a market economy, democracy and NATO membership. No important political actor questions the EU membership, support for which remains high in the wider population. The implementation of these societal goals remains the problem, where the real actions of some parties and/or political actors may diverge from their official rhetoric. This is most visibly the case with the rule of law and the independence of judiciary. The center-left ruling coalition installed in early 2017 made restoring the impunity of top-level political officials and undermining the independence of the judiciary their main policy goal. This, and not ideological differences, is the explanation for the high level of political polarization and tumult in the last two 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 some of them may tolerate vested interests and rent-seeking to a degree much higher than others.

Despite difficult times, incessant high-level political politicking and the overall low level of public trust in institutions and political actors, support for openly anti-democratic actors in Romanian society remains remarkably low due to past negative experiences with extremist parties. Social frustration due to incompetent governance or occasional anti-Western discourse may be high, but this has not yet translated into votes for extremist parties, as was the case in the first decade of the post-Communist transition. The main source of nationalist – and occasionally xenophobic – political rhetoric, which disseminates the fake news and conspiracy theories that are circulating across the whole Eastern Europe, is the mainstream Social Democratic Party (a socially conservative populist party), currently the main ruling actor. Jingoistic, anti-European and anti-minority language continues on TV and in social media, where various interest groups position for influence by agitating against socially liberal subjects. An anti-LGBT referendum (“for traditional family”) was organized in October 2018 under pressure from such conservative groups, with the thinly veiled support of the government and mainstream political parties. However, the referendum failed due to low voter turnout. The degree to which intelligence services have penetrated political parties and control (e.g., through blackmail) various leaders remains a concern: the mechanisms of civilian control over the intelligence community have by tradition been feeble.

Consensus on goals

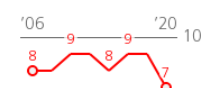
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Anti-democratic actors

7



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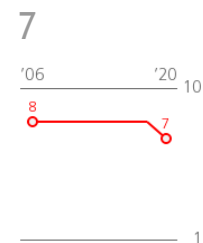
Traditionally, the main cleavages in Romania are ethnic (there are sizable Hungarian and Roma minorities) and social (class-based and rural–urban). Whereas the Roma (estimated at some 3% of the population) are not organized politically, the Hungarian ethnic party (UDMR) consistently achieves a share of votes close to the Hungarians' share in the population (6% – 7%). Their involvement in almost every government of the last two decades has set an important standard of consociationalism and integration. The main cleavage threatening social cohesion and 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 per capita, 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.

In the last 15 years, the dominant political conflict has been over corruption. This cleavage has almost replaced the left versus right axis. The main parties have all used anti-corruption policies as a reference in competition and as a useful strategy to get rid of political opponents. The issue of corruption has significantly affected relations between the government and presidents of the country, with successive presidents largely supporting anti-corruption policies and institutions while in office. In 2018 and the electoral year 2019, the corruption cleavage has been reinforced by an overlapping divide over relations with the European Union, which has pitted pro-European progressives against euroskeptic populists, meaning it could gain greater structural depth.

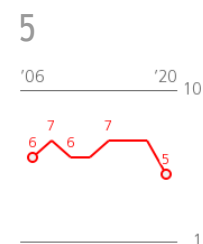
In general, the Romanian administration has never welcomed a broad policy dialog with NGOs, despite many legal provisions mandating such consultations. Considerations of expediency often prevail over broader consultation with organizations such as trade unions, business associations or churches. At best, 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. In the past, we have seen increased co-optation through preferential access to resources and the proliferation of pliant QUANGOs.

The hostility of the state toward civil society became more visible after the toppling of a PSD cabinet in 2014 and especially after large-scale street protests began in January 2017, when the new PSD-led power tried to rush through its anti-rule of law legislation. NGO leaders are again subject to slander, threats and ridicule in the politically controlled mass media, as in the early 1990s. “Anti-Soros” laws have been initiated in the parliament by PSD representatives, copying the notions of “foreign agent” and the administrative constraints imposed on independent civil society in Russia or Hungary. EU directives, such as GDPR or the directive against money

Cleavage /  
conflict  
management



Civil society  
participation



laundering, are transposed into national legislation in bad faith and are used selectively against NGOs or independent media platforms in order to burden them with unreasonable and unnecessary bureaucratic obligations. The Economic and Social Council, an EU-inspired advisory body to the government that screens legislation, was purged of the most independent civil society representatives in 2018.

Ever since the bloody revolution of 1989, Romania has been exceptional in its handling of its wartime 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 the public discourse after 1989. It was only in the second decade of transition that the state leadership 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; in any case, the aim of the legislation was more to expose than punish. In 2018, a new push was 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), with the official indictment of former president Ion Iliescu and a number of his then collaborators. Meanwhile, legacies of the former Communist regime continue to preoccupy society, such as when members of the new politico-economic elite are revealed as being related to former Securitate officers and hence their unfair head start in life.

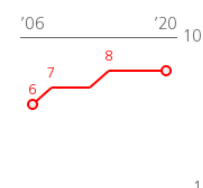
## 17 | International Cooperation

Overall, Romania made effective use of international support from the European Union, the European Bank for Reconstruction and Development, the IMF, and the World Bank prior to the country's accession to the European Union and the current global crisis. Indeed, the country's primary coping strategies were largely guided by these international organizations, which functioned as disciplinary anchors of governance. On average, the consensus among experts is that the country has performed better than might have been expected over the last two decades, especially in the area of macroeconomic stabilization. This is particularly true given the bitter political polarization – left-right before 2005 and for-versus-against the anti-corruption agenda after 2005 – with persistent struggles between successive governments and presidents over the rule of law. Political support from the United States and Western Europe, as evidenced in Romania joining NATO and the European Union, was crucial and fully embraced by the majority of Romanian actors and society at large.

On the downside, the country has been less able to use EU financial support effectively after accession to the European Union. The absorption rate of EU funds

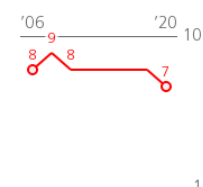
### Reconciliation

8



### Effective use of support

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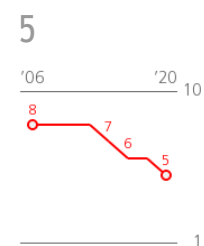
remains low even in the second programming cycle after accession and the quality of absorption on some programs is doubtful. With the exception of direct support for agriculture, even the interest of potential beneficiaries of EU funds seems to have decreased, especially in local government and central ministries. While in rhetoric the funds are welcome, in practice the government creates counter-incentives to their use, such as the much softer and less transparent mechanisms for local investment with money from the national budget, which is an attractive substitute for mayors. Such failures are attributed to the lack of administrative capacity, incessant high-level politicking and outright clientelism. Increasing tensions between Bucharest and its EU partners, which came into full view at the end of 2018 and placed Romania among “rebellious anti-rule of law Easterners,” will reduce Romania’s capacity not only to benefit from international support, but also to offer such support to others during its presidency of the Council of the European Union in 2019.

Romania’s credibility as an international partner has deteriorated over the last two years. The ruling center-left coalition’s offensive against Romania’s anti-corruption institutions led to public spats between leading Romanian politicians and European leaders at the end of 2018, just days before the country was due to take over the presidency of the Council of the European Union. The personal integrity of many PSD and ALDE party leaders is a problem. Several PSD and ALDE members are being investigated for fraud or corruption, while others have already been convicted. This has weakened the capacity of the government to engage with its European peers.

Romania has become increasingly isolated from its traditional partners (EU member states and the United States) over the last few years, at least as far as personal rapport is concerned. The visible inadequacy of Romanian officials at all echelons of governance has aggravated the communication crisis generated by the U-turn in Romania’s rapport with the European Union. Odd gestures by representatives of the ruling party has caused consternation among Romania’s EU partners. For example, Romanian representatives filed criminal complaints against the vice president of the European Commission, Timmermans, alleging he introduced “fake data” into an official EU report on Romania – this was especially unusual since the PSD as a socialist party was presumed to support Timmermans as a candidate for the presidency of the European Commission.

Attempts to find new partners outside Europe, for example by speaking about an unrealistic list of Chinese investment projects or copying U.S. President Donald Trump’s initiative to move the U.S. embassy in Israel to Jerusalem (still under consideration), led nowhere. President Johannis, a member of the German minority, has tried to repair Romania’s relationships with Europe’s big players, but without spectacular results. However, in contrast with the government’s disagreements with the European Union, Romania remained a reliable NATO member, and supporter of the common security arrangements in a region where Russian and Chinese influence is growing.

Credibility

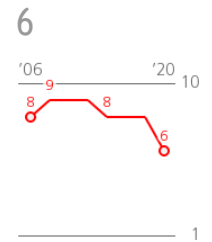


Romania's influence in the region, from the Balkans to the Republic of Moldova, has visibly declined. Given the country's infighting over the rule of law and the diminished credibility of its political leaders, Romania seems to have relinquished ambitions to act as a regional leader in southeastern Europe 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, 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. 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. Still, Bucharest has remained a faithful NATO ally in good and bad times. In the past, it was a good partner for the European Union and NATO with no erratic positions with regard 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.

More recently, tensions in domestic politics increased over a specific policy to which Brussels has given great significance, the rule of law. Furthermore, following the barrage of criticism against Bucharest coming from all quarters, the soft power exerted by Romania in the region has correspondingly diminished. If anything, Romania's ruling coalition seems to have become a follower rather than a leader, gaining inspiration and copying policies from the illiberal regimes in the region, including from the Republic of Moldova.

#### Regional cooperation



## Strategic Outlook

Romania faces three types of risks exogenous to its system of governance in the short term: difficult legacies, which are still present in its economic and social structure, though slowly fading; the chronic economic growth crisis in the European Union, its main trading partner; and the rising tide of populism and authoritarianism in the region, and in the Western world, coupled with an assertive Russia in the East.

However, other domestic risks remain, related to weak governance, and the government's inability to prioritize, stick to simple strategies or implement sensible policies. Popular dissatisfaction with a political establishment perceived as self-serving may escalate into a broader anti-system sentiment, as in Western Europe. The urban uprising against the governments controlled by the Social Democratic Party (PSD), in 2014 and increasingly since 2017, have engaged Romania's younger, more informed and active strata of society, including the large diaspora in Western Europe. This polarization is likely to increase during the electoral year 2019, as the new centrist civic parties that emerged from these protest movements compete in the elections.

In the economy, the under-development of the agricultural sector and of rural areas in general remain a burden. The positive effects of pre-2009 economic growth were unevenly distributed geographically and socially, a trend which continued 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. The unpredictability of government decisions and the anti-business rhetoric of the coalition leaders, especially in 2018, is likely to fuel the skepticism of foreign investors. The narrowing fiscal space, as a result of government overspending in 2017 to 2018, will make it difficult for the government to engage in creative solutions beyond following the recommendations and conditions set by the European Union and international financial institutions.

There are no radical right or radical left actors represented in parliament. The president of the country belongs to an ethnic minority and will run in the 2019 presidential elections with a centrist agenda, which is likely to diffuse ethnocultural tensions to a large extent. Anti-system challengers, when they appear, will be more pro-European (i.e., pro-modernization in a broader sense), because this is the fraction of the electorate that 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. There is a distinct possibility that, reprimanded by Brussels and threatened by anti-corruption prosecutors, the mainstream center-left ruling coalition may increasingly play on populist, isolationist and anti-Western sentiments, copying illiberal agendas originating in Moscow and translated in Chişinău.

The struggle over the fate of the rule of law reforms and judicial independence is likely to continue, with periodical resurgences in tensions when important appointments are made (e.g., chief judges and lead 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 be under constant attack by politicians in Bucharest. The ruling coalition, which took power in 2017, is especially keen to curtail the powers of the judiciary, even at the cost of straining relations with EU institutions and delaying Romania's prospects of joining the Schengen area.