

BTI 2012 | Romania Country Report

Status Index	1-10	8.17	# 16 of 128	
Political Transformation	1-10	8.55	# 14 of 128	➔
Economic Transformation	1-10	7.79	# 19 of 128	➔
Management Index	1-10	6.41	# 22 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	21.4	HDI	0.781	GDP p.c.	\$	14287
Pop. growth ¹	% p.a.	-0.2	HDI rank of 187	50	Gini Index		31.2
Life expectancy	years	73	UN Education Index	0.831	Poverty ³	%	<2
Urban population	%	54.6	Gender inequality ²	0.333	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, severe political struggles continued between Romania's President Traian Basescu and his critics in parliament. In October 2009, the government of Prime Minister Emil Boc collapsed after the Social Democratic Party (PSD) withdrew from its coalition with Boc and Basescu's conservative Democratic Liberal Party (PDL). The parliament rejected Basescu's first prime ministerial nominee and refused to hold hearings about the government proposed by Basescu's second candidate. Basescu won the presidential election by a narrow margin against his PSD challenger in November 2009. In a referendum held alongside the election, the majority of Romanian citizens also supported the president's initiative to abolish the second chamber of parliament and to reduce the number of parliamentary mandates. The PSD charged the president with electoral fraud, but the Constitutional Court rejected their complaint in December 2009. Following Basescu's re-election, Prime Minister Boc entered into a new governing coalition with Romania's ethnic Hungarian party the Democratic Union of Hungarians in Romania (UDMR) that survived four no-confidence votes and a wave of protests against its austerity policies in 2010.

As far as the rule of law is concerned, according to the July 2010 EU Report under the Co-operation and Verification Mechanism, "Romania did not show sufficient political commitment to support and provide direction to the reform process and demonstrated a degree of unwillingness within the leadership of the judiciary to cooperate and take responsibility." Additionally, the structural socioeconomic deficits (i.e., large urban-rural disparities, unsustainable fiscal policies and an agricultural sector absorbing 30% of the labor force for 7% of GDP) have been covered up by high growth rates over the past five years. Romania was particularly vulnerable to the global economic crisis because the government's social security spending was not covered by tax income, FDI was low and the weight of remittances from workers abroad in public consumptive spending high. The global economic and financial crisis has hit the Romanian economy hard, but not harder than many other economies in the region:

GDP growth fell from 7% to -8% and domestic consumption and tax revenue dropped substantially.

Consequently, the government's options have shrunk: Suddenly, governments used to dishing out privileges to clientele and making populist pre-election gestures to key constituencies had to face tough choices between spending and making immediate austerity measures to restore fiscal balance, while pushing through long-term strategies for economic recovery.

The party spectrum in Romania managed to develop beyond the old dichotomy of post-communists and democratic opposition, and individual party leaders and their entourage became less important than the enhanced socioeconomic profile and societal relevance of the parties. However, the crisis failed to galvanize the parties into joint action and responsibility.

Although the political choices of the populace were fairly stable, the political leaders of the PDL and the PSD preferred politicking and party interests to crafting a national crisis strategy. During the height of the crisis, Romania was governed by a PLD–PSD coalition characterized by infighting, a minority government and a weak interim government. There were incidences of heavy-handed political interference by the president, the politicization of the Constitutional Courts and the use of all the political instruments allowed by the constitution – and a few others – for the aggrandizement of the parties themselves. This provided neither much-needed crisis management nor an improvement in the all-time low of public trust in politics. Against this backdrop, it is miraculous that extremist parties did not gain ground.

In 2010 it took substantial financial help, policy guidance and arm-twisting by the IFIs and the European Union to make the Romanian government change course and enact serious policies to stem corruption, to reform the judiciary and the administration and to adopt some unpopular austerity measures. Political vision, courage and responsibility were to no small part induced by external partners and by an increasingly assertive civil society.

History and Characteristics of Transformation

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

Despite a breakthrough strategy after the communist takeover in 1945 – 1947, the postwar political system has perpetuated some of the deficits of the prewar period, especially during the last decade of Nicolae Ceausescu's rule. Once more, an external model of modernization was grafted onto a Romanian reality. Political elites continued to perceive the state and the bureaucratic apparatus as their property rather than as a policy instrument. This resulted in rampant nepotism, etatism and simulated reforms, even in the more liberal decade following 1965. By the early 1980s, the combination of an autonomous foreign policy and Stalinist approaches to modernization and domestic control had run its course, resulting in nationalist mobilization and economic decay.

There was no outspoken and influential opposition, partly because the Ceausescu clan monopolized national(ist) mobilization and repressed any organized dissent or independent voices within the party. The revolution of 1989 was essentially a power struggle among different segments of the nomenclature rather than the promising beginning of a political transformation. Thus, although Romania was the only country in East-Central Europe to witness a violent end to communism, the net outcome was generally rated as more of a “palace revolution” within the nomenclature than a clear break with the past. Being highly distrustful of market economics and pluralist democracy, and facing some distinct disadvantages in comparison to most of the other Eastern European EU-accession states, Romania increasingly fell behind in the reform process.

When the democratic opposition finally won the presidential and parliamentary elections in 1996, expectations were correspondingly high. The new center-right government of President

Constantinescu and the Democratic Convention of Romania (DCR) initiated the restructuring of heavy industries and the mining sector, liquidated economic black holes, consolidated the banking system, privatized several large state-owned enterprises, liberalized most input prices and established the full convertibility of Romania's currency. As the various DCR-led governments lacked political coordination and failed to settle their internal political differences, they lost the presidency and the parliamentary majority in 2000. This period had a better record for reform dynamics than for actual implementation. Ion Iliescu was elected (again) as president, and a minority government of the PSD led by Adrian Nastase entered into office with the support of the UDMR. As a result, those who had taken over power after Ceausescu's fall in the December 1989 revolution were back in office. The amateurish politics of President Constantinescu and the center-right Democratic Convention (1996 – 2000) created reform fatigue and political disillusionment among the electorate. The broad impression of policy failure was only partially justified, but added to the extreme uncertainty and hardship among those who lost out in the reforms.

While many politicians from the first and second Iliescu presidency (1990 – 1996) returned to power “sadder and wiser” in 2000 after four years in opposition, most political parties now feature younger management for the first time since the revolution of December 1989. The stability of the political system, however, has been deceptive and is based on shrewd control and clientelism rather than on a culture of constructive policy-making. Simulated reforms, etatism, nationalist rhetoric and blurred distinctions between the state, parties and private sector are still

very much present in Romania. Overall, the new leftist government has done better than most analysts predicted, probably because popular expectations were at an all-time low and because the process of EU integration provided much-needed assistance as well as the basic framework and incentives for reform. The macroeconomic balance management was especially – and somewhat surprisingly – successful under the re-labeled PSD, and good control over public expenditures left the country with very low deficits at the end of 2004. They also managed to conclude all the *acquis* chapters negotiated with the European Union, albeit with notable red flags concerning the judiciary, the battle against corruption and institutional preparedness for EU funds.

Romania's economic reforms suffered from some limiting framework conditions, including erratic management and wavering popular support for economic and political transformation. The size of the national economy and the predominance of a poorly mechanized agricultural sector, on the one hand, and run-down, obsolete industrial complexes on the other hand, have made transformation particularly challenging. Ceausescu inflicted much damage in his quest for autarchy, by paying off foreign debt at the expense of domestic consumption and investment in capital goods.

Most governments have been reluctant to implement reforms that would impose temporary hardships and thereby make them unpopular, whereas the 1996 – 2000 DCR coalition and the 2010 governments stand out as exceptions.

The first decade of transition was hamstrung by hesitations over price liberalization and employment reduction, producing legacies of bad credit, backlogs in large-scale privatization and hidden unemployment. The changes of government and the absence of a coherent plan with enough public and political backing have resulted in erratic transformational policies, especially regarding privatization and its ever-changing laws and institutional frameworks. This has made both the Romanian population and international investors extremely wary. Overall, the hesitation over engagement in profound transformation has been self-defeating. Critical resources for constructive policies have been depleted by the loss of the initial momentum and the lack of competitiveness for Western investment within the former Eastern bloc. Eventually, the crisis of 2009 – 2010 managed to improve reform discipline in Bucharest.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is uncontested throughout the territory. Autonomist and secessionist rhetoric among some representatives of the Hungarian minority has entered the political debate, but it poses no threat to state sovereignty. The extremist Hungarian Civic Party (HCP) remains a marginal political force as the majority of Romanian Hungarians vote for the establishment UDMR.

By historical tradition, the Romanian concept of the nation-state is defined strongly in terms of ethnicity. The Romanian Constitution defines the nation in ethnic terms ("national sovereignty resides with the Romanian people") and provides the normal guarantees of liberal constitutionalism. Attempts to introduce a civic concept of identity that includes the strong Hungarian and Roma minorities have thus far failed to find acceptance beyond formal legal texts. The integration of Roma, in particular, is hindered by widespread stereotypes and discriminatory practices. Support for nationalist-extremist, openly anti-Semitic and xenophobic parties and movements has been declining for some years (e.g., the extremist, xenophobic and anti-Semitic Greater Romania Party (PRM) received 13% of the vote in the 2004 elections but only 3% and no seats in the 2008 parliamentary elections). Evidence from public life and political rhetoric, however, indicates that societal perceptions of citizenship may be out of sync with constitutional stipulations guaranteeing civic rights and that entrenched discriminatory attitudes still linger in society.

Nevertheless, the state's constitution and official citizenship are not directly challenged, and support for outright political extremists seems to be declining: The PRM managed to reach the run-off of the 2000 presidential elections, but in the 2008 parliamentary elections both the PRM and the fascist New Generation Party Christian Democratic (PNGCD) failed to pass the 5% threshold. Political rhetoric and everyday practice do, however, deviate substantially from inclusivist concepts

Question
Score

Monopoly on the
use of force
10

State identity
9

of the nation and civil rights. Despite this, it should be noted that the UMDR has played a relatively prominent and stable role in Romanian politics.

Since the end of communism, the Romanian Orthodox Church has remained independent from politics, and religious dogma has not had an impact on state policy-making. Laws on registration continue to pose obstacles for minor denominations, as does the government's distinction between recognized and unrecognized churches. The number of incidents in which interference occurs despite the constitutionally guaranteed freedom of religion seem to be decreasing.

No interference of
religious dogmas
9

Romania has reformed its state institutions since 1989 with increasing EU assistance and guidance. Administrative structures and resource allocation encompass the entire country. The EU accession process and Romania's status as an EU member state as of 2007 have further consolidated basic administration and state functions throughout the country. Local deficiencies remain, but coverage and quality are gradually improving.

Basic
administration
10

2 | Political Participation

The elections in the period under review comprised parliamentary elections in November 2008, European elections in June 2009 and presidential elections in November 2009 (won by a narrow margin by the incumbent Basescu). All were reported as being free and fair, but reports on fraud, unethical campaigning and manipulation as well as mutual incriminations were detrimental to the status of democratic institutions. The biased radio and televisual coverage of several elections was criticized once more. Obviously, the newly created Permanent Electoral Authority failed as an independent overseer. The presidential elections in particular were determined by scandals and polarization. Nevertheless, the fact that the elections and subsequent coalition-building processes functioned without any risks being presented to the system of democratic representation shows that the Romanian political landscape has been consolidated and democratic procedures have been accepted, despite all the damage done to public trust in politics. There are no relevant de jure restrictions on suffrage, and no groups are barred from executing their passive or active electoral rights. Only the high thresholds for parties (5%) and for political alliances (8% – 10%) have been criticized as being slanted in favor of the major contenders, resulting in a substantial loss of votes.

Free and fair
elections
9

Democratically elected rulers do have effective power to govern. No political enclaves exist, although some interest groups and stakeholders have disproportionate political influence and may be viewed as possessing limited veto powers. Managers from state and private corporations and trade unions have the power to block reform processes, meaning that Romania ranks high in state capture indices. Because democratically elected representatives and institutions tend to

Effective power to
govern
9

block each other, some of the responsibility for continuity and governance has shifted to lower echelons of power in the center (rather than being decentralized). EU membership requires a high level of effective governmental power and the non-existence of enclaves of veto powers.

Romania's 1991 constitution guarantees the usual political and civil liberties, including freedom of expression, association and assembly. In practice, civil society's association and assembly rights are hampered by administrative means, and the activities of unwelcome, critical NGOs are obstructed at both local and national levels. Political parties and government agencies have recently tried to co-opt or employ particularly critical civil society representatives or NGOs. Alternatively, they try to discredit them by smear campaigns conducted through politically biased media sources. In 2008 a retroactive law with unclear provisions was passed requiring associations and foundations to be dissolved if somebody considers their name objectionable. Although the law was amended in early 2009, this is a sign of the constant pressure that critical groups have to live with in Romania. Ironically, the opposition parties currently seem more concerned than the government with constraining civil society.

Association /
assembly rights
10

Freedoms of opinion and the press are generally protected adequately. Although most media outlets continue to have a clear political preference, the culture of political reporting is changing, and overt political interference is declining. In terms of in-depth analyses and public interest in high politics, it may be argued that political reporting has been deteriorating rapidly over the last few years.

Freedom of
expression
8

The measures taken have failed to change the basic fact that journalistic professionalism is often overruled by the vested interests and political affiliations of the media outlets' owners. The fact that several key NGOs prioritize media freedom and access to information indicates that not all is well in the Romanian media. Similarly, the fact that the National Defense Council identified mass media as a security threat in its 2010 draft strategy does not bode well for freedom of the media as a fundamental right.

3 | Rule of Law

State powers in Romania are independent; the constitution provides for a separation of powers and checks and balances in the political system. Much like the previous tug-of-war between the cohabitating president and prime minister, the new tug-of-war between PSD and PDL has severely compromised the separation of powers, the autonomous standing of parliament and the Constitutional Court's position outside politicking. This is once more indicative of the political elite's disrespect for the separation of powers and proper democratic procedure as a value in its own right. Conversely, the political equilibrium has contributed to the Constitutional Court

Separation of
powers
9

taking a more evenhanded, if not apolitical position, sometimes ruling in favor of the ruling parties, sometimes in favor of the opposition. For instance, the court ruled against some chapters of the law on setting up the National Integrity Agency (ANI) in April 2010 and decreed the 15% pension cut to be unconstitutional in July 2010.

The ongoing conflict between the executive and legislative branches, on the one hand, and the judiciary's powers over anti-corruption prosecution on the other, has threatened the independence of the judiciary and has been detrimental to public trust. The much-delayed reform of the civil and criminal procedure codes was finally decided upon by parliament in June 2010. However, the subsequent political crisis once more delayed the actual implementation of these EU-demanded reforms. Parliament has clamped down on the independence of the ANI in pursuing anti-corruption strategies since the Constitutional Court declared some of its competencies unconstitutional. The judiciary is institutionally differentiated, but time and again procedures are subject to politically motivated amendment and politicking (e.g., the elections to the superior council of the magistracy). In 2009 the choice of a new prosecutor general was also drawn into the political arena. Overall, however, the judiciary can be judged as more independent than previously because top officials from the ruling parties were investigated and convicted for the first time. Also, magistrates at the highest level were investigated – another novelty and a sign of change in the profession. However corruption among magistrates remains a serious issue.

Independent
judiciary
8

During the period under review, politicians in Romania were caught between the priority attached by the public, vocal national NGOs and the European Union to the fight against corruption and their own wariness of a strong and independent agency. Consequently, anti-corruption often featured in political programs and speeches, but the Constitutional Court and parliament were quick to curb the competencies of the National Anti-Corruption Directorate (restored under pressure from the European Commission) and the ANI. These institutions nevertheless developed public trust and a professional ethos of their own as well as a substantial track record in dealing with cases of corruption and abuse of public office. Progress in this respect seems structural, but political backing remains half-hearted at best. Conversely, media accusations of corruption by the main parties are detrimental to the credibility of anti-corruption agency, but also indicative of the increasing authority and reach of these institutions in the political sphere.

Prosecution of
office abuse
7

In line with EU norms, all formal legal guarantees for a fair process for equal treatment and non-discrimination legislation are in place. However, EU monitors have criticized the arbitrariness and incoherence of court verdicts and the backlog of court cases. Human rights organizations, moreover, continue to report cases of, for example, police violation of basic human rights and generally inhuman and degrading treatment in Romanian penitentiaries. As underlined by EU reporting,

Civil rights
9

Roma communities continue to suffer from various forms of social and ethnic discrimination.

4 | Stability of Democratic Institutions

The ability of democratic institutions (government, president and parliament) to work together has been severely compromised. In the immediate aftermath of EU accession, politicking produced embarrassing deadlocks in decision-making and reform strategies. Later in the period under review, the enmity between the PDL president and the competing PSD brought legislation to a grinding halt. Despite the impact of the global economic crisis and consistent criticism/guidance from the European Union, all major parties focused on politicking and populist measures rather than joint crisis management and democratic cooperation. The grand coalition resulting from the November 2008 elections was characterized by endless infighting and its demise in September 2009 resulted in a succession of caretaker, minority and weak governments unable to deal with the crisis and, moreover, sabotaged by the other parties through votes of no-confidence. Quite remarkably, the Eurobarometer 2010 indicates that Romania is the EU country with the highest confidence among citizens that the national government (rather than the EU) will solve the economic crisis. One explanation for this trust may be found in the fact that despite all obstruction and politicking, the crisis and EU pressure have forced governments to take some unpopular decisions (e.g., pension cuts) and initiate major reforms (e.g., education reform or the restructuring of parliament to unicameralism by referendum in November 2009).

Performance of
democratic
institutions
8

Although political actors do accept the democratic institutions in principle, they are not above bending the democratic principle of the separation of powers or the rules of democratic procedure. All relevant political players occasionally resorted to the abuse of democratic instruments for party interests and to the use of strategies of doubtful democratic quality, ranging from populist measures, the use of media outlets and incriminations that obstructed democratic decision-making to referendums and the abuse of the Constitutional Court for political interests. These abuses, however, refer to political culture rather than to the formal democratic rules. The frequent votes of no-confidence, the referendum on unicameralism initiated by the president and the involvement of the Constitutional Court in the education bill are within the limits of democratic political procedure.

Commitment to
democratic
institutions
9

5 | Political and Social Integration

The changes in the electoral system failed to fully produce the expected positive effect on the political landscape. Firstly, the parliamentary and presidential elections were separated by prolonging the president's term of office to five years (in 2004).

Party system
8

This attempt to de-politicize procedures failed as the narrow victory in the presidential elections of November 2009 nevertheless triggered a government crisis after less than one year of PDL–PSD coalition. Secondly, the shift from a proportional to a mixed electoral system was intended to enhance the societal roots of the political parties, but any effects were largely offset by the glaring politicking during the economic crisis, the ongoing clientelism and populist measures as a negative form of responsiveness to voters. Due to the high threshold, party fragmentation is low, with only five parties in the 315-seat Chamber of Deputies. The leader-driven aspect of these parties is still relatively high, with a few well-known politicians taking most of the inner-party and national decisions. Despite voter volatility, the results of the European, presidential, local and parliamentary elections of the past two years suggest a fairly stable constituency for each of the major parties, although the cross-party migration of individual member of parliament is still an issue.

The party system has increased its responsiveness to societal constituencies and the major parties are increasingly rooted in society rather than being leader-driven. However, the political elite continues to be wary of CSOs that channel public interests and act as watchdogs. Correspondingly, the political system lacks incentives and points of access to allow NGOs and societal interest groups to join the decision-making process. Some NGOs and their civil-rights agendas have enough international backing and domestic standing to influence politics to some degree. Both the largest political parties eagerly create NGOs, think tanks and polling institutes to occupy this increasingly important political arena. Conversely, key democratic interest groups such as trade unions are weakly developed, politically bound and by no means strong social partners in their own right.

The falling popularity of anti-democratic, extremist parties continues, and demonstrates the consolidation of democratic institutions and a democratic political culture. Nevertheless, polls indicate that the general level of trust in these very institutions is low. Likewise, although there have been some recent improvements, public trust in national political institutions remains low. A spring 2010 Eurobarometer report registered an average trust of 10% for the government and 12% for parliament (with a clear negative trend) – a European low. The ratings for political parties are similar. A never-ending series of corruption scandals and public infighting goes a long way explains the ebb in political trust, but it apparently does not translate into support for anti-system parties or movements.

CSOs tend to advocate the interests of specific social groups, whereas larger, internationally connected NGOs tend to be quite isolated from constituencies in Romanian society, although it may be assumed that constituencies and awareness at least in the urban middle class are growing. Due to the country's long socialist tradition, people are more inclined to resort to state assistance and guidance than to societal self-organization groups or – in the case of the winners in the

Interest groups
7

Approval of
democracy
9

Social capital
6

transformation process – to opt for a highly individualistic approach. Advocacy organizations and civil society coalitions tend to focus (with increasing effectiveness and influence) on single issues, most prominently anti-corruption, the environment or conflict of interest and transparency during the 2008 parliamentary elections. Conversely, the role of broad, general-purpose NGOs with substantial national and/or international funding and expertise seems to have declined along with EU accession (and thus the replacement of pre-accession European Commission funding with structural programs administered by national ministries, who prefer “tame” projects, not watchdog or activist NGOs). Typically, social capital is interpreted as traditional networks of solidarity belonging to rural environments, not to the dynamic urban circles of the service sector, internationalization and prosperity.

II. Economic Transformation

6 | Level of Socioeconomic Development

Due to growing urban–rural disparities in the processes of socioeconomic transformation and European integration, social exclusion is structurally ingrained in Romania. Gender is scarcely a factor, as the GDI is close to 100% of the HDI, but other UNDP poverty-related indices indicate that poverty, though not extreme, is a serious and substantial problem. FDI and economic growth are strongly focused on the capital, a handful of major cities and the Western regions, whereas rural underemployment persists as a structural problem. Nation-wide, the steady increase of life expectancy suggests improvements overall. Conversely, the HDI has not increased over the past three years (2008: 0.765, 2010: 0.767), but neither has it declined despite the crisis. One indicator: The World Bank applauded Romania for its achievements in poverty reduction in the years prior to the economic global crisis. The situation of the Roma community deserves special reference. Their access to education and health services (and less so to welfare support) continue to be serious issues.

Question
Score

Socioeconomic
barriers
7

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	169282.5	200071.1	161110.3	161623.7
GDP growth	%	6.0	9.4	-8.5	0.9
Inflation (CPI)	%	4.8	7.8	5.6	6.1
Unemployment	%	6.4	5.8	6.9	-
Foreign direct investment	% of GDP	5.9	6.9	3.0	2.1
Export growth	%	7.8	19.4	-11.8	10.5
Import growth	%	27.3	17.5	-24.6	10.5
Current account balance	\$ mn.	-23080.0	-23719.0	-6955.0	-6480.0
Public debt	% of GDP	19.8	21.3	29.6	35.2
External debt	\$ mn.	84162.2	102486.7	118007.6	121504.8
Total debt service	\$ mn.	11568.1	18123.2	16294.5	18545.2
Cash surplus or deficit	% of GDP	-2.3	-4.6	-	-
Tax revenue	% of GDP	11.8	17.9	-	-
Government consumption	% of GDP	13.2	15.5	15.2	15.4
Public expnd. on edu.	% of GDP	4.3	-	-	-
Public expnd. on health	% of GDP	5.2	5.4	5.4	-
R&D expenditure	% of GDP	0.53	0.59	-	-
Military expenditure	% of GDP	1.5	1.5	1.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

With EU accession, the institutions of a market economy are in place and include the freedom of trade and currency convertibility. Whereas in the first phases of the transformational process, Romania was rightly criticized for reserving too large a role for the state in economic development, since then legacies of overregulation exist in parallel with virtually unhampered forms of business practice beyond the

Market-based
competition
8

control of the authorities and regulations. Legal and illegal emigrant workers and their remittances contribute substantially to the subsistence of families back home.

While formal regulations prohibiting monopolies do exist, the Competition Council and other market arbiters – though fully in line with the *acquis* chapters – are still weaker and more timid in reality than they should be. In 2010 the Competition Council took on a more active role – especially in the key area of the restructuring of the national energy market, where there was a real danger of one company achieving a dominant position. The Competition Council also handed out a major fine to the Romanian Post for abuse of its dominant position. In recent years, economic matters including competition laws have not featured in the EU reports on Romania. In 2009, the Competition Council adopted a more proactive stance and initiated cooperation with a think tank to investigate monopoly issues in vulnerable sectors of the economy (banking, retail, pharmacy, liberal professions, energy, concessions and the taxi sector).

Anti-monopoly
policy
9

With EU accession, Romania has become a full member of the common market. All restrictions imposed by tariff and non-tariff trade barriers have thus been abolished.

Liberalization of
foreign trade
10

The banking sector has been restructured to European standards. Predictably, Moody's assessment of the general outlook for the Romanian banking sector in 2009 was negative because of the global financial crisis. After several profitable years, the solvency of Romanian banks was not an issue, but loan delinquencies increased and the banks shunned risks in business credits. As the banks were already overly cautious they avoided insolvency risks, but contributed little to the recovery of the economy.

Banking system
9

8 | Currency and Price Stability

Evidently, investors consider Romania a risk country in the current situation. FDI has declined sharply, and the foreign exchange rate reacts to political events such as the autumn 2010 no-confidence vote. Overall, the exchange rate of the Leu is declining, and depreciation is likely to continue for some time. (Long-term foreign currency rating: Moody's Baa3 and BB+ according to S&P and Fitch). With government austerity measures implemented, inflation increased sharply, especially in connection with the 5% rise on VAT.

Anti-inflation /
forex policy
9

The Romanian government clearly lived beyond its financial means, relying on a continuation of the 2003 – 2008 boom and exacerbating the fiscal and external balance by lavish spending on key constituencies and government apparatus just before the 2008 elections. As a consequence, IFIs and the European Union had to bail Romania out with a substantial assistance package of some €20 billion for 2009/2010 with strict conditionalities. The government had to decide on a drastic

Macrostability
8

rise in VAT, a 25% cut in state salaries and painful reductions in state-funded social benefits. Still, external balance and fiscal balance have not been attained. The European Commission's latest figures predict a public budget balance of -7.3% of GDP for 2010 and -5.5% current account balance. The upward turn, moreover, is expected to take longer than in most other EU-countries (with the exception of Latvia). GDP contraction and rising unemployment will affect the tax inflow in 2010. Out of pure necessity, government policies are now focused on macroeconomic stability, but the past two years have demonstrated their tendency to give in to populist pressures and electioneering strategies.

9 | Private Property

Although Romanian legislation on the acquisition and protection of property rights is generally in line with the EU acquis, there are still deficits in the protection of intellectual and industrial property rights despite stepped-up efforts to prosecute copyright-related crimes (e.g., efforts made by the National Customs Authority). Overall, Romania is gradually becoming more business-friendly in terms of procedures and their duration. The restitution of property nationalized by the communist regime also remains an issue, though less severe than in the past decade.

Property rights

9

As an EU member state, Romania's infrastructure for facilitating private enterprise is firmly in place. The state even offers competitive taxation regimes for foreign investors. However, as far as the number of official procedures required to start a business are concerned, Romania is not rising on the World Bank's Doing Business rankings. The country ranked 54 in 2010 and 56 in 2011, though it should be noted that this places it not far below the regional average. The post-communist privatization process is largely over. In strategic sectors (energy), privatization plans have stalled for some years, but are largely in line with the principles of market economy.

Private enterprise

9

10 | Welfare Regime

Social security is organized by the state and covers all relevant risks in principle. As the incidence of poverty indicates, social security functions on a subsistence level throughout the country. Similarly, although health care is available for all citizens throughout the state territory, it is inadequate, especially in rural settlements. More importantly, social disparities and inequality in access to health care and basic services continue to exist. Romania's health care system has been negatively affected by EU accession: Romania has one of the lowest health budgets (and highest death rates) in the EU-10, jeopardizing access to medicines for all citizens. As Romania joined the EU market, pharmaceutical prices rose and patients are now often forced to pay half or more of the costs of vital treatments. Additionally,

Social safety nets

7

Romania has been less active than most other EU countries in dealing with the upcoming retirement of the baby-boomer generation. Early retirement has been widely used, and the employment rate in 2009 was only 59% (Eurostat figures). Social safety nets are pretty comprehensive, but many components are poorly targeted. The system is over-extended by comparison with the resources made available to it and promises more than it can deliver.

In 2009/2010 the government started to address this imbalance, but the direction was not one way: Many benefits were reduced, but the “minimum pension” was put in place to extend assistance to the poorest categories of elderly people.

One key effort concerned the controversial 2010 pension reform that introduced a uniform pension age, causing clashes both within parliament and between parliament and president.

Romanian society retains elements of heterogeneity and discriminatory access. Education, basic social security and health care offer limited compensation for social inequality. Egalitarian attitudes are widespread in the state-provided services, but a lack of resources is paramount. In the long run, the main threat to state welfare services is represented by a gradual depletion of assets and a decay of infrastructure maintenance. The UNDP gender-related indices and other relevant indicators no longer suggest progress but rather stagnation. Disparities are first and foremost socioeconomic, and while the existing policies and institutions are consolidated enough to prevent socioeconomic deterioration, they are not powerful enough to compensate for gross social differences and to achieve equality of opportunity. The UNDP gender-related indices show that Romania still banks on past equal-opportunity policies and some recent transition trends: Women are not disadvantaged in education and are even overrepresented in higher education, but may earn less in similar positions. As an illustration: The present parliament consists of almost 300 male and a mere 38 female deputies. Romania’s success in World-Bank-guided poverty reduction may be off-set by the current crisis, which is bound to hit the weakest in society first and hardest. The plight of the Roma communities in terms of access to health care and education indicates a weakness in the Romanian state-provided services.

Equal opportunity

7

11 | Economic Performance

Romania’s economic performance in the global crisis has been relatively poor. The crisis has revealed the structural weaknesses and vulnerabilities underneath the substantial growth rates of the past few years. After several years of 5% – 10% GDP growth, 2009 ended with -8.5%. Net FDI inflow had increased seven-fold from 2003 to 2008, but dropped to 2005’s level in one single year of the crisis – half the level of 2008. Similarly, remittances had climbed steeply since 2004, but halved

Output strength

7

in 2008 to an amount similar to FDI. The crisis affected imports rather than exports and all three economic sectors were hit to a comparable degree. Inflation dropped from 11.6% to 6.5% and unemployment did not increase dramatically (from 5.8% 2008 to 6.9% 2009). The European Union and IMF put pressure on the Romanian government(s) to face the consequences of excessive spending and to restore order in public finances by addressing fiscal imbalances and taking unpopular measures (e.g., reducing pensions, raising VAT, cutting salaries of state employees etc). One structural weakness related to the regional and urban/rural disparities remains: Agriculture produces 7% of GDP with 30% of the work force.

12 | Sustainability

To some extent, environmental hazards have been reduced by deindustrialization, but industry-related air pollution is still significant in some cities and in the northwestern part of the country. The Danube delta wetlands are threatened by water contamination. Although Romania has managed to close negotiations on the relevant acquis chapter, in practice, the implementation of EU environmental-protection standards is far from perfect. Nevertheless, in relative terms progress has been substantial on the ground. The government has clearly become more aware of and more proactive about environmental issues as a result of EU accession negotiations, although many initiatives are still pushed by international organizations (e.g., the UNDP) and CSOs. Concerns about a reliable and clean water supply and promoting energy conservation/efficiency are being addressed in compliance with EU environmental standards and international conventions. In November 2008, the Romanian government also endorsed a comprehensive national strategy for sustainable development. Romania's Environmental Performance Index score is well within in the range of the EU-10 countries.

Environmental
policy
8

The main problems in Romania's education system and R&D investments concern not the general level of education, but the uncontrolled mushrooming of non-accredited institutions of higher education. Likewise, although government spending on education has improved the allocation of resources is skewed in favor of (public) higher education. Overall, state controls on quality lag behind, although a law adopted in late 2010 may address this issue. Economic competitiveness and the closure of the urban-rural quality gap require substantial investment in improving primary education throughout the country. Public spending on R&D is far below EU and OECD averages and it remains to be seen whether the incremental growth will continue despite the economic crisis. The basics are in place: high literacy rates, primary and secondary education throughout the country. The reversal of the female to male ratio – close to 100% in primary and secondary education, but 134% in tertiary education – is typical for post-communist countries, especially in South-eastern Europe. Life-long training has not yet been established:

Education policy /
R&D
6

Participation rates are far below EU-27 and even EU-10 averages. Romania's deficit is not in enrollment ratios for primary (100%) and tertiary education (65%) as these are similar to the most advanced EU-10 countries, but it scores only 90% for secondary education – significantly lower than its peers.

Transformation Management

I. Level of Difficulty

The structural constraints on transformation in Romania are an aggregate of four key factors, some of them positive, others negative. The key challenge is the widening disparities within society and between a few affluent urban centers and the rural provinces. Despite the global crisis and internal disparities, socioeconomic transformation in Bucharest, Constanta and some Transylvanian cities has produced a middle class and a vibrant service sector. By contrast, rural areas are characterized by outdated agricultural production and small cities are burdened with outdated industrial legacies. Part of this legacy dates back to Ceausescu's austerity policies of the 1980s. Poverty and deficits in infrastructure tend to cement this division. Membership of the EU brought agenda setting and programs for the various deficits of transformation (e.g., rural development and administrative capacity building), which have been positive influences on Romania's transition management. A further negative factor is the irresponsibility of political transformation managers and their disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. The last, but not least negative contextual factor is the global economic and financial crisis that has hit Romania hard and severely reduced the options and resources for transformation management. Even if the necessary political courage and vision were present, it would be hard for the country's resources to match them. In 2010, the pressure of the crisis combined with international pressure to partly overcome the reform blockades: Some controversial reform (pension, education, taxation etc) were pushed through, albeit amidst political conflict, no-confidence votes and appeals to the Constitutional Court.

Structural
constraints
4

Civil society traditions are weak, and there are a small number of active and sustainable NGOs. Participation in public life and voluntary associations is limited. Despite reforms driven by EU accession, institutional stability and the rule of law still suffer from significant deficits. In contrast to Bulgaria or Serbia, Romanian communism was anti-intellectualist in its approach to active, competent NGOs and think tanks. CSOs are still fighting an uphill battle to make their voices heard in politics. With improving living standards, service sector and education standards, a

Civil society
traditions
5

clientele and constituency for CSO work and positions should grow incrementally. Effective public campaigns against corruption indicate that this is the case.

Outside polarized political circles, conflict intensity seemed rather low during the period under review. Social conflicts could pose a major risk, but coping strategies have been found largely outside the political elite's transformation management. The position of the Roma minority and the discrimination against them, however, seems to continue unabated. Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as is indicated by the demise of the voraciously anti-Hungarian PRM and other extremists. Hate speech and intolerance by the media and some public authorities have continued. This also applies to sexual minorities, who are socially stigmatized and have few vocal advocates. Given the current economic crisis and its social consequences, and the major regional and social inequalities within Romania, the low appeal of extremist parties is remarkable. Explanations may be found in a general turning away from politics (low turnout at the elections) as well as the assumption that the populism and crude politicking of some of the major parties' leaders keeps most of the populace within the frame of the established parties. On a positive note, despite the widespread discriminatory attitudes, open conflict and violence are not an issue, even in the current crisis-ridden years.

Conflict intensity

3

II. Management Performance

14 | Steering Capability

Romania continues to be characterized by a deeply ingrained tradition of simulated reforms and state capture, which has tended to be combined with a structural skepticism among the population vis-à-vis state policies and the frequent subversion of their implementation. These obstacles have at times brought the reform process to a virtual standstill. Despite strict guidance and prescriptions from IFIs and the EU, Romania often fails to implement well-designed reforms or else the required legislation comes to a halt due to political crises. This political weakness affected negatively both the reform of the civil and criminal codes and the fiscal measures required for the IMF assistance package in the global crisis in 2009/2010. Populist measures taken on the eve of the elections taxed the financial position of the government in the wake of the crisis. There have been better results in reform outcome and implementation as a result of the deepening of the crisis in 2010 and an enhanced sense of urgency on the part of the political leadership, combined with massive international interference.

Question

Score

Prioritization

7

The government is committed to democracy and a market economy, but it has had only limited success in implementing reforms and overcoming structural obstacles. In many cases, follow-through on reforms has been the main problem. When the correct initial policy choices were made and accepted by the European Union and IFIs, the government failed to pay the same attention to their actual implementation and allowed interest groups to sabotage strategic orientation in party politicking or simulated implementation. External pressure and conditionality had declined since the country's EU accession, but was much needed when the global crisis hit Romania. Political instability and reluctance to implement unpopular measures all had to be compensated for by external pressure not only on the agenda of reforms but also on monitoring and enforcing their actual implementation. Nevertheless, due to the crisis and external pressure, reform projects in education, pensions and the constitution, among others, have picked up speed in 2009/2010.

Implementation
7

Across the board, the quality and consistency of policy-making in Romania is improving. In relation to some policy areas linked to vested interests, such as anti-corruption or judicial reform, the political elite has opted to withstand pressure from Brussels and continue rather unproductive politicking. The backbone of improved policy-making seems to be not so much the party-political leadership, but rather an increasingly well-trained and professional class of civil servants in the ministries, government agencies and counterparts in related think-tanks. Below the scrimmage of politicking, hot political issues and vested interests, these civil servants have achieved a process of consolidation and coherence in policy-making. One illustrative example is the set of anti-corruption institutions established in Romania. Despite heavy-handed political interference, these institutions manage to bring cases to court and to tackle cases that had long seemed beyond the reach of the judiciary. Overall, at a political level, policy learning seems limited because vested interests and party-political calculus takes priority over the sober assessment of the effectiveness and net results of policies.

Policy learning
7

15 | Resource Efficiency

Romania's track record in resource efficiency is not too good. The process of decentralization by strengthening the competencies and fiscal resources of local government bodies has partly been reversed in this period or at least halted by temporary spending and staffing limits. The central government has thus used various mechanisms and legal loopholes to prevent local government from actually increasing its leeway substantially or deciding autonomously in a larger number of policy fields. The 2008 local and 2009 parliamentary elections, moreover, again demonstrated that local positions were dependent on Bucharest politics. Each round of elections produced a wave of dismissals and new appointments at local level – at tremendous costs to administrative continuity and credibility.

Efficient use of
assets
8

In 2010, the severity of the crisis eventually induced the government to enhance budgetary discipline, curbing the overstepping of financial limits. The public budget balance is estimated at -8.6 (% of GDP) for 2009 and -6.6 for 2010. Similarly, the current account balance stands at -4.5 and -5.5 respectively Romania was one of three EU-10 countries to need massive international assistance to make it through the crisis.

The public infighting within the grand coalition of the first Boc government strongly suggests that ministers and their departments are often drawn into political polarization. Given the increasing professionalism within the ministries, policy coordination is more likely to be achieved below the level of political leadership. The independent and wayward activities of the president are bound to have negative effects on policy coherence and coordination. The reaction to the global crisis and its impact on Romania is indicative: At first the government chose to continue existing (costly) policies. After a reality check by IFIs and macroeconomic data, Bucharest seems to have come full circle with a set of radical austerity measures at the expense of the weakest in Romanian society and of domestic consumption potential for a medium-term recovery. Coordination is probably better in the new Boc coalition with the UDMR: The Hungarian party is a junior partner and the coalition's fragile majority means that the government cannot afford any mishaps. The reform projects of 2010 indicate enhanced coordination and dynamics within the government at least.

Policy
coordination
6

Adequate anti-corruption and transparency legislation is in place, and the level of visible activity by the National Anti-Corruption Directorate remains high. Moreover, in August 2010, parliament restored powers of the ANI to publish public officials' asset declarations, to prosecute officials accused of corruption and to remove the right of accused persons to achieve the suspension of trials they consider unconstitutional. These powers had been abolished by the Constitutional Court in April 2010, when it was argued that ANI could not perform both juridical and administrative functions. As noted elsewhere, the relevant agencies are developing a professional ethos of their own, despite political interference and reluctance. The frequency of corruption scandals and indictments involving high-ranking politicians, civil servants and businessmen, however, suggest that corruption is endemic, but also suggests that the visibility and effectiveness of prosecution are improving. As the autumn 2010 EU report criticized the way that high-ranking court cases are more likely to lead to postponements on procedural grounds than to convictions. The key problem in the Romanian case is unwillingness rather than a lack of power or instruments to curb corruption. Despite the assertive actions by CSOs and watchdogs, access to information remains problematic, which runs against the grain of the traditional understanding of politics.

Anti-corruption
policy
7

16 | Consensus-Building

The political establishment has, in principle, accepted the goals of a market economy and democracy. The current main political contenders – the PLD, PSD, UDMR, PNL and the president seem mostly focused on political polarization and politicking rather than on investing in broadening societal trust and support for governmental policies. The general atmosphere of political polarization and its effects on society have been detrimental to broader consensus building on long-term objectives and strategies.

Consensus on goals
10

Despite the economic crisis, the politicking and the low level of public trust in political institutions and actors, support for anti-democratic actors in Romanian society is remarkably low. The level of diffuse anti-political populist and anti-democratic sentiment is probably much higher, but it does not translate into votes for extremist parties like PNGCD or the PRM, which has lost most of its (older) constituency over the past decade. In the 2009 presidential elections, Corneliu Vadim Tudor (PRM) fell short of 6%, George Becali (PNGCD) of 2% (in 2004 they scored 13% and 2% of votes respectively) In the mid-2009 European elections, the PRM participated, winning only 9% of the vote. The low turnout (54%/58% at the presidential and 27% at the European elections), however, suggests that a large reservoir of disenchanted but non-mobilized voters exists.

Anti-democratic
actors
9

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

Cleavage /
conflict
management
8

The main cleavage threatening social cohesion and coherence as well as political peace in Romania concerns the growing socioeconomic disparities between urban and rural populations as well as between the winners and losers in the transformation process. The disparities have an increasingly apparent regionally: Whereas the Bucharest-Ilfov development region has long since reached 75% of the EU average standard of living, predominantly rural regions in the northeastern and southwestern parts of the country have barely reached the 25% mark. Due to the electoral predominance of the PLD and PSD, there is no clear parallel between the rural–urban divide or regions and political parties. Although all parties remain strongly Bucharest-focused, party affiliations and voting cut across class and region, dissipating potential conflict lines. On a sobering note, it may be

hypothesized that the Romanian voter (or non-voter) has political expectations that are so low that existing cleavages do not translate into politics to a large degree.

Conversely, several key political conflicts do not reverberate in society: The real political battle lines are between groups competing for power (and access to public resources). A related conflict concerns the reform of the judiciary and the anti-corruption fight, championed by few and with some echo in society, but obstructed by larger parts of the political class because there is no broad political and civil society coalition.

The state engages with think tanks and NGOs only when necessary as a result of Western pressure or the particular NGO's increasing popularity, or when the state administration itself lacks the required competence. Overall, the government does not appear to welcome a broader policy dialogue with CSOs. Expediency considerations prevail over broader consultation with organizations such as trade unions or churches. At best, politicians cooperate with an elite of not necessarily representative think tanks and NGOs. The gradual increase in career permeability between the government bureaucracy and political-representative institutions, on the one hand, and civil society and advocacy organizations, on the other hand, may be considered a positive trend. Unfortunately, some of the few critical voices have been effectively silenced by co-optation into administrative and political responsibilities. The remedy for this problem is a long-term process based on the different outlook and competencies and CSO background/networks of middle echelon politicians and civil servants.

Civil society
participation
6

Ever since the bloody revolution of 1989, Romania has been exceptional in its handling of its war-time past (as an ally of Nazi Germany) and its communist past. Ceausescu's nationalistic denial of any Romanian involvement in offensive warfare, war crimes or the Holocaust continued in much public debate after 1989. Historical revelations scarcely reached the public debate. Eventually, former communist and President Ion Iliescu partly broke the taboo.

Reconciliation
7

The more pressing issue of communist repression and expropriation also never found much of an echo in Romanian public and political debate. The activists and civil society groups calling attention to the crimes of communism are relatively small and marginal. In 2005, the Romanian government eventually set up a Fondul Proprietatea to compensate victims of expropriations from a stock fund worth some €4 billion at the time of its establishment. According to several reports, the fund has since been mismanaged since and its listing at the stock market delayed. Due to the crisis, the shares of the former victims have dwindled to a fraction of their nominal value, whereas market speculators have reaped the profits. Meanwhile, the fund has been run by the respected international asset management firm Franklin Templeton Investment Management since September 2010. The firm takes actions (even against the government) to increase its share value and bring it to the stock market.

Apart from the fund, there has also been in-kind restitution (land, buildings, industrial assets), though the process was long and protracted.

17 | International Cooperation

Overall, Romania has made effective use of international support from the European Union, the European Bank for Reconstruction and Development (EBRD), the IMF and the World Bank in the current crisis, but its main strategies were dictated by the international organizations themselves. In policy fields beyond high politics, Romanian is becoming increasingly competent and qualified in managing the resources made available by international cooperation, especially within the European Union. Since EU accession, Romania has become a partner in an endless array of EU or EU-related organizations and networks in policy fields ranging from anti-corruption to environmental protection.

Effective use of support

8

The international credibility problem of Romania as a partner is fourfold. First, inevitably is the negative image of Romania among European citizens. Among international organizations and the EU in particular, populist rhetoric and enlargement fatigue among voters has an indirect impact. President Basescu in particular has been detrimental to Romania's reputation as a constructive and reliable international partner by occasionally (ab)using international forums to roll out populist rhetoric for domestic audiences and crude statements (more in 2009 than in 2010). Additionally, his unwillingness to end the political stalemate and nominate a new prime minister after the government's collapse in October 2009 prior to his own re-election in December certainly was detrimental to Romania's international reputation. A dramatic lack of coordination and cooperation between president and government or among cabinet members has been as detrimental as the insufficient efforts to synchronize national initiatives with international strategies (again, mainly in 2009).

Credibility

8

The government itself has largely been cooperative, but the many changes in governments and recurring phases of coalition building and interim governments have been detrimental to the belief of international organizations and IFIs in Romania's policy-making power. A positive development: Civil servants in the ministries and agencies have gained experience in international cooperation and qualifications overall, thus creating a backbone of international credibility and reliability.

In 2010, Romania's readiness to cooperate with international partners and international organizations and IFIs increased markedly. Conversely, some EU member states obstructed Romania's accession to Schengen for political and domestic reasons rather than on the basis of the criteria set by the European Union.

Meanwhile, Romania has become more effective and willing in implementing IMF recommendations and criteria for budgetary sustainability.

Given the economic crisis and its own political instability, Romania seems to have given up on most of its ambitions to play the role of a regional leader in southeastern Europe and the Black Sea region. Overall, now that EU membership has been achieved, regional cooperation has markedly declined as a political priority. Relations with neighboring Moldova constitute an exception. With the change of government in Chisinau in mid-2009, Bucharest has taken a more active stance as Moldova's advocate within the EU. Overall, Romania lacks the political capacity to play a more substantial role in the European Union, unlike some other EU-10 states. Foreign and European policies require high-level politics rather than competent administrators and diplomats.

Regional
cooperation
9

Strategic Outlook

Whereas the risks Romania faces in the economic field are, on the one hand, structural legacies, and on the other hand, part and parcel of the global economic and financial crisis, the country's political risks are predominantly self-inflicted.

Economically, the underdevelopment of the agricultural sector constitutes a heavy load. Consequently, the economic growth of the past five to six years has been regionally uneven. Partly because of political instability, FDI is relatively low and sensitive to smaller or larger crises, internationally or domestically. The same applies to migrant workers' remittances (even though they dropped less than expected during the crisis). Consequently, domestic consumption will be the key issue in economic recovery in the next few years. Romania (and Bulgaria) are expected to be slower in recovery than the other EU-10 countries. Due to the austerity program the government had to implement after overspending, the recovery process cannot bank on domestic consumption (which is partly dependent on remittances), but has to hope for investors and export. In sum, there is next to zero fiscal space for creative solutions beyond following recommendations and conditions set by European Union and IFIs.

Romania's main option for serious improvement is political in nature and at the same time its main risk for the near future. Public trust and turnout at elections are low. Politicians of the main parties are time and again drawn back to a style of politics that lacks public transparency (and access for CSOs), is highly centralized, prone to populist rhetoric, (ab)use of democratic instruments for party politics and short on political courage to unite to tackle key problems. The checkered record of political reform and economic development has not translated into political (extremist) alternatives. Considering the developments in neighboring transition countries (and many EU-15 countries for that matter), it is merely a matter of time until a modern right-wing populist movement replaces the antiquated PRM.