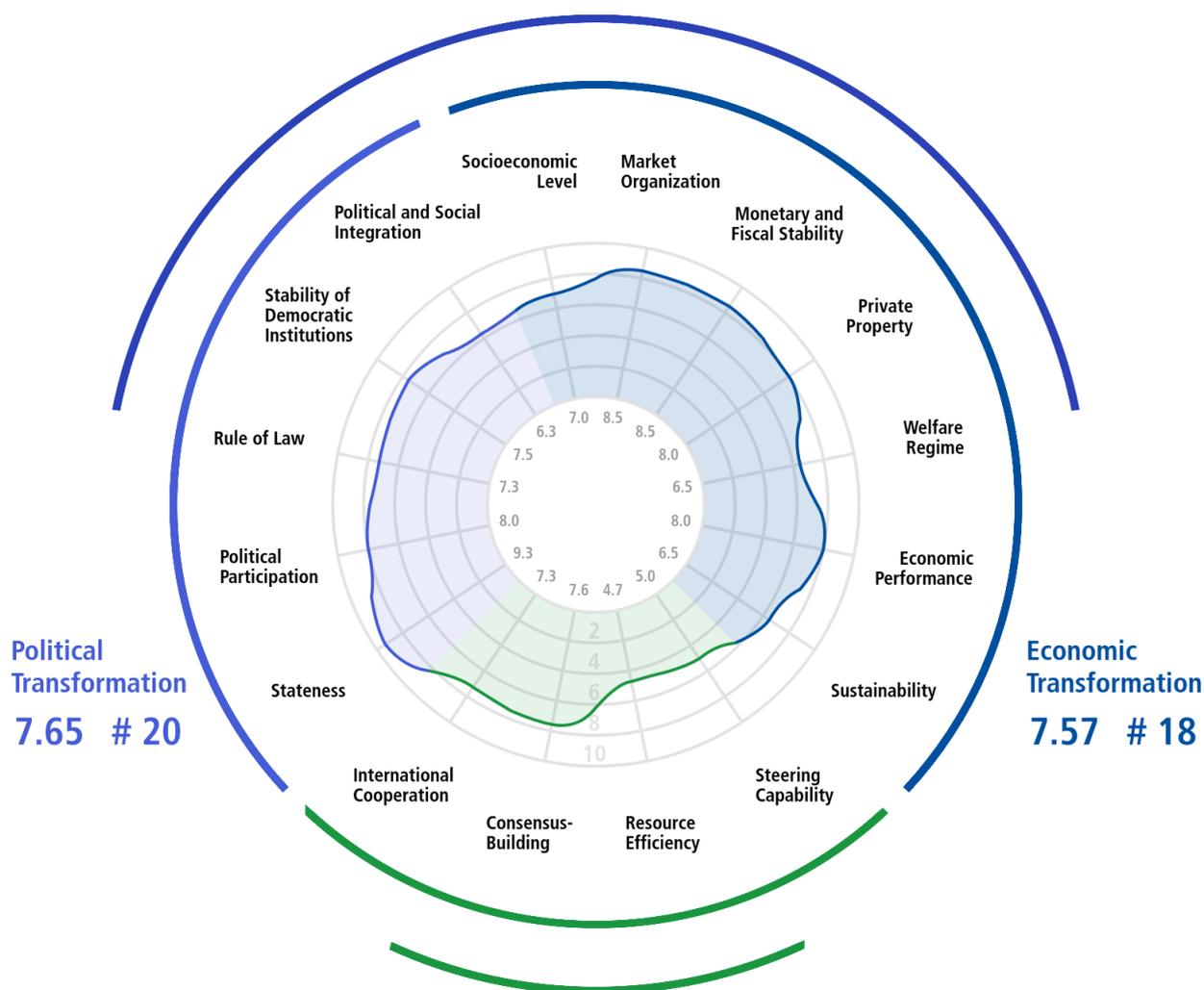


Romania

Status Index

7.61 # 15

on 1-10 scale out of 137



Political Transformation
7.65 # 20

Economic Transformation
7.57 # 18

Governance Index

5.19 # 45

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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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Key Indicators

Population	M	19.0	HDI	0.821	GDP p.c., PPP \$	41888
Pop. growth ¹	% p.a.	-0.9	HDI rank of 189	53	Gini Index	34.6
Life expectancy	years	73.0	UN Education Index	0.771	Poverty ³	% 3.9
Urban population	%	54.5	Gender inequality ²	0.282	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Romanian politics has become less polarized during the review period after a reshuffle of the coalition in 2021 led to a super-sized parliamentary majority (66%) and a solid partnership with President Iohannis. The reasons offered for this move were the need to have a stable cabinet to address the energy and inflation crises, plus the consequences of the war in neighboring Ukraine. The price of this stability was a decline in transparency and the responsiveness of decision-making, which seems to take place more than before behind closed doors, and increased political influence by the army and intelligence services. There was a succession of politically inexperienced party leaders in 2021 at the head of the Liberal Party (PNL), the main axis of the coalition, until a retired general with no genuine political support was installed as party leader and prime minister.

The challenges posed by COVID-19 and the energy crisis were addressed with no significant risk to democratic norms, but the response was not effective: less than 42% of the population were vaccinated by January 2023, a low rate by any standard, while measures to compensate for high energy prices remained confusing throughout the year 2022. The difficult reforms promised in the Recovery and Resilience Plan agreed upon with the European Union (pensions, public salaries, digitalization, education) were not implemented, although €30 billion are available to finance them on top of €50 billion from the regular seven-year budget.

The budget deficit is almost 6% of GDP, which is twice the stability level set by the Maastricht rules. Most of the budget goes to current spending and very little to investments, such as the long-promised regional hospitals. The allocation of funds and appointments in public agencies and companies is characterized by a high level of resource wasting and clientelism, with the parliamentary opposition reduced to a super-minority. Most relevant policy decisions related to reforms requiring unpopular decisions have been delegated to the EU, which allows domestic politicians to parade the benefits of EU membership but to distance themselves from the costs and responsibility for change.

A push by the president to join the border-free Schengen area in 2022 failed. Politicians unanimously blamed Austria's opposition. The only notable success was the termination of the Cooperation and Verification Mechanism (MCV), created as a safeguard when Romania joined the European Union in 2007. However, this cuts both ways; it is clearly a cherished prize for politicians, who will no longer be monitored for judiciary reforms, but a loss for society because the EU loses an instrument to create pressure for effective anti-corruption measures. The Constitutional Court has continued to play an oversized role, repeatedly being called on to arbitrate several disputes that should be adjudicated as part of normal governing processes, like budget allocations or pension rights.

A right-wing extremist party, the Alliance for the Union of Romanians (AUR), was elected to the parliament in 2020, but its political influence is limited because other actors do not consider it an acceptable partner. Still, the AUR doubled its support in opinion polls on voters' intentions, reaching 18%, recently. One possible reason for this is frustration that other avenues for expressing dissatisfaction were closed when the grand coalition was formed in 2021. By and large, Romania remained a reliable NATO member and supporter of the common security arrangements during this period, when Russia renewed its aggression against Ukraine and threatened to destabilize other countries in the region.

History and Characteristics of Transformation

The modern Romanian state originated in the mid-19th century, with “the European model” as an explicit blueprint, copying norms and institutions much in the same way EU accession was pursued after 2000. Western models of statehood, democracy and the market were transplanted into a predominantly rural society with significant ethnic diversity in cities and some provinces and a rather interventionist economy. The result was a gradually expanding democracy that remained dominated by a small political and economic elite, representing limited societal interests. Even after the introduction of general (male) suffrage following World War I, the concept of popular sovereignty was not fully internalized. In the new, enlarged state with sizable minorities, national mobilization served as a substitute for modernization and integrative strategies.

The communist takeover in 1947 triggered massive socioeconomic transformations, as well as horrors and distortions. Important flaws and imbalances from the past were perpetuated, such as the territorial patterns of underdevelopment or “the peasant problem.” The last 10 years of Nicolae Ceaușescu's autarchic rule, a period described as “sultanistic communism,” were especially harsh. The ruling clan treated the state and the party as their property rather than as neutral policy instruments. Rampant nepotism resulted, while selective access to goods and services, which became increasingly scarce, dispelled the illusion of equity and broke the socialist social contract. By the mid-1980s, the combination of demonstrative independence from Moscow and Stalinist control at home had run its course, resulting in widespread shortages, economic decay and a return to nationalist propaganda in a desperate attempt to regain legitimacy.

The regime collapse in 1989 through a bloody popular uprising led to power struggles among different successor groups of the nomenklatura and Securitate, the secret police. As a result, the violent end of communism did not lead to a clean break with the past but rather a gradual and painful transition lasting the greater part of a decade, until about 2000. The concepts of a market economy and pluralist democracy were not exactly familiar to the new leaders, who were mostly reformed communists. Having inherited so many structural problems, Romania was slower than many other countries seeking EU accession to initiate post-communist reforms.

The first true rotation of elites took place at the beginning of 1997, when the first center-right government started to implement what other states in the region had done five years earlier: downsizing heavy industry and mining, liquidating economic black holes, consolidating the banking system, privatizing some state-owned enterprises, liberalizing most input prices and introducing currency convertibility. The social and political resistance to such changes was high and led to several rounds of violent uprisings by the losers in the process, mainly blue-collar workers. The chaotic protests, in particular those of the coal miners, were also manipulated by conservative forces and former members of the intelligence services.

The second decade of transition, after 2000, was marked by a struggle between two main political camps. On the left, the Social Democratic Party (PSD) pursued a pro-growth agenda and sought to take advantage of the prospective benefits of EU membership, while at the same time preserving political control through mild authoritarianism and a clientelistic party machinery. On the right, several parties with a liberal inclination (PNL, PD) operated most of the time in opposition but managed to get their leader, Traian Băsescu, elected as president in 2004. Whether by conviction or for tactical reasons, he chose to embrace the rule of law agenda requested by Brussels. The fight against corruption, increasingly visible and supported by Romania's partners, became the main topic in Romanian politics after 2005 and the key factor determining the country's ruling coalitions, formal and informal parliamentary alliances, and the rise and fall of various political leaders. This strategy proved credible enough to get Romania accepted into the European Union in 2007, after it joined NATO in 2004.

The next decade and a half was marked by a succession of crises, including economic downturns, the pandemic and the war in Ukraine. However, each time, these crises were quickly overcome, and growth resumed at a faster rate than in Western Europe. This outcome served to validate the theory of convergence and demonstrated the correctness of the strategic choices made. Despite the underperformance of domestic politics and administration, the European Union (EU) provided a stable framework for development. Over this period, Romania's GDP rose from \$1,660 per capita in 2000 to \$14,800 per capita in 2021 (or \$35,800 per capita at PPP). As a result, the country now firmly falls within the middle-income category, marking a significant milestone in its history.

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 its territory. For approximately two decades, there have been aspirations for greater political autonomy among the Hungarian minority, but their actions have remained firmly within constitutional boundaries, and Hungarian representatives have participated in government during this period. Electoral support for radical groups is increasing, but the right-wing AUR, which is present in parliament for the first time, does not challenge the state's monopoly on the use of force. Urban gangs occasionally settle disputes violently, but they do not systematically control territory. The gun ownership rate is one of the lowest in the world, and violent crime is rare. The trafficking of individuals through EU-wide criminal networks continues to be a significant problem, but such groups do not establish territorial strongholds.

About 10.7% of the population belongs to national minorities, according to the results of the 2022 census. Ethnic Hungarians are the largest group (6.0%), followed by the Roma (3.4%, most likely an underestimate). Minorities are not discriminated against in law, although there are still problems of social exclusion in the case of the Roma. The most politically active ethnic minority, Hungarians, generally accepts the existing nation-state but presses for extended local autonomy. Their ethnic party (the Democratic Alliance of Hungarians in Romania, UDMR) has been increasingly aligned with FIDESZ, the ruling party in Hungary, organizing campaigns together and echoing Viktor Orban's narratives about the rights and status of Hungarians abroad. Since 2014, the country president, who has been directly elected twice, has been an ethnic German; his identity and religious affiliation have not been a subject of controversy after the campaign for the presidential elections in 2014. With the escalation of Russian aggression against Ukraine in 2022, it looks even less likely than before that social groups would challenge the legitimacy of the state.

Question
Score

Monopoly on the
use of force

10



1

State identity

9



1

The Romanian Orthodox Church (BOR) is relatively passive in terms of politics, but it benefits from substantial state financial support. Other recognized denominations receive funding too, mostly for maintaining cultural patrimony. This is also a form of control of churches by the state; there is no tradition of anti-government opposition from the religious establishment. Religious education was introduced as an optional subject in schools in the 1990s, but the impact of this change has remained largely symbolic. Groups with religious affiliations opposed pandemic restrictions and the vaccination in 2021/2022, encouraged by some clerics who circulated conspiracy theories. This opinion bubble overlaps to a large extent with nationalist and anti-LGBTQ+ ones. The party that usually receives these votes (AUR) entered parliament in 2020 with 9% of the vote. In December 2022, it scored 18% in opinion polls, but it is not fully embraced by the official religious establishment. The BOR is divided between conservative and more moderate members, with many of the former engaging actively in the 2020 election campaign to promote AUR. In the past, some BOR members supported the Social Democrats, a relationship that was visible in the 2018 referendum against same-sex marriage. The influence of American-style neo-Protestant conservatism is also on the rise, visible mostly in the Liberal Party (PNL).

Administrative structures and public resource allocation cover the entire country. The infrastructure in rural regions is slowly improving, in part due to funds from the European Union. Even during the COVID-19 pandemic and the energy crisis of 2022, the state performed reasonably well under stress; its most visible failure is the low vaccination rate, as it was not able to run a credible campaign to persuade the public to get vaccinated. The main risks to the consistent functioning of state administration, including the public health sector, continue to be political clientelism, corruption and incompetence among the top political leaders.

2 | Political Participation

Elections are generally free and fair, with occasional evidence of fraud, unethical campaigning or voter manipulation, especially in poor rural areas. Direct fraud on the polling days has declined in recent years because there are now more restrictions and transparency in party funding, due mostly to the deterrence effect of the drive against corruption. Voter registration has been improved, and online ID checks have been introduced. The main problem is the clientelization of mass media and uneven access to TV and radio by opposition or upstart parties. Public funding for parties (from the state budget) has increased spectacularly in recent years, although the Electoral Authority remains a weak enforcer of spending rules. Electoral clientelism continues to be widespread around the country in spite of laws that prohibit it. The most recent legislative elections were organized in December 2020. They were free and fair, with the limitations described above.

No interference of religious dogmas

9



1

Basic administration

9



1

Free and fair elections

9



1

Democratically elected rulers do have effective power to govern in principle, and no political enclaves exist, although some interest groups may occasionally exert disproportionate influence and potentially possess some veto power. The primary concern is the growing influence of the intelligence services and military, which were in charge of managing the medical response to COVID-19. The current prime minister is a retired general. For a number of years, the intelligence services assisted the judiciary in the fight against corruption. This was its inroad into political life, infiltrating political parties, business, academia and the media. There is also a hollowing out of competence among ministry leadership and executive agencies, where there are fewer good technocrats and more party hacks than before, with the visible effect of a reduced quality of regulation.

The Romanian constitution guarantees the usual political and civil liberties, including freedom of expression, association, and assembly. Rhetorical threats or attempts to discredit independent civil society have abated since the authoritarian-nationalist Social Democratic Party lost its dominant role in 2019 but resurfaced in 2022 when business interests sued environmental organizations in civil court, which were subsequently dismantled when they could not pay financial damages. This was a typical case of a Strategic Lawsuit Against Public Participation (SLAPP), an increasingly global problem. Suffocating civil society with unreasonable administrative requirements, some blamed unjustly on the EU rules, is also becoming an issue. Forming new parties remains difficult by European standards because the administrative threshold is high: many signatures are required, and the judicial procedures take a long time.

In principle, the freedoms of opinion and of the press are protected by law. However, the economic downturns in the past decade and the emergence of social networks have profoundly affected the mainstream media and public debates. There are fewer written media pieces than in the past, while some genres (investigative journalism, fair political commentary, social reportage) have moved toward the fringes, being produced by small upstart groups. The National Audiovisual Council is weak, politicized, and fails to perform its function: penalties for grossly distorted news programs are selectively applied and biased against channels that criticize the ruling coalition. Russia's war in Ukraine in 2022 has only worsened the situation. Another problem related to freedom of expression is that journalists who discovered plagiarism in politicians' PhD theses were threatened if they did not remain silent. The general impression is that the mainstream media is weaker and more clientelized now than some years ago, with more undue influence exerted by parties and the military-intelligence establishment, which encourage self-censorship and obedience. Romania dropped markedly (eight places) in the 2022 Press Freedom Index ranking. National civil legislation relatively effectively protects the freedom of information.

Effective power to govern

8



1

Association / assembly rights

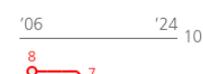
8



1

Freedom of expression

7



1

3 | Rule of Law

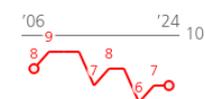
State powers in Romania are formally independent; the constitution provides for a separation of powers and checks and balances in the political system. The bicameral parliament and the dual executive, with a directly elected president and a stable prime minister installed by the parliament, make it difficult to concentrate power, especially when coalitions are necessary to form a cabinet. However, the limits of the constitution are tested in moments of political crisis. Actors on both sides of the political spectrum appeal to the increasingly proactive Constitutional Court – a hybrid political institution not formally part of the judiciary – to pass decisions that normally should be negotiated politically. The separation of powers is undermined in practice by poor civilian control (in parliament) over the numerous intelligence services, which are widely suspected to influence decisions in politics and the judiciary, mainly through controlling the selection of cadres at the top.

The direct threat to the autonomy of the judiciary from the ruling powers has subsided in recent years as the coalition governments opted for a non-confrontational approach with the European Commission regarding the issue. As a result, the Cooperation and Verification Mechanism (MCV), created as a safeguard when Romania joined the European Union in 2007, was terminated in 2022. Media campaigns against magistrates have abated. The only challenge to their status these days concerns their privileges (early retirement and high, non-contributory pensions), which the public frowns upon. There is also a feeling that the will to fight corruption has decreased. The anti-corruption directorate (DNA) has been somewhat defanged (for example, it no longer investigates magistrates), and pliant figures are preferred for top positions in the high courts, prosecutor offices and the Council of Magistracy. The Constitutional Court, which technically is not part of the judiciary and is not comprised exclusively of magistrates, is the only court with the power to strike down laws or, more often, parts of them, based on unconstitutionality. In such cases, the acts return to parliament to be amended accordingly.

Blatant cases of corruption in the courts are less frequent than in the past. The attractive compensation package offered to judges – very high salaries and early retirement – may have contributed to this situation. However, this may also be due to less energetic action than before by the prosecutors, especially against their colleagues, the magistrates. The recruitment of judges into the profession is quite well regulated and up to standard; the problems start later when pressure from politicians and the intelligence services is applied from the top through the profession's regulatory bodies.

Separation of powers

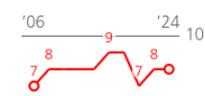
7



1

Independent judiciary

8



1

The 2022 EC rule of law report notes positive steps in investigating and sanctioning abuse of office, including pursuing cases that had been discontinued for years and a higher conviction rate than before. Such conclusions were applicable until 2021. In 2022, all these processes slowed visibly. The judiciary, especially the prosecutors, have been less active in recent years, tamed with exorbitant privileges (early retirement with special pensions, far above the average level for public employees) and institutional changes that weakened their instruments for investigating high-level clientelism and corruption. Organized criminality, crimes against the environment and human trafficking remain poorly investigated and prosecuted. This is one reason Western partners invoke to keep Romania out of the Schengen area. It has again become the norm that top officials sent to court refuse to resign and benefit from party and media protection until they are convicted, and sometimes even after that. The media are able to hold public officials accountable and call out cases of abuse of office. Their actions were less effective than in the past due to fewer follow-ups from the authorities.

The typical EU norms guaranteeing due process, equal treatment, and nondiscrimination are in place. However, court verdicts may be arbitrary, with wide differences in solutions sometimes being adopted in similar cases, as judicial practice has not yet been fully unified. There is a significant backlog of court cases in lower courts and civil matters (such as property), which are largely below the radar of EU monitoring, focused on anti-corruption. Human rights organizations report cases of police violating basic human rights as well as generally inhumane and degrading treatment in penitentiaries. The trafficking of persons, especially women and minors, remains a serious problem after a series of acquittals of criminal gangs, with sexism and bullying in schools as associated problems. The Roma communities continue to suffer from various forms of social and economic discrimination.

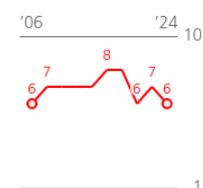
Discrimination based on sexual orientation, religion, race and political preferences is limited, with isolated instances documented. There is legislation in place to protect privacy and provide equal access to justice.

4 | Stability of Democratic Institutions

Political polarization decreased after the 2020 elections, in spite of the COVID-19 pandemic and the energy crisis: the institutional framework withstood important tensions, and norms and institutions prevailed over the momentary impulses of politicians. However, this was achieved at the price of an oversized ruling coalition, as part of which parties departed from the commitments they made to voters in 2020. Important decisions tend to be made in closed circles, where the president and intelligence services are thought to play an important role. For instance, they initiated pieces of legislation extending their own powers in spite of not having the right to do so. The Russian aggression against Ukraine in 2022 was used as a pretext for reduced

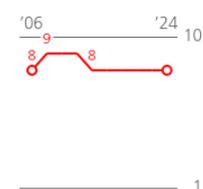
Prosecution of
office abuse

6



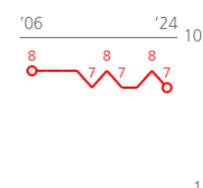
Civil rights

8



Performance of
democratic
institutions

7



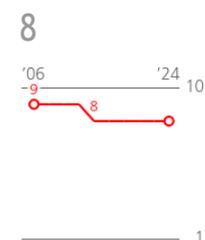
accountability, even in policy areas where no national security is concerned. The Constitutional Court, too, continues to play an oversized role, repeatedly being called on to make decisions on policies that should normally be decided as part of the governing process

Democracy is formally accepted by all political and social actors, but some important decisions are palpably influenced by non-elected individuals. For example, the judiciary has made decisions about its own impunity and privileges, and the secret service has exerted its influence among politicians and the media. The AUR, a right-wing, anti-establishment party, won over 9% in the 2020 elections, with opinion polls showing nearly 18% of the population expressing support for their agenda at the end of 2022. The “Romanian exception” (no extremist parties in the national parliament) has thus come to an end, as the country’s national politics are beginning to follow the trends observed in many (Central and Eastern) European countries. So far, however, none of the country’s traditional parties seem willing to form an alliance with the AUR.

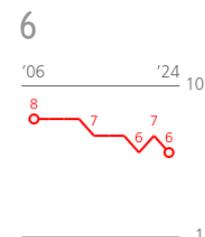
5 | Political and Social Integration

The current legislature is the least fragmented in recent history, with just five parties in parliament and a broad, oversized coalition (63%) forming the cabinet. The war in Ukraine was offered as a reason when this coalition of previously irreconcilable foes came together in 2021. However, a political crisis in 2021, which led to repeated changes in the leadership of the ruling National Liberal Party (PNL) and the eventual promotion at its pinnacle – as prime minister – of a retired general with no genuine political foundation, is commonly believed to have been engineered from outside the party. Most commentators agree that the current arrangement is the least rooted in society and furthest from the election results than any other coalition in the past two decades, a situation that fuels voters’ cynicism and disengagement: the PNL and President Iohannis campaigned hard against the PSD in 2020, but then less than one year later completely changed tack and formed a broad coalition with it, abandoning the reforms they promised to voters. The problem of electoral clientelism as the main party-building strategy remains. It especially affects the two large parties, which typically use state resources to reward their followers in territory: the social democrats on the left and the liberals on the right. Other political parties also use electoral clientelism, but they have more limited access to state resources than the two large parties due to their limited presence in the government. Electoral volatility continues to be high, which resulted in the entry onto the political scene of the AUR and two exits (ALDE and PMP) in 2020. Even the two large parties display moderate to high levels of volatility: the PSD received 45.5% of the vote in the 2016 elections and 28.9% in the 2020 elections, while the PNL received 20% in 2016 and 25.2% in 2020.

Commitment to democratic institutions



Party system



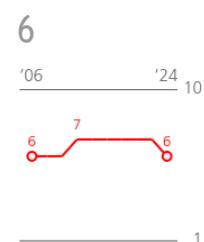
In general, the political system in Romania has been slow to respond to direct societal pressure. The coronavirus crisis in 2020, if anything, made things more difficult, generating high levels of social stress and new priorities in governance. The subsequent crisis in the energy sector and the surge in inflation in 2021/2022 put the government into overdrive to address the problems of prices and affordable cost of living, but the measures taken were hasty, confused and had to be amended often.

The trade unions remain weak and mostly present in the public sector. The Economic and Social Committee, an EU-style institution with an advisory role in government decision-making, is often undermined in practice by the executive. Business associations are also weak, as many large companies, including multinationals, prefer to lobby the relevant decision-makers case by case and cut deals individually. Measures that are very unpopular with the public and perceived as illegitimate privileges, such as the early retirement and special pensions of magistrates, policemen and other militarized institutions, have remained in place despite electoral promises to abolish them. This is a good illustration of the influence these professional categories have over the decision-making process. The impression is that the oversized ruling coalition presently in power was formed not so much in order to represent broad categories of citizenship but precisely to be able to insulate itself from society and cater to the needs of the parties' political clients at the central and local levels.

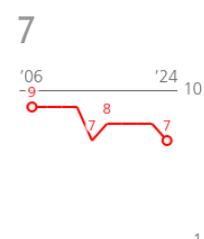
Surveys indicate that most Romanian citizens still prefer democracy to any other political regime, while support for the European Union and NATO remains relatively high among the member states of the two organizations. However, satisfaction with democracy has declined markedly in the last two years: a Globsec poll shows a decrease from 30% in 2020 to 23% in 2022, the most pronounced among the new member states of the EU. When people report in opinion polls that they dislike the direction the country is heading, this is mostly related to dissatisfaction with the quality of governance, not the democratic system as such. The new far-right, anti-system party, the AUR, doubled its voter share in surveys at the end of 2022, compared with its score in elections two years before. It shows limited commitment to democratic norms, but so far, it is isolated in the legislature and unlikely to exert much influence on decisions. As a long-term trend, the Orthodox Church (67%) and the army (64%) lead in terms of trust, followed by NATO (52%) and the European Union (50%), scoring well above national political institutions like the government or parliament.

Levels of trust in society at large are traditionally low; according to surveys, Romania scores below the EU average on generalized trust, although slightly higher than most of its Balkan neighbors. In contrast, trust in EU institutions and the country's Western partners is relatively high. The more informed, activist middle class, especially in large cities, has become increasingly assertive and able to organize itself, either in political parties or issue-oriented movements, and increasingly advocates for causes like better health care, protecting the environment, or local development. Large social

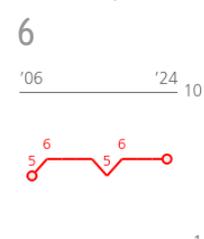
Interest groups



Approval of democracy



Social capital



service-providing NGOs have consolidated, some working successfully as subcontractors of local governments in areas of elderly or homeless care; a group has run a fundraising campaign to build the first new non-profit hospital in Romania since 1989, without state help. On the other hand, these cases remain exceptions. Due to the country's long authoritarian tradition, most people in poorer regions are inclined to resort to state assistance and guidance rather than self-organization. Mainstream parties are used to controlling their political base through clientelism. An increased concern is 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.

II. Economic Transformation

6 | Level of Socioeconomic Development

The outbreak of the pandemic and its lockdown measures temporarily halted the sustained growth that had lasted almost a decade after the global economic crisis of 2008/2009. However, growth resumed in 2021, also due to a strong base effect (5.8%). The recession was mitigated by government job-supporting schemes following the German model (Kurzarbeit). The European Union created a special financial package to assist member states. Romania is one of the countries with approved EU Recovery and Resilience strategies, meaning disbursements have begun. According to the IMF, GDP per capita (PPP) is projected to reach \$31,320 in 2023, which is higher than the average for the 17 East-Central and Southeast European countries. However, this sustained growth has also led to a relatively high level of inequality. The Gini coefficient in 2019 was 34.8, one of the highest in Europe, although slightly lower than in the pre-accession period. The same is true for the Gender Inequality Index (0.282 in 2021, a decrease compared with previous years) and the poverty rate (4.7% in 2019). All these factors correlate with Romania's rather poor position in terms of HDI as an EU member country, ranking 53rd in the world. The main drawback to the HDI score is precisely social disparities, with a loss due to inequalities of 10.7%, which is very high for the continent. Significant urban-rural disparities and the marginalization of a sizable minority, the Roma, with deep historical roots, have led to social exclusion becoming structurally ingrained in Romania. FDI and economic growth are concentrated in the capital city, a few other major cities, and the western regions, while underemployment and inadequate social services, including education, persist in rural areas. The Roma often encounter difficulties participating in the formal economy and accessing public services. Labor force participation is significantly lower than in Western Europe due to early retirement and informal rural household work.

Question
Score

Socioeconomic
barriers

7

'06 _____ '24 10



1

Economic indicators		2019	2020	2021	2022
GDP	\$ M	251017.8	251362.5	285404.7	301261.6
GDP growth	%	3.9	-3.7	5.8	4.8
Inflation (CPI)	%	3.8	2.6	5.1	13.8
Unemployment	%	3.9	5.0	5.6	5.4
Foreign direct investment	% of GDP	2.9	1.4	4.1	3.9
Export growth	%	5.4	-9.5	12.6	8.6
Import growth	%	8.6	-5.2	14.9	9.2
Current account balance	\$ M	-12184.4	-12534.6	-20627.0	-27978.6
Public debt	% of GDP	36.6	49.4	51.7	50.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-4.2	-9.0	-7.5	-
Tax revenue	% of GDP	14.6	14.2	15.0	-
Government consumption	% of GDP	17.5	18.7	17.7	15.5
Public education spending	% of GDP	3.6	3.6	3.3	-
Public health spending	% of GDP	4.6	5.0	-	-
R&D expenditure	% of GDP	0.5	0.5	-	-
Military expenditure	% of GDP	1.8	2.0	1.9	1.7

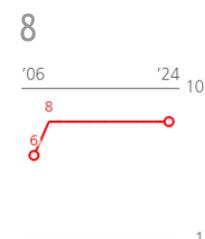
Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

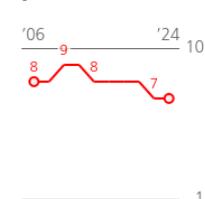
Market organization remains consolidated along EU-imposed rules, which include freedom of trade, currency convertibility, strong anti-monopoly and anti-state aid regulators, and the transposition of EU rules. The energy crisis and high inflation in 2022 did put some pressure on the government to become more interventionist, but the basic parameters of the market's organization have not changed substantially. The quality of management in state-owned enterprises (SOEs) remains an issue, including in the energy and extractive sectors, where politicization is widespread and performance is uneven. Tax evasion and the informal sector are still significant, which is a symptom of weak public institutions meant to address 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, mostly in rural, subsistence households. The procurement system, while compliant with EU rules in principle, is often an avenue for clientelism and organized corruption. While it is relatively inexpensive to establish a business in Romania, the most problematic areas remain dealing with public administration (obtaining permits) and SOEs (connecting to electricity). Despite the last two years of turbulence, the investment climate became relatively more stable after the 2020 elections, with less rhetorical hostility toward multinationals and more predictable legislation affecting the market. The war in Ukraine has also led to some business relocations to Romania.

Romania is a member of the International Competition Network (ICN). Strict regulations prohibiting monopolies exist. The Romanian Competition Council (RCC) and other market arbiters, which are fully in line with EU rules in principle, have gained a body of practice on which to rely. Investigations have been conducted on cartelization in various sectors, such as energy, banking, telecoms and retail, resulting in fines being imposed. Further liberalization has taken place in regulated sectors, including natural gas and, as of the beginning of 2021, the electricity market. The market for public works, particularly at the local level, has always been sensitive to the risk of clientelism and corruption, but political fragmentation in the country makes cartelization difficult and creates a certain degree of competition. The medical sector and information and communications technology (ICT) services for public institutions, including projects funded by the EU, have emerged as areas of concern. Media reports have uncovered illicit cartel practices, political interference and influence exerted by the intelligence services. Turmoil on the energy market in 2022 raised questions about collusion and exploitative practices among producers and retailers. The state regulator appeared too weak to impose order and lacked transparency, while government interventions through executive decrees were often hasty and poorly designed.

Market organization



Competition policy



Romania is a full member of the EU common market. The restrictions imposed by tariff and non-tariff trade barriers have been abolished, and there have been very few exceptions in this regime in recent years, all in line with EU norms. Within the EU, Romania largely supports free trade agreements with the United States, Canada and East Asia, as well as the liberalization of services and labor standards within the European Union. This stance should provide a clear advantage for workers or freelancers based in Romania and operating in the common market. Romania also advocates for early liberalization of trade with non-member states such as Moldova or Ukraine.

Liberalization of foreign trade

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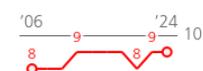


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The banking sector has been restructured to meet European standards and weathered the global crisis a decade ago and its aftermath reasonably well, without public bailouts. Non-performing loans declined steadily after the global economic crisis, reaching 3% in mid-2022. Private ownership in the banking sector is high, over 91%, and most of the banks belong to foreign partners from West European countries. The concentration in the sector is not too high, with the three largest banks holding only about 40% of total assets. The capital adequacy ratio was 21.7% in December 2022, slightly above the 21.5% measured in September 2022. In general, oversight of the sector is strict, and operators behave cautiously, with the central bank leaning toward conservative positions. Politically motivated attacks on the independence of the regulator and populist drafts of anti-banking legislation are less frequent than in the past.

Banking system

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8 | Monetary and fiscal stability

There are no restrictions on the circulation of capital or currency exchange, according to IMF reports in recent years. The real rate of exchange has been broadly in line with medium-term macroeconomic projections. Throughout the past two years of the COVID-19 pandemic and energy crisis, the currency has remained fairly stable against the euro. However, in 2022, inflation reached 16.4% – a level unprecedented in the last two decades. It is expected to slow to single digits in 2023. The central bank has remained relatively strong and independent of political power, committed to monetary stability. The prospect of joining the eurozone, which is an obligation under the Accession Treaty in principle, is postponed indefinitely.

Monetary stability

9



1

The government introduced in 2022 a package of social and economic measures aimed at keeping consumer prices under control, with half the money allocated to this package coming from European funds. Its economic measures target small and medium-sized enterprises (SMEs), large investors, logistics operators, agriculture and the public sector. The social measures include food stamps, grants for pupils and funding for institutionalized elderly people and public hospital patients.

Fiscal policies and public spending during the COVID-19 and energy crises of 2020 to 2022 were largely in line with those implemented in Western Europe: no redundancies or pay cuts occurred in the public sector, even when activity slowed down, and there were German-inspired Kurzarbeit schemes to subsidize jobs in the private sector. In 2022, generous price support schemes for gas and electricity were put in place to compensate households and businesses. As a result, the budget deficit reached almost 6% at the end of the year, far above the 3% Maastricht threshold. In just a few years, public debt jumped from 35.4% in 2019 to almost 50% at the end of 2022, which is the level that triggers restructuring measures, according to EU rules. The package of about €30 billion allocated to Romania from the European Recovery and Resilience Facility (RRF), on top of the €50 billion provided in the regular EU budget for 2021 to 2027, may help mitigate all these risks, depending on how effective the absorption is. Romania's capacity to spend such sums remains an issue, especially concerning the RRF, which must be allocated quickly and spent entirely by 2026.

Fiscal stability

8



9 | Private Property

Romanian legislation on the acquisition and protection of property rights generally aligns with the EU acquis. The inviolability of private property is stated in the constitution. However, there are still loopholes in the protection of intellectual and industrial property rights. Expropriation for reasons of public utility is legally defined but often proves to be a slow and challenging process to carry out in practice. Consequently, such cases find their way to court, and expropriations are permissible solely for significant public infrastructure projects, such as highways, rather than for land redevelopment.

Property rights

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The share of the private sector in GDP has steadily grown in the last three decades, to almost 80% today. Overall, Romania is gradually becoming more business-friendly in terms of procedures and the time it takes to accomplish them, although digitalization in public administration is slow and e-government initiatives are inconsequential. Urban regulations and enforcement are weak, leading to substandard and exploitative developments that negatively impact the property and quality of life of existing residents, who have little right to recourse. Public property tends to be poorly protected and prone to abuse through preferential concession contracts, especially at the local level.

The large-scale, post-communist privatization process is, for the most part, complete. Private ownership in the residential sector is 96%, among the highest in Europe. The main obstacle to the functioning of private enterprises is the poor quality of public administration and regulations. Despite support from foreign partners, frequent initiatives to decrease bureaucracy yield few results. The state offers competitive taxation regimes to investors, although the instability of the legal framework, especially in fiscal and taxation policy, remains an issue – a fact that was most evident

Private enterprise

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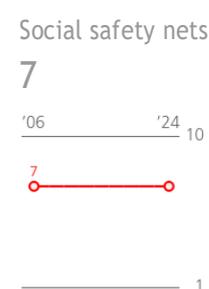
in 2022 in the energy sector. Currently, there are discussions to publicly list minority shares of some remaining state-owned companies (SOEs), primarily in the energy and banking sectors. During the pandemic, the share of the manufacturing industry as part of GDP declined, while that of the public administration (including health and education) increased, indicating the state's strong role. The state-owned enterprises (SOEs) remain politicized, allocated among the political parties in power, and used as sources of patronage. Consequently, their performance is highly uneven, with some incurring significant losses, such as the railways, coal mines and municipal district heating.

10 | Welfare Regime

Social security is organized by the state and, in principle, covers all relevant risks. However, 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 also available to all citizens throughout the country, but coverage is often inadequate, especially in rural areas. Romania has one of the smallest health care spending levels in the European Union (around 6% of GDP). Access to subsidized services and drugs can be erratic, depending on monthly allocations. The COVID-19 crisis exposed these systemic weaknesses and resulted in a decline in life expectancy, which is the second-lowest in the EU.

There is also a demographic problem, particularly due to the low birth rate and the impending retirement of the entire communist baby boomer generation around 2030. The three main components of the social safety net – pensions, health care and social protection – are funded entirely through taxes on labor. Early retirement was widely used at the beginning of the transition as an alternative to layoffs, further reducing the number of contributors to the system. As a result, the employment rate in Romania is relatively low by EU standards (63%), as is the average effective retirement age (around 60 for men and 59 for women). In general, the state is much better at distributing subsidies than proactively assisting people in finding work.

In theory, social safety nets are comprehensive, but many components are poorly targeted, occasionally abused, and rigid at the point of service. Similar to under communism, the system is overextended compared to the resources available and promises more than it can deliver, despite recent budget increases. Remittances from the 3 to 4 million Romanians working abroad, mostly elsewhere in the European Union, fill the gaps to some extent. The inflation surge in 2022, driven mostly by energy prices, has reintroduced the specter of the 1990s, with poorer people and those on fixed incomes suffering the most.

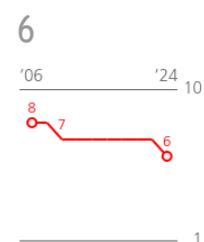


Romanian society retains elements of uneven and/or discriminatory access in practice, despite having progressive laws and regulations aligned with EU standards. The education system, basic social security and health care provide limited compensation for social inequality, primarily due to the state administration's inability to effectively implement targeted policies. While egalitarian attitudes are prevalent, many public services are accessed, at least some of the time, through social capital, connections or informal payments. The Roma community, in particular, faces obstacles to accessing health care, education and housing. Gender-related indices from the UNDP and other relevant indicators no longer indicate progress but rather stagnation. Although policies and institutions exist to prevent and penalize open discrimination, they are not sufficiently powerful to address de facto disparities and achieve equality of opportunity. Romania has the largest gender difference in labor market participation in the European Union, surpassed only by Malta and Greece. Female labor participation in Romania is 61.3%, compared to the EU average of 67.3%. This discrepancy is a result of the lower retirement age for women, which was standard under communism, as well as their involvement in informal sectors and household work, particularly in rural areas. Women do not face disadvantages in education and are even overrepresented in higher education; however, they may earn less than men in similar occupations. An independent study conducted in 2020 found that slightly over 20% of the candidates in local elections were women, while that figure dropped to just 10% for important and directly elected positions like mayors. There is an ongoing debate and dissatisfaction regarding political representation of women, as the coalition cabinets formed after 2020 included only one woman among approximately 20 ministers.

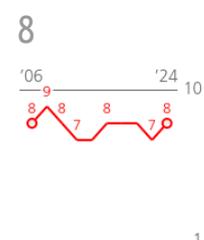
11 | Economic Performance

In spite of the poor showing of its governments, the Romanian economy has tended to recover relatively quickly after the repeated downturns in the past decade and to sustain consistent growth between them. After a decline of -3.7% in 2020, GDP growth resumed, averaging 5.8% in the following two years. In 2021, Romania spent 39.9% of its GDP as the total public budget, while public revenues were 34% – one of the lowest levels in Europe – resulting in a deficit of 5.9% of GDP. The annual inflation rate in 2022 was 16.4%, in line with regional trends. Over the past decade, the country has steadily closed the gap with its Western partners in terms of GDP per capita at PPP, increasing from 54% of the average EU level in 2011 to 73% in 2021. However, this progress tends to be concentrated in a few developed regions and large cities, resulting in increasing disparities within Romania during boom years. Despite employing 30% of the workforce, agriculture only produces 6% to 7% of the GDP. The share of the gray, untaxed sectors of the economy remains high, keeping total tax revenues below 30% of the GDP – the lowest level in the EU. Unemployment remained low and the labor market tight, even after the economic problems of 2020/2021, at 5.2% in 2021.

Equal opportunity



Output strength



12 | Sustainability

To some extent, environmental hazards in Romania have been reduced naturally in the process of deindustrialization during the 1990s, as well as by a wave of greenfield investments that introduced new technologies. Later, joining the European Union forced many heavy industrial plants and energy producers to comply with modern standards. Industry-related air pollution remains an issue in some cities and in the northwest of the country, but the public is increasingly aware of it, which has stimulated independent monitoring and activism. Romania has been charged penalties by the European Commission for non-compliance with wastewater, waste management and recycling requirements, problems that are still not solved. There is a problem with landfills and illegal dumping, associated with corruption and organized crime. At the same time, there has been sustained progress in renewable energies and energy efficiency: many residential buildings are being insulated, and the proportion of renewables has steadily increased, reaching 42% to 44% in 2021/2022. Additionally, around 20% of electricity production is nuclear, and renewables are scheduled to grow further in the next years. The sanctions against Russia and the price shocks to energy in 2022 may contribute a lot to the rationalization of consumption and the energy transition, as in the rest of Europe.

As a car-producing country, Romania has an interest in imposing restrictions on the import of secondhand cars and encouraging buyback schemes. But since 2017, it has not been able to find a way acceptable to the European Union to limit secondhand cars and discourage traffic pollution. On the contrary, the average car is now older, runs on diesel and is more polluting than before. Civil society has become stronger and more visible on environmental issues and has held the government in check over various mining and hydropower projects, as well as the sensitive subject of logging and deforestation. A monitoring scheme was created to detect and prevent illegal logging. Another civic project created an independent network of sensors to measure air pollution in Bucharest. This exposed the dysfunctionality of the government's system and generated ample media coverage, as well as more public awareness of the problem. The presence of two upstart civic parties with environmental leanings in the national and European parliaments reflects this social preoccupation and indicates that the subject of environmental balance and conservation will remain on the political agenda. Money is not the biggest problem, thanks to the generous European Recovery and Resilience fund; the capacity of the Romanian authorities to generate and implement efficient projects is.

Environmental
policy

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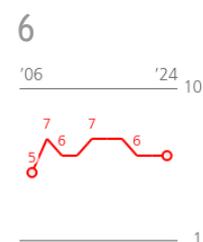
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The public education system is one of the most debated topics in Romania today and a stated priority during the two terms of President Iohannis; both he and his wife are high school teachers. A strategy for the sector and a new education law have been long under debate and preparation and are scheduled to enter parliamentary debate in 2023. However, there is not much clarity about the aims and instruments of these reforms. The inherited systemic problems of the education and R&D sectors are difficult to address with mere budget allocations, which are in any case below the EU average: less than 4% of GDP in 2023. The financial distributions remain skewed in favor of higher education at the expense of primary and vocational schools. Many universities, public and private, are of dubious quality, but restructuring is blocked by a strong lobby of rectors and parliamentarians, who double as university professors in search of prestige and extra pay. Scandals related to clientelism in universities – along with fake diplomas and plagiarism – occur regularly and involve political leaders and public figures, such as the current prime minister and three other cabinet ministers in the last two years. 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. Romania’s shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%) – these are comparable to those of the most advanced EU-10 countries – but in the quality of outcomes (i.e., the actual performance of graduates). In international tests like the Program for International Student Assessment, for example, Romanian secondary students score below 90% of the OECD average in terms of reading and mathematical skills, and the gap is growing. Adult education and lifelong training have not yet become popular; participation rates are below EU-27 averages. The rate of functional illiteracy, both among adults and youth, is increasingly perceived as a problem for a new knowledge society and makes the official literacy rate (99%) look irrelevant. The U.N. Education Index is low by European standards, on a par with neighboring Bulgaria or Serbia (0.771 in 2021). Public spending on R&D has traditionally been below EU and OECD averages (0.5% of GDP). However, this is true for most types of public expenditure since Romania collects significantly below the EU average: the aggregated budget revenues were 27.3% of the GDP in 2021, against an EU average of 41%. The influx of EU funds can help but cannot change the low quality of spending in this sector: public money does not finance projects and results but mostly outdated state research institutions. R&D spending in the private sector tends to be lower than in Western countries.

Education policy / R&D



Governance

I. Level of Difficulty

There were two – or three, depending on how one counts – important developments that created constraints on the government’s capacity to act in 2021 and 2022. First, the COVID-19 pandemic made life difficult for every government in Europe. In hindsight, the health crisis was not as severe as it could have been since social anxiety was as high as elsewhere, but the lockdown measures were short-term and rather leniently enforced, so the consequences for the economy were less damaging than in other countries. Second, the surge in inflation, which started in the second part of 2021 and was driven mainly by energy prices, required an urgent response from a ruling coalition in a perpetual political crisis. The Russian aggression against Ukraine only magnified this latest problem and brought over three million refugees to the country, of whom almost 110,000 chose to remain permanently in Romania.

Apart from these emergencies, the previous structural constraints to transformation remained in place. The socioeconomic imbalance between a few affluent urban centers and the rural provinces in the east and south has not diminished, despite massive investments of EU funds after accession. The middle class working in the technology and service sectors is concentrated in a few large cities. Part of the agricultural sector has increased in efficiency over the past decade, shifting to modern agro-business. By contrast, a large proportion of rural areas are still trapped in archaic production methods, underemployment, social marginalization, aging and depopulation. The urban-rural divide dates back to Ceaușescu’s disastrous policies of the 1980s, but poverty and infrastructure deficits have cemented existing divisions.

Membership in the European Union helped spur the implementation of rational agenda-setting and programs directed toward specific transformation deficits (e.g., rural development and administrative capacity-building), both of which have been a positive influence on Romania’s management of the transition from socialism. However, the country’s politicians have little administrative capacity and a disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. The poor transport infrastructure remains a drag on economic development as the investment projects, mainly funded by the EU, progress slowly.

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 specializations. 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 youth left behind. On the upside, the relative size of the country and its energy independence create some room for maneuvering in turbulent times.

Structural
constraints

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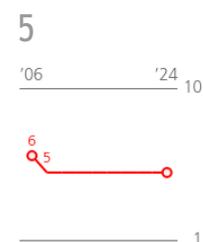
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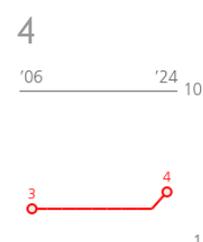
Romania’s civil society traditions have historically been weak, even before the disruptions of the communist period. Today, there is a comparatively small number of active and sustainable NGOs working throughout the country; most activists are concentrated in cities and affluent regions. Participation 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 neighboring Bulgaria or Serbia, the Romanian version of Balkan Communism was anti-intellectual in its approach and actively discouraged any form of social organization outside those controlled by the state. Civil society organizations (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. Often, the EU funds filtered by the state institutions end up in “fake NGOs,” that is, organizations created to be clients of powerful figures and siphon off resources. Politicians with authoritarian tendencies occasionally try to limit civic activity by creating unreasonable bureaucratic obstacles or cutting the sources of funds for such activities. However, with improving living standards, a burgeoning service sector and rising educational standards, a real constituency for activism and trustworthy charities is growing. 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 testifies: they won seats in both the local and parliamentary elections in 2020. New nuclei of civic and charity activism appeared during the COVID-19 crisis. Social mobilization to help Ukrainian refugees – or transport aid to Ukraine – was much faster and more powerful than the state could organize. The level of social trust in the country is very low, with only one in 10 people considering that most people can be trusted, according to World Values Survey Wave 7.

Civil society traditions



The intensity of social conflict is rather low in Romania. The high-pitched rhetoric is confined mainly to the narrow circles of politicians, commentators and the highly clientelistic media, especially TV stations owned by vested interests. To date, political campaigns have cut across social and cultural cleavages rather than overlap with them, which has limited the risk of social fractures. Ethnic tension with the Hungarian minority in Transylvania seems to be under control: occasional verbal rows may flare up in elections, but the ethnic Hungarian party (UDMR) is firmly a member in successive ruling coalitions, even when their numbers are not strictly needed for a majority, such as in 2022. It has important economic portfolios in a cabinet that continues the entrenched practice of consociationalism. President Klaus Iohannis, an ethnic German and a member of the Lutheran faith, was re-elected by a large margin for a second term in office at the end of 2019. His low approval rate today has to do with his disappointing political results, not with his minority status. Hate speech and intolerance have instead been directed against the LGBTQ+

Conflict intensity



population, who are socially stigmatized and have few advocates. As in the West, the COVID-19 pandemic encouraged the circulation of fake news and anti-vaxx conspiracies and the emergence of a radical opinion bubble opposing rational policy and compromise. To a large extent, this bubble overlaps with anti-Western, nationalist and religious-fundamentalist ones, which became more vocal after Russia's renewed aggression against Ukraine in 2022. This share of public opinion has a political outlet in the extreme-right party, the AUR, which won 9.1% in the parliamentary elections in 2020 and was credited with 18% support in opinion polls at the end of 2022. However, Romania has seen nothing of the open conflict or street violence associated with such protests elsewhere in recent years. Violence and abuse remain largely verbal and confined to a narrow section of politically inspired events.

II. Governance Performance

14 | Steering Capability

Romania continues to be characterized by a tradition of half-baked reforms, muddling through and state capture combined with deep skepticism among the population concerning state policies, low trust in institutions, and, as a result, a tendency to subvert the implementation of policies or find ways around them. To the extent something works as planned, it is the institution-building and the diligent adoption of the main common policies of the EU, adopted without much protest or attempts to create mischief in Brussels; in many ways, this is a wholesale import of steering capability. This is largely achieved by a handful of skilled and determined political operators, massively supported by international partners. Strategies do exist – in fact, they are numerous, both centrally and locally – but in general fail to make a connection with the budget process and thus tend to remain wish lists decoupled from reality. A few mayors elected in cities or a few communes are likely to be more capable than the old administrations in prioritizing and managing their constituency, but they tend to be the exception rather than the rule. The same lack of planning capacity is true of the response to the security crisis in Ukraine in 2022. Romania has been a diligent NATO team player, following the crowd rather than initiating strategies and original actions. At the end of 2021, a new, oversized coalition formed a new cabinet with the mission of addressing the simultaneous challenges of the energy crisis and regional security. But its performance was inadequate, including with regard to the former priority, which should have been easily handled, given Romania's relative energy security due to its diversity of production sources. The main anchors of policy remain the EU's Resilience and Recovery Plan, which has a matrix of governance reforms attached to money provided by Brussels, and the regular seven-year budget of the European Structural Funds. Most of the administrative capacity of the Romanian government is invested in these two exercises.

Question
Score

Prioritization

5



The consistent implementation of strategies and plans has always been the weak point of Romanian governments. In general, spending in the existing hierarchical structure works well and is executed effectively, as happened during the pandemic with the job-support program or when energy price support schemes were put in place in 2022. There is a marked preference for social spending and the distribution of vouchers or universal subsidies, not only because these measures are popular with the public but also because they require little effort and implementation capacity. Structural changes involving institutional construction are much more difficult to achieve. For example, the pro-growth fiscal package promised in the 2020 elections had to be postponed, as did the promised corrections to the public pensions system aimed at increasing its fairness and sustainability. Not even the locations of a list of seven urgently needed regional hospitals, which were agreed upon years ago with the EU, have been determined, although the money for them exists in the budget. Often, interest groups sabotage strategic orientations through party politicking or simulated implementation. There is a high degree of instability and unpredictability, especially in the taxation and regulatory regimes. The COVID-19 pandemic, the energy crisis and the war in Ukraine only magnified this uncertainty. The absorption of EU funds remains among the lowest in the European Union and is subject to data manipulation or post-factum corrections, making the absorption rate appear higher than it actually is. The poorest performers regarding the use of EU funds are not private companies or local governments, but central ministries in charge of strategic projects.

Implementation

5



The quality and consistency of policymaking in Romania continue to decline, though the COVID-19 and energy crises of the past two years have admittedly complicated the situation significantly. There is no attempt to learn from the past or respond to data-based assessments. Instead, government actions are largely inspired, mandated by or coordinated with the European Union. While this in general leads to reasonable results, it cannot count as a domestic policy success, given the fact that the Romanian authorities contribute little to EU-level debates and policy formulation. This has been especially true since 2021 because the ruling coalition has been consumed by infighting and cabinet reshuffles and has had even less capacity than usual to have its voice heard in Brussels. The Schengen fiasco in 2022, when Romania failed again to achieve acceptance into the EU's no-border area after 11 years of unsuccessful attempts, is indicative of the situation. The capacity to learn from – or even to remember – past programs and experiences remains low. Institutional memory in central government is weak and dependent on the fate of the individual civil servants who have implemented programs in the past. Policy learning at the top is limited because vested interests and party-political calculations take precedence over a sober assessment of the effectiveness and net results of policies. If anything, the capacity to learn or innovate at the top levels of government has diminished, eroded by the extreme clientelism of intraparty selection of leaders and appointments to independent agencies: underqualified individuals were in charge of the vaccination

Policy learning

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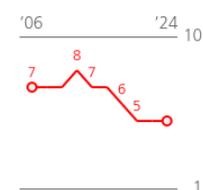
campaign, while the president of the energy regulator was completely absent from public life throughout the crisis, when important decisions had to be made and announced. The overall impression is one of a lack of leadership and direction.

15 | Resource Efficiency

The succession of crises starting with the pandemic and ending with the current war in Ukraine — with a surge in public spending and inflation in between — was not the best time for resource efficiency. Borrowed money — by the Romanian state or the common budget of the European Union — was thrown at two priorities: supporting salaries during the lockdowns and economic downturn and compensating for increases in energy prices. The budget deficit soared above the Maastricht level, to around 6%, and public debt increased to 50% of GDP. There was no time to consider the cost-effectiveness of subsidization schemes, as quantity beat quality when it came to public spending. This only magnified the pre-existing problem of low resource efficiency in Romania. Many decisions made locally, in a climate of loose budget constraints, turned out to be of a clientelistic nature or simply wasteful. For instance, in 2021, the PNL-led cabinet renewed a vast program for investments in local infrastructure (called the PNDL or Saligny Fund in its latest iteration), which duplicates EU funds, has no transparent rules or evaluation plan and no clear sources of funding. Its main purpose, as in the past, was to create a slush fund to buy the support of mayors ahead of the important National Congress of the PNL in September 2021. The decision to press ahead with this initiative led to a breakup in the ruling coalition, with the junior partner USR pushed out of government. Suboptimal spending or outright rent-seeking also continued in state-owned enterprises and territorial institutions with ministerial subordination, where nepotistic appointments of people with party affiliation became the norm. Certain public companies, owned by the government or the municipalities, suffer from overstaffing and clientelism. Public procurement remains affected by corruption and favoritism at all levels of governance. Benchmark analyses of unit costs show that public procurement produces too little 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 ministries may be demotivated by poor political leadership. The Court of Accounts, the official national auditor, is politicized and weak; its leadership consists of former party members, and its vice-president was just taken into custody while being investigated for trafficking influence on investment projects, an area his institution is meant to monitor.

Efficient use of assets

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Policy coordination in Romania has been almost completely outsourced to Brussels: the limited capacity of the government is fully consumed in the attempts to implement the commitments made previously as part of the National Plan for Recovery and Resilience (PNRR), which has a list of reform provisions attached, and the seven-year cycle of Structural Funds. The incentives to perform are high – €30 billion until 2026 for the PNRR and another €50 billion for the Structural Funds (2021 – 2027) – but performance remains poor. The response to the energy crisis in the past year and a half represents almost a textbook case of uncoordinated policy, with successive decisions adopted in a haste and modifications to just-approved laws, which created uncertainty among customers and serious administrative and financial problems for energy providers. The overall effect of the changes was to discourage new investments in the energy sector during a crisis of capacity and low production. Important sectors, such as health and education, are governed through a patchwork of short-term responses to emergencies, with no long-term plan. The foreseeable pension crisis that impending demographic trends are sure to create is being ignored, as the minister in charge declared that “learning by doing” on a yearly basis is the best strategy. Digitalizing the public administration continues to be listed as a priority, but no clear plan has been produced so far beyond the rhetoric. The routine of governing is ensured by the residual professionalism in ministries, where certain policy coordination occurs below the level of the political leadership, leading to a decoupling of bureaucratic ranks from the political levels.

Policy coordination

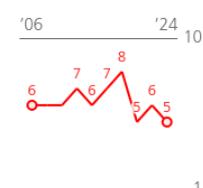
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The anti-corruption framework created before the country joined the European Union in 2007, including a specialized prosecutor’s office to deal with high-level corruption (DNA) and a national agency to manage the declarations of assets and interests of officials (ANI), continues to exist and function. However, fighting corruption seems to be less of a priority than it previously was, including for Romania’s Western partners. The real need for European solidarity in the face of the war in Ukraine has also represented a diversion from former political objectives to promote the rule of law. Some prosecutorial procedures have been weakened in the new penal code drafted by the government, while the competence to investigate magistrates was removed from the DNA. At the end of 2022, politicians finally achieved their aim to persuade the European Union to terminate the Cooperation and Verification Mechanism (MCV), meant to ensure that reforms and the anti-corruption drive in Romania and Bulgaria would continue after the EU accession. The decision was cheered publicly by the ruling coalition in Bucharest, almost like a diplomatic success against an old adversary. At the same time, there is less open fighting with the EU institutions over judiciary reform and anti-corruption in principle than there was a number of years ago. Party financing rules exist and include a hefty subsidy for parties coming from the public budget proportional to election results. These sums increased substantially after 2019 and, during the COVID-19 pandemic and afterwards, have been massively used to buy compliance from the mass media.

Anti-corruption policy

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16 | Consensus-Building

In principle, the political establishment has accepted the goals of a market economy, democracy and NATO membership. No important political actor seriously questions membership in the European Union and the military alliance, support for which remains high in the general population, especially now with a war in neighboring Ukraine. An anti-Western, right-wing party is present in the parliament, but this only makes Romania less exceptional among other EU members; before this political cycle, it was among the very few without an extremist actor in its legislature. The country is ruled by an oversized coalition, with 66% of votes in the legislature, including the party of the Hungarian minority. This looks like a stable arrangement until the next elections scheduled for 2024. A Eurobarometer survey at the end of 2022 showed Romania as one of several countries where negative opinions about the European Union have suddenly increased, but more results over time are necessary to confirm that this is indeed a real trend.

No relevant political or social actor really challenges the basics of the market economy in Romania, even though, during the 2022 crisis, ideas about price controls were aired. Most parties are ready to tolerate vested interests and rent-seeking as long as these serve their territorial organizations. The intensity of economic populism and bashing of capitalism is not higher than it was several years ago, despite the current turmoil, and lower than in some other European countries.

Support for anti-democratic actors in Romania is slightly on the rise, as a result of the social anxiety created by the pandemic and price increases in the past year and a half. The anti-system right-wing party, the AUR, is credited with about 18% of voter support in surveys conducted at the end of 2022. That may not, however, necessarily translate into votes in actual elections. The AUR's increased level of support is also explained by the Social Democrats moderating their tone and becoming more technocratic after a change in leadership in 2019: it was the PSD that traditionally occupied the conservative-nationalist, xenophobic end of the political spectrum. The AUR remains an isolated political actor, present mainly as a result of its anti-democratic discourses in the last year. In the past, the party generated organized protests.

Jingoistic, anti-European and anti-minority language continues to be broadcast on TV and social media, where various groups vie for influence by agitating against socially liberal subjects. The war in Ukraine unleashed a new set of anti-Western and anti-democratic conspiracy theories, but their effectiveness is limited by the fact that such opinions are usually associated with the Moscow Kremlin's propaganda. The degree to which intelligence services have penetrated political parties and controlled various leaders remains a concern; the mechanisms for civilian control over the intelligence community are feeble, even more so than in the past.

Consensus on goals

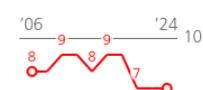
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Anti-democratic actors

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The main social cleavages in Romania are ethnic (there are sizable Hungarian and Roma minorities) and geographic (rural-urban); the last round of elections confirmed this again. Whereas the Roma (3.4% of the population in the 2022 census) are not organized politically, the Hungarian ethnic party (UDMR) consistently achieves a share of votes close to the Hungarians' share in the population (6%). Their involvement in almost every government in the last two decades has set an important standard of consociationalism and integration. The main cleavage that threatens social cohesion and political peace concerns growing socioeconomic disparities between urban and rural populations and between the winners and losers of the post-Communist transition. The disparities are visible regionally: the Bucharest-Ilfov development region has surpassed the EU average GDP per capita, but the predominantly rural northeastern and southwestern regions lag behind. Despite this, there are no truly regionalist parties to exploit these divisions; parties remain strongly Bucharest-focused, while party affiliations and voting cut across class and region, dissipating potential lines of conflict.

Romanian institutions have always been rather awkward in conducting dialogues with society, despite the legal provisions mandating such consultations and EU-inspired frameworks, such as the Economic and Social Council (CES). This tripartite body is elevated in theory and undermined in practice, treated like a rubber stamp. There has been less open hostility against NGOs among the ruling politicians in 2021/2022 than in previous years, when the center-left administration contemplated "anti-Soros" legislation, copying Russian and Hungarian laws on "foreign agents." In the current political cycle, the problem seems to be mostly disorganization and the need to respond quickly to exogenous challenges, such as the pandemic, the energy crisis and the war in Ukraine. The government praised the grassroots response of society to the wave of refugees in 2022 but was not really able to cooperate substantially with volunteers and charities. The presence of quasi-non-governmental organizations (QUANGOs) and the extent to which a number of "civil society" actors are just a front for vested interests, including some with visible connections in the military-intelligence apparatus, are concerning. Overall, the impression is of benevolent neglect on the part of the authorities, with occasional attempts to instrumentalize some social actors toward achieving narrow political aims.

There have been steps in the last few years to discuss openly and redress past wrongs, such as Romania's participation in the Holocaust during WWII: monuments of wartime leaders were taken down, and controversies emerge every time a political or cultural figure associated with the interwar extreme right becomes a subject of public discourse. This represents a measure of progress because such discussions did not exist in the past. The process was muddled by entanglements with the Communist regime, which, under Ceaușescu, revived populist-xenophobic rhetoric and informally rehabilitated some fascist leaders. Dealing with the memory and consequences of the communist regime and its secret police, the Securitate, is, by contrast, more complicated. Former officials of and collaborators with the Securitate

Cleavage /
conflict
management

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Public
consultation

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Reconciliation

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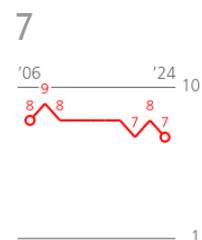
are still alive and active professionally and have created networks in politics and business that are inherited by their successors. In contrast to some neighboring countries, post-communist lustration was never actually implemented in Romania, although it has been repeatedly discussed since the fall of the old regime. In 2021/2022, there was a new push to investigate and bring to trial the political leaders responsible for the violent events of 1989 (the fall of Ceaușescu's regime), in which more than 1,000 people died, and of 1990, when miners marched on Bucharest to suppress dissent. The current lack of control of the civilian institutions over the – admittedly, reformed – intelligence services is regarded as an unsolved problem originating at the beginning of the post-communist transition.

17 | International Cooperation

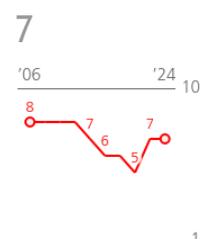
For Romania, international support falls squarely into two categories: financial, mainly from the European Union and its institutions (the EC EIB), and strategic and military, as a member of NATO and loyal strategic partner of the United States. Both are crucially important, but the country has been more efficient in making use of the latter than of the former. Diplomacy and common military actions have by tradition functioned better than the public administration, which requires EU funds to function, including at the local level. In general, these international organizations have acted as anchors of governance for goals and implementation discipline, whether it was to support the strategies and programs financed by EU funds or responses to exceptional challenges, like the pandemic or the war in Ukraine. The ruling coalition of 2021/2022 was much less quarrelsome with the European Union than the preceding regime, in general treating disagreements in a low-key fashion through diplomatic channels. Romania is among the main beneficiaries from the new European Recovery and Resilience Facility (it receives about €30 billion), which is in addition to the regular seven-years budget allocation (some €50 billion), but concerns about the feasibility of the projects included and its ability to spend the sums remain. Especially concerning is the commitment of the ruling coalition to implementing the structural reforms (pensions, energy, public salaries) required under the European Recovery and Resilience Facility, which raises doubts about the inflow of funds.

Romania is a signatory to major international treaties and agreements (e.g., the Paris Accords, the Istanbul Convention, key ILO conventions, the ICC, etc.). The important change in the last two years is that the president, the solid parliamentary majority and the cabinet speak with one voice abroad, avoiding the frictions of the past and spats with the European Commission. They have been reliable team players regarding all important decisions made at the EU level, never blocking decisions and cooperating willingly as part of NATO when Russia's aggression against Ukraine escalated in 2022. In the global game of decoupling from Russia and China, the authorities in Bucharest clearly chose a side and never made ambiguous statements. On the downside, this institutional consensus occurs in parallel with an erosion of the

Effective use of support



Credibility



personal credibility of Romania's leaders: President Iohannis approaches the end of his term in office and his international stature is diminished; the cabinet is undermined by many ministers' lack of political weight and accusations of plagiarism (including against the prime minister); the leading Liberal Party (PNL) appears void of true leaders and direction. The failure to join the Schengen area in 2022, while not entirely the fault of Romania, underlined again its current leaders' lack of profiles, initiative and European connections. At the same time, the commitment to cooperation within NATO was limited to discourse without an action-based contribution.

Romania continues to be rather ineffective in playing an active role in European Union decision-making processes concerning the region, largely because of poor policy planning capacity and inconsistency in following up on its own priorities. It remains more of a receiver than a provider of ideas and resources for cooperation. During the pandemic and the energy price turbulence in 2022, it was barely able to copy and implement the EU guidelines and frameworks. Offering regional leadership on issues was out of the question. Bucharest has created an agency to fund overseas development assistance (ODA), but its budgets are small and the process is too bureaucratic for the programs to have an impact or project influence abroad – or sometimes even begin. There was also little cooperation with Bulgaria on the Schengen dossier, an issue that is crucial to both countries at a time when Sofia has an interim government and early elections are looming. The exceptions to this picture are two: first, help was quickly mobilized and provided to the Republic of Moldova when it faced a severe energy shortage in the form of connections, gas, electricity and other fuels at a capped price. Second, after Russia's full-scale invasion of Ukraine in February 2022, the Romanian government supported Ukraine not just as a NATO member, following the shared decisions of the alliance, but also on a bilateral basis with logistics, mainly in the form of transport capacity, and by opening the borders, labor market and social services to Ukrainian refugees. Overall, the same old pattern seems to subsist as regional cooperation works when Romania is part of a hub-and-spoke format led by a Western partner. There is little initiative or capacity to execute actions when such a framework is missing.

Regional cooperation

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Strategic Outlook

At the beginning of 2023, Romania confronted two types of challenges. One is exogenous and includes the war in Ukraine, the ongoing energy supply crisis and high inflation – it necessitates a strong ability to prioritize and implement policies. The other is endogenous and linked to the enduring consequences of ineffective governance: a limited administrative capacity within the state, delayed reforms in key sectors, clientelism and deprofessionalization in political life (including at the highest levels) and a declining commitment from leaders to continue the anti-corruption fight mandated by the EU.

In 2022, the initial set of challenges served as a pretext to evade acting on the second set, in which domestic actors have complete agency. Assisting Ukraine and implementing price support schemes for gas and electricity should not be seen as alternatives to, but rather as supplements to, domestic governance reforms specifically aimed at enhancing Romanian society's resilience to shocks. However, the current coalition, which commands a majority of 66%, is fully engrossed in internal party conflicts and a peculiar "rotation in power" arrangement that is scheduled to occur in May 2023. During this time, the Liberals and Social Democrats will exchange the position of prime minister and, quite possibly, some ministries as well.

Such plans show that the parties' main priorities are the 2024 elections – local, parliamentary, presidential and European. A long electoral campaign will precede these, leaving little time and energy for the structural reforms included in the Recovery and Resilience strategy approved by the European Commission. At least a few sectors require special attention: pensions – including true reforms to the lavish, non-contributory ones of magistrates and military personnel – public salaries, investments in new hospitals and real e-government projects that make sense, improve the administration's functioning, not just waste funds, and bring budget deficits under control, including by improving the tax collection rate (27.3% of GDP, the second lowest in the EU). Without such reforms, it will be difficult for Romania to ever join the eurozone (an Accession Treaty obligation) and the OECD, the club of highly developed countries.

Economic growth is likely to continue, at least if Russia's aggression does not spill over into other countries of the region, the Western partners remain united and the European Union is functional, as in 2022. However, the feeling has always been that sustained growth is an achievement of society and private entrepreneurs, working mostly in spite of – and not helped by – the government's policies and the open access to the European Single Market. If structural reforms are difficult and electorally costly, political leaders could at least attempt to get the country accepted into the no-border Schengen area: a few sectors, like transportation, suffer from permanent delays at checkpoints, and the cost of non-membership is an estimated 0.5% of GDP in foregone growth. The causes of rising euroskepticism in society must be identified and addressed so that openly anti-Western domestic actors such as the AUR cannot capitalize on public discontent. The likelihood of such forces gaining traction in society is limited, since all other political actors use the cordon sanitaire approach to isolate them.