

BTI 2016 | Romania Country Report

	scale	score	rank	trend
Status Index	1-10	8.06	# 14 of 129	
Political Transformation	1-10	8.15	# 17 of 129	➔
Economic Transformation	1-10	7.96	# 15 of 129	➔
Management Index	1-10	5.84	# 35 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	19.9	HDI	0.785	GDP p.c., PPP \$	19401.3
Pop. growth ¹	% p.a.	-0.4	HDI rank of 187	54	Gini Index	27.3
Life expectancy	years	74.5	UN Education Index	0.748	Poverty ³	% 4.1
Urban population	%	54.4	Gender inequality ²	0.320	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

After the failed referendum to impeach president Băsescu in mid-2012, the political struggle continued between the center-left cabinet and its parliamentary majority, on the one hand, and the president on the other. The government won the subsequent parliamentary elections at the end of the year by a large margin, and those for the EU Parliament in 2014, but although it held almost uncontested power, nationally and locally (at some point the ruling coalition controlled all but two of Romania's 41 county councils), its flagship political projects announced at the beginning of 2013 failed: amending the constitution, creating a third tier of local governance at the regional level, pushing forward the privatization of state-owned companies and changing the taxation system. While macroeconomic balances were kept under control, this was done at the price of severely cutting investments.

A major source of distraction for the ruling coalition was the need to defend itself against increasingly assertive anti-corruption prosecutors: dozens of ministers, ex-ministers and members of parliament were investigated in this interval and some are already serving time in jail, including a powerful party leader and media tycoon who was among the initiators of the government coalition; 16 presidents of county councils are currently under investigation, some under house arrest. What is more, Prime Minister Ponta was confronted with accusations of plagiarism in his PhD thesis, which he tried to fend off by manipulating laws and institutions, only managing to further erode his credibility with the public and international partners.

As a result of these tensions, the Liberals broke off from the ruling coalition in the spring of 2014 and fielded their own candidate for president in November 2014: the center-right mayor of Sibiu, an ethnic German. Surprisingly, he overcame in the second round the government's candidate, Prime Minister Ponta, helped by the latter's incompetent handling of the voting process abroad, which triggered a wave of protests against him at home.

Structural socioeconomic deficits (e.g., urban–rural disparities and an agricultural sector absorbing 30% of the labor force but generating only 7% of GDP) remain in place. The macrostabilization program which pulled the country out of crisis was on average successful and was tolerated by the population with less turmoil than in other EU states. Conversely, reforms in key public sectors (energy, state-owned enterprises, health care) have stalled.

The party spectrum in Romania has overcome the old dichotomy between post-communists and democratic opposition; parties have to some extent been decentralized, relying more on their local-level leadership and interest groups. The dominant political cleavage since 2000 has not been the left-right divide, but the drive to create an independent judiciary able to pursue vigorous anti-corruption vs. opposition to such efforts. A minority of politicians in top positions, with support from civil society and the independent media, pushed ahead this agenda of modernization under the rule of law, while a silent (or in some cases, quite vocal) majority has fought back, seeking to preserve the traditional regime of impunity. This fundamental cleavage cuts across party lines and ethnic groups. On the upside, Romanian extremist parties, left or right, have disappeared from the national and EU parliaments and local councils, and the country elected as president an individual from an ethnic minority.

History and Characteristics of Transformation

The modernization of the unified Romanian state in the interwar period was a political and economic process with its origins in the mid-19th century. Western models of statehood, democracy and the market economy were grafted onto Romanian society, with the result being a state 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 the massive socioeconomic transformations forced upon the country by the communist regime after 1945 – 1947, the postwar political system in fact perpetuated some of the shortcomings of the prewar period, especially during the last decade of Nicolae Ceausescu's autarky-oriented rule, a period described as “sultanistic communism” by transitologists. Political elites continued to perceive the state and the bureaucratic apparatus as their property rather than as a policy instrument. This resulted in rampant nepotism, etatism and simulated reforms. By the early 1980s, the combination of an autonomous foreign policy and Stalinist approaches to industrialization and domestic control had run its course, resulting in national-socialist mobilization and economic decay.

The revolution of 1989 was essentially a power struggle among different segments of the nomenklatura 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 outcome was generally rated as more of a “palace revolution” within the nomenklatura than a clear

break with the past. Being highly distrustful of market economics and pluralist democracy, and facing some distinct disadvantages in comparison to most of the other Eastern European states seeking EU accession, Romania increasingly fell behind in the reform process in the early 1990s.

The first true rotation of elites in power happened in 1996, when the first center-right government started to do what other transition states did five years earlier: restructuring heavy industries and the mining sector, liquidating economic black holes, consolidating the banking system, privatizing large state-owned enterprises, liberalizing most input prices and establishing full currency convertibility.

The second decade of transition, after 2000, was characterized by a struggle between the post-communist center-left Social Democrats and their allies, who tried to pursue a pro-growth agenda and take advantage of the benefits brought by EU membership, while, at the same time, preserving political control through nationalist rhetoric, misuse of state resources and a clientelistic party machinery, and the center-right, under various labels, most of the time in opposition, which, after 2004, rallied behind President Băsescu and supported, either out of conviction or only tactically, the rule of law agenda.

Romania's EU accession in 2007 did not lessen this divide, but rather removed the threshold conditions of membership that had previously facilitated reforms. In 2007 and 2012, the post-communist camp tried to impeach the president, but both attempts were defeated in popular referenda. Each had originated in this need by the political majority to deprive Băsescu of the power to appoint the general prosecutor and the chief of the National Anti-Corruption Directorate.

Before the global economic crisis hit the country, the political battles between the camps of President Băsescu and the post-communists were fought against a background of robust economic growth, which was incompetently managed by successive governments which wasted time and funds in securing political advantage and building clientelistic networks in the territory. Pro-cyclical, spendthrift policies were common, while deficits were accumulated much faster than the (admittedly high) rate of GDP growth. After 2010, macroeconomic trends were set in reverse and considerable political capital has been spent in the process of structural adjustment, a task which is still far from complete.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is uncontested throughout the territory of Romania. Autonomist and secessionist rhetoric among some representatives of the Hungarian minority is sometimes heard in the political debate, but their actions have stayed within the constitutional framework and electoral support for radical groups remains marginal. The turbulence in Ukraine and political uncertainty in the neighboring Republic of Moldova have not influenced Romania so far. Urban gangs sometimes settle scores violently among themselves, but there is no territory they can systematically control.

By tradition, the Romanian concept of the nation-state is defined in terms of ethnicity. The Romanian constitution defines the nation in ethnic terms ("national sovereignty resides with the Romanian people") and provides the usual guarantees of liberal constitutionalism. A civic concept of identity that may include the sizable Hungarian or Roma minorities is only very slowly finding acceptance beyond formal legal texts. At the same time, it is also true that most proposals were based on the idea of cultural autonomy and group-based rights, which may represent a departure from liberal universalist principles – these, however, are in practice often hard to comply with.

Support for nationalist-extremist, anti-Semitic and xenophobic parties and movements has been declining for some years, a trend that unlike in some other European countries was not reversed during the crisis years. The extremist and xenophobic Greater Romania Party (PRM) has been out of parliament since 2008 and lost its representation in the European Parliament after the 2014 elections.

In a spectacular and surprising move, a member of a religious and ethnic minority (a Lutheran German) was elected president of Romania with a comfortable majority in November 2014, after two bitterly contested rounds in which his identity was used as

Question
Score

Monopoly on the
use of force
10

State identity
9

an argument by his political opponents, but encouragingly played a lesser role in debates than corruption and bad governance in general.

The state's constitution and official citizenship policies face no direct challenge, but public rhetoric and occasional everyday practice may deviate from inclusive concepts of the nation and civil rights, especially vis-à-vis the Roma minority.

Since the end of communism, the Romanian Orthodox Church (BOR) has remained relatively independent from politics. Its main concerns in public life have been securing the restitution of confiscated property and receiving public subsidies, from the state and municipalities, for the building or rehabilitation of churches. The BOR managed to introduce "religious education" as a subject in schools in the early 1990s, but this measure has remained largely symbolic; religious dogma does not have an impact on state policy-making. Moreover, at the end of 2014, the Constitutional Court decided that in public schools a pupil can be enrolled in religion classes if the parents explicitly opt in (until now all pupils were enrolled by default and could opt out). This decision was received with much dissatisfaction by the church establishment and comes as a sign of its diminishing influence.

No interference of religious dogmas

10

Laws on registration continue to pose obstacles for minor denominations, as does the government's distinction between recognized and unrecognized churches.

Romania has reformed its state institutions since 1989 with increasing EU assistance and guidance. Administrative structures and the allocation of resources encompass the entire country. The EU accession process and Romania's status as an EU member state as of 2007 helped to further consolidate basic state and administrative functions throughout the country. Local shortcomings remain and some allocations may follow informal rules, but national coverage and the state's monopoly on public functions remains uncontested. The main risk to consistent functioning of the state administration remains corruption.

Basic administration

9

2 | Political Participation

Elections in the period under review included were held for the EU Parliament in May 2014; and for the president of the country, in November 2014. The EU elections were largely free and fair, with the usual minor episodes of fraud and unethical campaigning, as well as mutual accusations of unfair behavior by the leading political parties, but nothing out of ordinary. The presidential elections of 2014 however marked again a low in terms of standards, with the government pro-actively trying to curtail voting by Romanians abroad – the "diaspora," estimated at about 15% of the electorate, by tradition inclined to vote against the ruling Social Democrats. A plan to introduce distant or electronic voting, submitted to the parliament long ago, was postponed. Instead, the rules provided for an awkward procedure of filling in papers

Free and fair elections

8

individually inside the polling station, which was time-consuming and created hours-long lines for voters in places like Paris, London, Munich or Torino. Riots resulted when the authorities tried to close the polling stations at nine in the evening and, in some places, the police used batons and tear gas to disperse Romanians who had not yet had the chance to vote. Moreover, the situation was made worse by the fact that the Ministry of Foreign Affairs moved some polling stations (in France, Italy, Spain, Moldova) away from places with high concentrations of Romanian expats to places with low densities, in the same countries. The frustration experienced by all these people and the footage of their co-nationals abroad trying (and failing) to vote, broadcast live on TV and via social media, was a major factor which turned the bulk of the electorate at home against the Social Democratic candidate in the second round. Thus, he lost the election. The second round marked a peak of interest and involvement of Romanian voters in the electoral process, which was the opposite of what the authorities may have intended: the turnout was a historical high of 64%. The result, a massive vote against the ruling power and the unexpected civic frenzy triggered by incompetent management of the voting process, represent a sign of resilience against electoral abuse which may shatter the whole Romanian political class out of its complacency. The Permanent Electoral Authority continued to be a weak independent overseer of the whole process.

There are no relevant de jure restrictions on suffrage, and no groups are barred from expressing their passive or active electoral rights. The high electoral thresholds for parties (5%) and the tough requirements for registering a party (at least 25,000 founding members from at least 18 of Romania's 41 counties) have been repeatedly criticized for tilting the field in favor of the major contenders, and there is the chance that the rules will be relaxed in the aftermath of the "civic anger" expressed in the last round of elections.

Democratically elected rulers do have the 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 de facto veto powers. Interest groups with substantial economic or media power are responsible for relatively high levels of state capture. After 2006, when county presidents began to be elected directly, power networks in the main political parties became more decentralized. As a result, regional party machines have increasingly gained control of the state apparatus within their constituencies, including the ability to direct the flow of EU funds. However, in the past few years, the informal power of these regional elites has been partially curtailed, as independent magistrates launched and concluded a whole series of court cases against many of their members.

Effective power to govern

9

Romania's constitution formally guarantees the usual political and civil liberties, including the freedoms of expression, association and assembly. In practice, these rights are by and large observed, though the activities of NGOs critical of state actions are sometimes obstructed, especially at the local level. Political parties and government agencies have often sought to co-opt particularly critical civil society representatives or NGOs in order to neutralize them and muddy the waters. Alternatively, they have tried to discredit these individuals or organizations by employing smear campaigns conducted through politically biased media sources.

Association /
assembly rights
9

However, the fact that a powerful parliamentary super-majority with a government and many media channels attached lost the presidential election in November 2014 has shattered the self-confidence of the mainstream parties. There are signs that, at least for a while, the political class will behave more cautiously towards civil society and the remnants of independent media. Continuing pressure might force political elites to agree to lower the unreasonably high barriers for registering political parties and entering parliament.

The freedoms of opinion and the press are generally protected, but the economic crisis has severely affected the sustainability of the media, especially at the regional and local levels. Today, there are fewer outlets, circulation has fallen, and genres such as investigative journalism are disappearing other than in nonprofit form. Most electronic media outlets continue to demonstrate a clear political preference and behave as mouthpieces for various politico-economic groups. The quality of in-depth analysis and public interest reporting on political topics has deteriorated rapidly over the last few years, while the media regulator (CNA) has become ineffective, being openly politicized and mired in a string of lowbrow scandals. Professionalism is overruled by the vested interests and political affiliations of the media outlets' owners, although such investments in the media in exchange for partisan coverage have mostly backfired, only diminishing the public's trust in journalism and failing to pay off at the polls. The good news in 2013-14 was the increasing role played by social media in spreading news and achieving social mobilization, during the electoral campaign or for other purposes (eco-activism, for instance). This is encouraging, but there is still no clear model for how social networks could fully make up for the missing objective and professional media.

Freedom of
expression
7

3 | Rule of Law

State powers in Romania are nominally independent. The constitution provides for a separation of powers and checks and balances within the political system. However, the intense political polarization of previous years continued. In spite of public spats between the government and the president, the letter of the law was by and large upheld. A serious systemic legal problem in Romania is, however, the lack of mechanisms to censor the executive acts of the cabinet (e.g., emergency ordinances), which may become effective and have consequences for a long time before they reach the parliament for approval. Nominally, it is the ombudsman who is entitled to appeal against these executive acts at the Constitutional Court. However, ombudsman is a rather lowly office in Romania and de facto subordinate to the government and parliamentary majority, especially after the 2012 constitutional crisis, so he rarely takes action against a sensitive act. This was the situation, for example, in the fall of 2014, when the government suspended for 45 days a law banning local mayors and councilors from switching parties while in office. It was right before the election campaign and the purpose of the move became clear when 400-odd mayors duly switched sides, mostly to the ruling party. The ordinance was unconstitutional on many counts, but nothing could be done to block it as the ombudsman refused to take action. It was only in December, after the elections, that the Constitutional Court declared the act, which was brought before it using an indirect and convoluted path, unconstitutional. Thus, a whole constitutional dilemma has emerged, as now it is not clear what happens with the mandates of “migrant” mayors, who can argue that they changed the party in good faith, based on a legal exception which later on turned out to be unconstitutional. Such confusions appear when the executive impinges on the territory of the legislative and tries to block judiciary censorship.

Separation of powers
8

In 2013 and 2014, the consolidation of judiciary’s independence continued apace, with spectacular results provided by the flagship institutions regularly mentioned in the EU reports: the anti-corruption prosecutor’s office (DNA), the higher courts and the integrity agency (ANI). In spite of the negative barrage of coverage in the party-affiliated media and hostility from the government, prosecutors concluded high-profile cases against a whole series of national politicians, provincial and municipal leaders and business bosses with political connections, mostly for corruption and abuse of office. Smear campaigns against institutions or individuals who launched this anti-corruption drive continue, but this is also a sign of the measures’ improving effectiveness.

Independent judiciary
9

Media and politically motivated attacks against judges and prosecutors occurred in the period under review, but have been less frequent than in 2012. According to the European Commission report from January 2015, “professionalism in the judicial system as a whole [has increased], including a willingness to defend the independence of the judiciary in a more consistent way, and a more proactive approach towards consistent jurisprudence.”

The situation has markedly improved in the last two years: dozens of ministers and ex-ministers have been investigated and some are already serving time in jail, 16 out of Romania's 40 county presidents are currently under investigation, some under house arrest, one of the most powerful people in Romania, a party leader and media tycoon, was sentenced to 10 years in jail and €60 million in fines. For good measure, the president's brother is also under investigation and house arrest, while the most important football club owners from the first league are also serving time in jail. These are all visible and resourceful individuals and it is expected that their convictions will dispel the impression of impunity before the law, which existed in Romania until not long ago. Romania's progress was also acknowledged by the European Commission in a 2015 report, "The action taken by the key judicial and integrity institutions to address high-level corruption has maintained an impressive momentum." However, the report also noted that "decisions in parliament on whether to allow the prosecution to treat parliamentarians like other citizens still seem to lack objective criteria and a reliable timetable."

Prosecution of
office abuse

8

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

Civil rights

8

4 | Stability of Democratic Institutions

After the ability of democratic institutions (government, president and parliament) to work together was seriously compromised in 2012, when the escalation of political polarization led to an attempt to impeach the president of the republic, tension deescalated in subsequent years. The government continued to hollow out the legislative power of parliament by frequently using emergency ordinances. A so-called "cohabitation agreement" with the president allowed the constitutional appointment of new heads of prosecution offices in early 2014 through a formula of compromises, but otherwise made little difference in practice. While politics remained polarized and rhetoric high-pitched, the institutional framework withstood tensions and norms and institutions prevailed over the momentary impulses of politicians. This message was subsequently reinforced in the November 2014 presidential elections, when subtle attempts to manipulate the electorate backfired in a spectacular manner.

Performance of
democratic
institutions

8

Although the political actors do accept democratic institutions in principle, they are not above bending the democratic principle of the separation of powers or the rules of democratic procedure; the sections above offer some examples. Some political players, especially on the center-left, have occasionally resorted to the abuse of democratic instruments for party interests, as well as to the use of strategies of doubtful democratic quality, including populist measures, the use of media outlets to make accusations obstructing democratic decision-making, and criticizing magistrates and prosecutors.

Commitment to
democratic
institutions
8

5 | Political and Social Integration

During the electoral year 2014, the main Romanian parties relied mainly on clientelism and personal loyalty in conducting elections and selecting cadres. The changes in the electoral system two cycles ago, introducing a strong uninominal component, failed to produce the expected positive effect – more competent and accountable members of parliament – only managing to bolster the number of seats by 25%, which made parliament even less popular than before. Party switching in search of individual or group benefits continues to weaken and delegitimize parties at the national and local levels. Based upon the distribution of seat chairs after the 2012 election, the effective number of parties in the chamber of deputies was 4.4. However, the degree of fragmentation is higher since this figure does not take into account that the electoral alliances forming the main governmental and opposition forces, Social Liberal Union and Right Romania Alliance, consist of four and three individual parties, respectively.

Party system
7

Currently, there are high (probably unrealistically high) expectations that a new, “postmodern” party relying on social networks and newcomers will arise before the next round of elections to meet voters’ widespread frustration with the current establishment. This would be difficult in practice, however, due to the extremely high administrative barriers against registering a new party. The only formation that has overcome this obstacle (People’s Party-Dan Diaconescu, formed around the person of a sensationalist TV anchor) made it into the parliament in 2012 only to fizzle afterwards when its members migrated to other parties. (Diaconescu is currently serving a five-year jail sentence for blackmail and extortion). The upside is that 2014 confirmed a trend begun in 2012: the Romanian extremist parties, either xenophobic or extreme-left, have disappeared from the national and EU parliaments and from virtually all local councils, and do not seem able to pass the threshold for any legislature anytime soon.

The party system has not substantially increased its responsiveness to societal constituencies. The political elite continues to be wary of civil society organizations (CSOs) that channel public interests and act as watchdogs. The political system lacks incentives and points of access allowing societal interest groups to participate in the decision-making process. When this happens, it is often triggered by EU requirements. Some NGOs and their civil-rights agendas have enough international backing and domestic standing to monitor governance to some degree, while environmental groups have gained increasing influence in 2013-2014 in terms of shaping policies on contemporary issues. Other key democratic interest groups such as trade unions are increasingly weak and politically bound.

Interest groups
7

The falling popularity of anti-democratic or extremist parties has continued and is a sign of the consolidation of democratic institutions and political culture. The spectacular election as president in 2014 of the long-time leader of an ethnic minority party (German Forum), coupled with the surging confidence in opinion polls, right after the elections, that the country is heading in the right direction, demonstrates that a certain level of maturity and trust has been achieved. In December 2014, a survey by INSCOP showed that 81% of the public preferred democracy, against 14% who opted for the old communist regime. When people express dissatisfaction in opinion polls, this is mostly related to the quality of governance, not the democratic system as such.

Approval of
democracy
8

Levels of generalized trust are relatively low in Romania, though relatively high when it comes to EU institutions and the future of the continent (Eurobarometer, 2014). Many associations tend to advocate on behalf of the interests of specific social groups, whereas larger, internationally connected NGOs have struggled to build constituencies in society. The loud cry from below for better governance and against corruption, which was heard in the last round of elections, may be such a unifying theme and a platform for creating a new type of social capital. Otherwise, due to the country's long authoritarian tradition, in poorer regions, people are more inclined to resort to state assistance and guidance than to self-organized societal groups.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Urban-rural disparities with deep historical roots and the situation of most Roma communities make social exclusion structurally ingrained in Romania to a moderate extent. Gender is scarcely a factor, like in many post-socialist countries: the Gender-related Development Index (GDI) score is close to 100% of the Human Development Index (HDI). Other UNDP poverty-related indices show, however, that poverty, though not extreme, is a problem. FDI and economic growth are strongly focused on the capital, Bucharest, a handful of major cities and the western regions, whereas underemployment and poor-quality social services (including education and health) persist in the rural areas in spite of the sectorial reforms and increased expenditures over the last decade. Nationwide, life expectancy data are reasonably good; but they obscure the disparities between average citizens and some marginalized groups. At the same time, the level of inequality measured by the Gini index has decreased over the last several years. The country's HDI score has not declined – indeed, it has slightly improved despite the crisis (2008: 0.765, 2011: 0.781, 2013: 0.785). The official unemployment figures remain remarkably low (6.5% at the end of 2014) but this is due to (1) the circulatory migration of people with low skills between Romania and certain EU countries, like Italy and Spain; and (2) hidden underemployment in poor rural areas with subsistence agriculture. The situation of the Roma community deserves special reference, however, as its members' limited access to education, health services and welfare support continues to be a serious issue.

Question
Score

Socioeconomic
barriers

7

Economic indicators		2005	2010	2013	2014
GDP	\$ M	99172.6	164792.3	189639.1	199043.7
GDP growth	%	4.3	-0.9	3.5	1.8
Inflation (CPI)	%	9.0	6.1	4.0	1.1
Unemployment	%	7.2	7.3	7.3	-
Foreign direct investment	% of GDP	6.9	1.9	2.0	1.7
Export growth	%	7.1	14.2	-	-
Import growth	%	15.9	12.5	-	-
Current account balance	\$ M	-8503.5	-7258.0	-1583.2	-907.1

Economic indicators		2005	2010	2013	2014
Public debt	% of GDP	17.5	30.5	38.8	40.6
External debt	\$ M	38625.7	124135.6	133996.2	-
Total debt service	\$ M	6898.1	18581.4	30517.6	-
Cash surplus or deficit	% of GDP	-1.0	-6.7	-	-
Tax revenue	% of GDP	12.2	16.8	-	-
Government consumption	% of GDP	8.3	7.1	6.2	14.2
Public expnd. on education	% of GDP	3.5	3.5	-	-
Public expnd. on health	% of GDP	4.4	4.8	4.3	-
R&D expenditure	% of GDP	0.41	0.46	-	-
Military expenditure	% of GDP	2.0	1.3	1.3	1.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Following EU accession, market-economic institutions are in place and include the freedom of trade, currency convertibility, strong anti-monopoly and anti-state-aid regulators. Whereas Romania was criticized for retaining a large economic development role for the state in the first phases of the transformation process, since that time legacies of overregulation have coexisted with virtually unhampered forms of business practice that are beyond the control of the authorities and regulations. The remittances of legal and illegal emigrant workers, mainly in other EU countries, contribute substantially to the subsistence of families staying in Romania. One lingering issue is the quality of management in state-owned enterprises (SOEs), mainly the energy and extractive sectors, where political interference is widespread. Tax evasion and the informal sector are still sizable, which is a symptom of the weakness of public institutions meant to tackle such problems. The public procurement system, though in principle fully compliant with the EU acquis, continues to be one of the main avenues for grand corruption and favoritism at all levels of governance.

Market-based
competition

8

Formal regulations prohibiting monopolies do exist. However, the market arbiters, though fully aligned institutionally with EU rules, are weaker and more timid in reality than they should be. In the last few years, the Competition Council has visibly strengthened and become more active, investigating cartels in various sectors and imposing sizable fines. The council is also actively involved in government efforts to fight procurement fraud. However, other bodies, such as the energy regulatory authority, have remained weak, politicized and mired in corruption scandals.

Anti-monopoly
policy
8

With EU accession, Romania became a full member of the common market. All restrictions imposed by tariff and non-tariff trade barriers have thus been abolished. There have been very few exceptions departing from this regime in the past years, and all have been in line with EU norms. In most cases, Romania's position inside the EU decision-making bodies has been in favor of further liberalization, either within the EU (services) or in relation to third partners (East Asia, the U.S. and Canada).

Liberalization of
foreign trade
10

The banking sector has been restructured to meet European standards and weathered the economic crisis reasonably well. Foreign banks, mostly Austrian, Italian and French, held 90% of the country's banking assets in 2014. After many profitable years, the solvency of Romanian banks was never at stake, even at the peak of the crisis. The share of nonperforming loans reached 15% in 2014 and is declining. The consensus is that these are manageable issues. The only major concern is external influence if things turn really bad for the multinational banks active in Romania in places like Russia, Ukraine or Greece. In general, there is strict oversight in the banking sector so institutions behave overly cautiously, but this caution has meant they have contributed little to the recovery of the economy.

Banking system
9

8 | Currency and Price Stability

Romania's exchange rate is managed, but floating. According to an IMF report published in 2015, the real exchange rate is broadly in line with medium-term macroeconomic projections. The central bank is a strong and independent institution, which in good and bad times has withstood whatever pressures the government applied to it to twist monetary policy. Its track record is of consistent anti-inflationary measures and strict banking oversight. The inflation rate reached historically low levels in 2013 (1.55%) and 2014 (1.1%). Romania meets the technical standards for the euro zone. However, the political decision to adopt the euro has not been made yet.

Anti-inflation /
forex policy
10

The Romanian government implemented a harsh austerity program beginning in early 2010, with 25% cuts in public salaries and other social spending and an increase in value-added tax (VAT), to address the challenges of the economic crisis. With foreign assistance and lots of social pain, the program worked: deficits were cut and public finances rebalanced. Most salaries and social contributions have been gradually restored in the meanwhile, but the macroeconomic balances have been maintained. Inflation hit historic lows and budget deficits remain small (2% in 2014; and 1.4% projected for 2015). Incumbent politicians have not significantly increased public expenditure although the electoral campaigns in 2012 and 2014 provided incentives for attracting voters through higher spending. The total public debt is moderate: 41% of GDP in 2014.

Macrostability
9

9 | Private Property

Romanian legislation on the acquisition and protection of property rights is generally in line with the EU acquis, but there are still loopholes in the protection of intellectual and industrial property rights, despite stepped-up efforts to prosecute copyright-related crimes both in the arts and the software industries. Overall, Romania is gradually becoming more business-friendly in terms of procedures and the time it takes to accomplish them. According to the 2015 Doing Business Report, enforcing a contract takes 34 procedures and 512 days on average. The restitution of property nationalized by the communist regime still remains an issue, with delays and corruption affecting the process. A series of anti-corruption investigations in 2014 revealed how a few criminal circles at the top of politics and administration exploited the property restitution system to unduly enrich themselves. Preliminary estimates of assets lost by the state or the rightful claimants are in the order of hundreds of millions of euros.

Property rights
9

Romania's infrastructure for facilitating private enterprise is firmly in place, and the inviolability of private property is firmly stated in the constitution. Expropriation for reasons of public utility is clearly defined in law and is rather difficult to implement in practice. On average, the state offers competitive taxation regimes to investors. With respect to the number of official procedures required to start a business, Romania fares reasonably well in World Bank's Doing Business rankings. The main difficulties are not related to establishing a company, but rather in operating it afterward given the maze of frustrating procedures required by the state bureaucracy in areas such as tax payments or inspections. Reforms in strategic sectors such as energy have been stalled for some years and the EU-inspired liberalization plans have been postponed, but their operation remains largely in line with market economy principles. A number of important privatizations (railways, a chemical plant, the energy sector) failed in the last two years, due to a combination of adverse conditions and government indecisiveness.

Private enterprise
8

10 | Welfare Regime

Social security is organized by the state and covers all relevant risks in principle; some non-profit charities have started to play a detectable role, especially in partnership with municipalities. There are universal and targeted benefits, mostly in cash, available throughout the country. Health care is in theory available to all citizens throughout the state territory, but coverage is sometimes inadequate, especially in rural areas. Romania has one of the smallest health budgets in the EU-10 and access to subsidized services and drugs can be erratic, depending on yearly allocations. Additionally, Romania has been less active than most other EU countries in dealing with the upcoming retirement of the baby-boomer generation (which emerged after the ban on abortions introduced in 1966). Early retirement has been widely used in the first decade of transition as an alternative to layoffs, with the result that today the employment rate in Romania is rather low by EU standards (63%) and so is the effective retirement age (around 56).

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

Romanian society preserves some elements of uneven and/or discriminatory access to social services and benefits. Education, basic social security and health care offer limited compensation for social inequality. Egalitarian attitudes are widespread in the state-provided services, but a lack of resources constrains fair implementation. In the long run, the main threats to state welfare services lie in the gradual depletion of assets and progressive infrastructure decay. Disparities in access are first and foremost socioeconomic, and while existing policies and institutions are consolidated enough to prevent open discrimination in law, they are not powerful enough to compensate for de facto differences or to achieve true equality of opportunity. The UNDP gender-related indices show that Romania still benefits from past equal-opportunity policies and some recent transition trends; women are not disadvantaged in education and are even overrepresented in higher education, but earn less than men when holding similar positions in the economy. Still, the gender pay gap is quite low in comparison to the rest of the EU. The plight of the Roma communities with respect to access to health care and education reveals a weakness in Romania's state-provided services.

Social safety nets

7

Equal opportunity

7

11 | Economic Performance

Romania has suffered due to the global crisis, but the consensus of the analysts is that things could have been much worse, comparatively speaking. The crisis revealed the structural weaknesses and vulnerabilities underlying the substantial growth rates from the previous few years. After years of impressive growth, the GDP contracted by 6.6% in 2009 and a further 1.6% in 2010, but recovered reasonably well subsequently, in spite of the low performance of some of Romania's main trading partners (Italy, Germany). It was 3.5% in 2013 and probably around 2% in 2014. At the same time, increased unemployment levels (7%) started recovering only with a time lag in 2014. Macroeconomic equilibrium held steady all during the documented period so that accession to the euro zone is possible once a political decision is made; unemployment did not increase markedly. The main concerns are related to several structural weaknesses, such as the regional and urban/rural disparities (agriculture produces just 6% to 7% of GDP, despite employing 30% of the country's workforce); and the high share of the grey, non-fiscalized sectors of the economy, which keeps the total tax revenues at around 31-32% of GDP, the lowest such figure in the EU.

Output strength
8

12 | Sustainability

Environmental hazards in Romania have been to some extent reduced by deindustrialization in the 1990s, as well as by a wave of greenfield FDI by multinationals which introduced new technologies. Implementation of the EU acquis forced many heavy industrial plants and energy producers to make new investments in order to comply with modern standards. Industry-related air pollution remains an issue in some cities and in the northwestern part of the country, but the problem is by and large under control and the public is increasingly aware of it. The Danube delta wetlands continue to be threatened by water contamination. Very few cities and no smaller settlements had wastewater treatment plants or ecologically sound landfills a decade ago; massive investments began only shortly before accession, driven by EU pressure and funding. The city of Bucharest still treats only a fraction of its wastewater and Romania will be threatened with penalties by the European Commission from 2017 on for non-compliance in this sector. Nevertheless, in relative terms, progress has been substantial. Concerns about ensuring a reliable and clean drinking water supply, as well as about promoting renewable energies and energy efficiency, are being addressed in compliance with EU environmental standards and international conventions. As a car-producing country, Romania had an interest in imposing severe restrictions on the import of second-hand cars and encouraging buyback schemes. This was done by successive governments and the results are remarkable in terms of pollution reduction and the improved state of the car fleet. Civil society has become stronger and more visible on environmental issues and held

Environmental
policy
7

the government in check over various mining and drilling projects in 2013-2014. Romania has a balanced energy mix, with renewable sources in electricity covering 43% of consumption in 2013, after very generous subsidies to such sources were in place for a number of years, but abolished in 2013 due to pressure from the “old” energy lobby.

The education system in Romania continues to function reasonably well in terms of overall output figures, with OECD levels of literacy and coverage. The main problems are the visible erosion in the quality of teaching; fraud in class and national exams, which make the official figures an unreliable indicator of real achievement; and ineffective R&D spending, irrespective of whether the sums concerned are large or small, because the money does not finance projects and results, but mostly old-style state research institutions. These are systemic problems difficult to address by mere budget allocations; they demand deep sectorial reforms which are usually opposed by stakeholders. Moreover, although government spending on education has slightly increased the level of resources available, distribution remains skewed in favor of higher education at the expense of primary and vocational schools. A law adopted in 2010 tried to address this issue, but the stricter standards introduced were again lowered when a center-left majority returned to power in 2012. Public spending on R&D is below EU and OECD averages (0.4 % of GDP in 2013, Eurostat data), and is likely to remain so given constraints on public spending.

Public spending on education amounted to 3.1% of GDP in 2011, down from 4.2% in 2009 (World Bank figures). The skewing of the female-to-male enrollment ratio, which is close to 100% in primary and secondary education but 134% at the tertiary level, is typical for post-communist countries, especially in Southeastern Europe. Adult education and continuing training has not yet become popular: participation rates are below EU-27 and even EU-10 averages. Romania’s comparative shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%), as these are comparable to those of the most advanced EU-10 countries. Rather, deficits appear in the quality of the system’s output: In cross-national tests, for example, Romanian secondary students score at a level below 90% of the OECD average in terms of reading and mathematical skills, and the gap is growing.

Education policy /
R&D

7

Transformation Management

I. Level of Difficulty

The structural constraints on transformation in Romania are an aggregate of four key factors, some of which are positive, others negative. The key challenge is the socioeconomic imbalance between a few affluent urban centers and the rural provinces. Despite the global crisis and internal disparities, socioeconomic transformation in Bucharest, Constanta and some Transylvanian cities has produced a middle class and a vibrant service sector. By contrast, rural areas are characterized by outdated agricultural production methods (though modern investments have started to change this in some areas), social marginalization, aging and depopulation, in spite of some progress on physical infrastructure financed largely with EU grants. Some ex-monoindustrial areas remain burdened with outdated industrial infrastructure and the global crisis has slowed down the inflow of FDI, which might have changed the situation. Most of this legacy dates back to Ceausescu's disastrous policies of the 1980s, but poverty and infrastructure deficits have tended to cement existing divisions. More than the Communist regimes in neighboring countries, the Romanian state severely underinvested in physical infrastructure (social assets, transportation, etc.). Membership in the European Union helped to spur the implementation of rational agenda-setting and programs directed toward specific transformation deficits (e.g., rural development and administrative capacity building), both of which have been a positive influence on Romania's transition management. However, the country's political class have shown considerable irresponsibility and a disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. The labor force inherited from the previous regime was reasonably well educated, especially in technical fields, although quite rigid and inadaptable to the niche of manual professions. It functioned as a resource during the years of high growth and a safety valve through external migration when times turned sour: private remittances make up for insufficient public assistance to the elders and youngsters left behind. Lastly, the global economic and financial crisis has hit Romania hard, severely reducing options and resources available for transformation management. Even if the necessary political courage and vision were present, the country's meager resources would make it difficult to act ambitiously.

Structural
constraints

4

Romania's civil society traditions have historically been weak, even before the disruptions of the communist period. Today, there is a comparatively small number of active and sustainable NGOs working in the country. Participation in public life and in voluntary associations remains limited. Despite reforms driven by EU accession, institutional stability and the rule of law suffer from significant deficits and a lack of anchorage in a society used to a high degree of informality and even bargaining when the law is enforced. In contrast to Bulgaria or Serbia, Romanian communism was anti-intellectual in its approach to active, competent NGOs and organized groups. CSOs are still fighting an uphill battle to make their voices heard in matters of policies and governance, and the EU is too bureaucratic to function as an effective supporter of civil society since the more flexible bilateral donors left. However, with improving living standards, a burgeoning service sector and rising educational standards, a clientele and constituency for CSO work and employment is growing incrementally. Effective public campaigns against corruption or for environmental causes exemplify this trend toward modernization.

Civil society traditions

5

Outside the narrow circles of politicians, commentators and the highly politicized media, the intensity of social conflict is rather low, though, during the frequent electoral campaigns, rhetoric becomes more confrontational and actions have been taken at the margins of the constitution, as shown in previous sections. Political conflict has so far cut across social and cultural cleavages rather than overlap with them, which has limited the risk of social fractures. One exception may be the position of the Roma minority within society and the discrimination it faces: this has seemed to continue despite official integration strategies and a ban on the use of discriminatory language, but fortunately without the episodes of open violence seen elsewhere. Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as indicated by the demise of the traditional xenophobic Greater Romania Party (PRM) and diminution of other extremist voices. The Hungarian ethnic party (UDMR) most of the time takes part as a junior member in government coalitions, be they center-right or center-left, contributing to an emerging practice of "consociationalism." The election in 2014 as president of Romania by a sizable margin of a "double minority individual" – a German of Lutheran faith – spectacularly confirmed the trend. Hate speech and intolerance by the media and some public authorities have instead been directed against sexual minorities, who are socially stigmatized and have few vocal advocates. Given the current economic crisis and its social consequences, as well as the major regional and social inequalities within Romania, the low level of appeal exerted by extremist parties is remarkable. Open conflict and violence have not occurred in spite of the hardships of the crisis and austerity policies; in the vast majority of cases, violence and abuse in public remained verbal and confined to a narrow section of politically inspired events.

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. Strategies do exist – in fact, they are too numerous, both on the central and local levels – but are typically disconnected from the real locus of power, which is the budget process, and thus remain wish lists decoupled from reality. Despite guidance and prescriptions from international financial institutions (IFIs) and the European Union, Romania typically has either failed to implement well-designed structural reforms or has seen required legislation blocked as a result of political crises or prolonged election campaigns. This political weakness has negatively affected reform in sectors such as education, health care, the public sector and the management of state-owned enterprises (SOEs). The pattern in the crisis and post-crisis years has been, on the upside, that Romania's governments have managed to fight off their own populist instincts and preserved the macro equilibria of the country; but on the downside, they have failed to push forward necessary reforms in the main public sectors mentioned, thus leaving the structural weaknesses of the state in place.

The government is committed to democracy and a market economy, but has had only limited success in overcoming structural obstacles and implementing whatever it sets its mind to, even when there is agreement on the plans among political actors. In many cases, follow-through on reforms has been the main problem. Even when the correct initial policy choices were made and accepted by domestic and international partners, the government failed to take the same care with actual implementation, instead allowing interest groups to sabotage strategic orientation through party politicking or simulated implementation. External pressure and conditionality declined after the country's EU accession and a sense of drift has taken its place. There is even the impression that strategizing and implementation capacity have paradoxically decreased, and not increased, in the past few years, after the worst of the crisis was over. The big privatization plans and investment strategies of the last two years were a failure and the rate of absorption of EU funds during the cycle 2007-2013 is the lowest in the European Union, with a pitiful 46% at the end of 2014 and just one more year available to spend the rest.

Question
Score

Prioritization
6

Implementation
5

Despite measures to improve policy learning, some of which have been supported by EU funding, the quality of policy-making in Romania is not improving. Some degree of consistency over time and institutional memory is assured not by the party-political leadership, but by an increasingly well-trained and professional class of civil servants in the ministries and government agencies, as well as their counterparts in think tanks. Below the scrimmage of politicking, hot political issues and vested interests, these civil servants have managed to produce a certain degree of consolidation and coherence in policy-making. This is of course done at the expense of transparency and sustainability and it cannot be otherwise, as long as parties do not perform their share of the work and explain their decisions to the public. What is more, when good civil servants quit for better-paid positions in the private sector or EU institutions, institutional memory is lost and the learning process starts anew.

Policy learning
6

Overall, the capacity to learn from past experiences appears to be declining, at least at the political level. The ability to engage in policy learning is limited because vested interests and party-politics calculus takes priority over the sober assessment of the effectiveness and net results of policies. Electoral years (2012, 2014) always mark new lows in the quality of the political debate, which often sounds strikingly decoupled from reality.

15 | Resource Efficiency

Romania's track record in terms of resource efficiency is not good. The process of decentralization, in which attempts were made to strengthen the competencies and fiscal resources of local government bodies, has been in part reversed by the crisis, or at least halted by temporary spending and staffing caps. The central government has employed various mechanisms and legal loopholes to prevent local governments from actually increasing their policy flexibility or making autonomous decisions in a larger number of policy fields. On the other hand, many local decisions made in the previous climate of soft budget constraints today appear clientelistic or simply wasteful. The severity of the crisis induced the national government to toughen budgetary discipline in 2010, curbing the practice of overstepping financial limits. However, while things were gradually brought under control at the macro level, suboptimal spending practices or outright rent seeking have continued in many sectors and institutions. The public procurement process is severely affected by corruption and favoritism at all levels of governance. Benchmark analyses of unit costs show that public procurement produces too little in terms of useful output for the volume of resources it consumes, whether this is for services, public works or medical equipment and drugs. The center-left government that took power in early 2012 and reinforced its majority in later elections was eager to accommodate its clients by expanding the state apparatus back to pre-crisis levels, at the expense of public investment, especially at the regional and local levels.

Efficient use of
assets
7

Over the past two years, policy coordination has been a low priority for the government, in spite of the favorable political conditions in which its mandate started: a stable majority in the parliament and a legacy of electoral victories from 2012. Instead, the main ruling party has been engaged most of the time with clientelistic practices and internal battles, while its main leaders pre-positioned for the electoral year 2014. Even more importantly, an increasingly assertive and independent judiciary wreaked havoc among their ranks, with a string of high-profile corruption investigations and convictions which led to endless cabinet reshuffles, instability and increasing bafflement among its regional and municipal leaders. To the extent that positive outcomes were achieved, this was due to the residual professionalism within the ministries, where policy coordination manifested below the level of the political leadership, leading to a partial decoupling of bureaucratic ranks from the political levels.

Policy
coordination
5

On the upside, macro balances were preserved throughout the period due to the contribution of a technocratic and not corrupt finance minister with no political ambitions, and the conservative stance of the central bank. On the downside, sectorial reforms placed on the agenda in previous years (health care reform, decentralization) were stalled or even went into reverse (in the case of education).

Following adequate anti-corruption and transparency legislation put in place in previous years, activities by the National Anti-Corruption Directorate (DNA) and other elements of the judiciary have intensified lately and, the result of the reforms implemented years ago, started to produce results. An increasing number of top politicians from all parties were prosecuted and convicted during the period under review, be they ministers or former ministers, members of parliament or powerful local politicians. This was done mostly in spite of – rather than because of – the actions of the center-left government, which most of the time has tried to subtly undermine this trend by replacing the effective heads of investigative agencies or weakening their institutions. However, these attempts failed, also due to the support and attention given to this area by Romania's main foreign partners, and primarily monitoring by the EU Commission through the Monitoring and Verification Mechanism (MCV). The conflict over anti-corruption policies has become an important cleavage in the political system. The major parties have all used anti-corruption policies also as a strategy useful in getting rid of political opponents. Importantly, the corruption issue likewise affected relations between the government and the president, who remained a supporter of these policies and institutions throughout his second term, until the end of 2014.

Anti-corruption
policy
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In fact, anti-corruption stands in stark contrast to other areas of policy in Romania, in the sense that planned reforms did not remain only on paper, but were actually implemented. Institutions were created and allowed to work and therefore substantial results can be seen today, some even being considered European Union best practices.

16 | Consensus-Building

The political establishment has in principle accepted the main goals of post-Communist transformation: the market economy and democracy. No relevant political or social actor questions the country's pro-EU and pro-NATO strategies, with their practical consequences. EU-critical voices, which surfaced among some political parties during the constitutional crisis of 2012, seem to have lost prominence again. The problem remains the implementation of these societal goals, as the actions of some parties and political actors occasionally diverge from their official rhetoric. This is most visibly the case in issues dealing with the rule of law and the independence of judiciary, a significant share of parliamentary members, and indeed often a parliamentary majority, have occasionally acted as if they wanted to return to the previous status quo of impunity before the law. This cleavage – for or against the rule of law, independent judiciary and an energetic anti-corruption drive – rather than differences in ideology or strategic vision, explains the political polarization and tumult that has marked the last ten years of politics in Romania.

All major political actors agree on consolidating a market economy as a strategic, long-term goal of transformation. No relevant political or social actor challenges the basics of the market economy in Romania, though attempts by vested interests to engage in rent-seeking remain frequent.

Despite the economic crisis, incessant high-level political politicking, and the overall low level of public trust in political institutions and actors, support for anti-democratic actors in Romanian society remains remarkably weak due to prior negative experiences with extremist parties. Social frustration due to economic hardships and incompetent governance may be high, but this is not translated into votes for extremist parties, as has been the case in the past (or today in other parts of Europe). The populist People's Party Dan Diaconescu, formed around the person of a sensationalist TV anchor, made it into parliament in 2012 only to fizzle afterwards when its members migrated to other parties. (Diaconescu is currently serving a five-year jail sentence for blackmail and extortion). The radicalization of mainstream party rhetoric in the past two years backfired in the November 2014 elections, when the message from the electorate was decisively against conflict, populism and the traditional clientelism of the established parties.

Consensus on goals
9

Anti-democratic
actors
9

Cleavages in Romania are on the one hand ethnic (due to the presence of significant Hungarian and Roma minorities) and on the other hand social, mainly rural-urban. Whereas the Roma (estimated at some 3% of the population) are not well organized well from a political perspective, the Democratic Union of Hungarians in Romania (UDMR) consistently achieves a vote share comparable to Hungarians' share in the population at large (6% to 7%). Although this means that the ethnic cleavage is translated into politics, the UDMR's involvement in almost every government over the past two decades has set an important standard of consociationalism and integration. The main cleavage threatening social cohesion and political peace in Romania concerns the growing socioeconomic disparities between urban and rural populations and between the winners and losers in the transformation process. The brutal austerity package implemented in 2010 as a response to the global crisis and the macro imbalances it revealed in Romania's public finances did not help: it magnified, at least in the public imaginary, the disparities between the winners and the losers in the post-communist transition; and between those paid from the public budget and those from the private sector. Inflamed political rhetoric caused by these perceived disparities played a role in subsequent electoral campaigns. Regional socioeconomic disparities persist between urban centers such as the Bucharest-Ilfov development region, where standards of living in a few years will reach the EU average, and the predominantly rural regions in the northeastern and southwestern parts of the country, which linger at half that level. However, these urban-rural and regional divides are not clearly reflected in the platforms of political parties and are to some extent mitigated by the inflow of remittances from abroad, which are not fully reflected in statistics. Although all parties remain strongly Bucharest-focused, party affiliations and voting practices cut across class and region, dissipating potential conflict lines. Moreover, several key political conflicts have little resonance within the broader society.

The real political battle lines today are between groups competing for power and access to public resources. This points to a conflict line, which is only inadequately described as a democratic – communist successor party conflict similar to way this exists in the EU-10 countries. A related conflict concerns the reform of the judiciary and the anti-corruption fight, as shown above. This is championed by a few leading political figures and does draw increasing support within society, but is obstructed by large parts of the political class that see their interests and traditional impunity threatened by a more independent judiciary.

Cleavage /
conflict
management
8

The state formally engages with think tanks and NGOs, but such consultation often results from Western pressure or a particular NGO's increasing popularity, or occurs when the state administration itself lacks the competence required to perform a certain task. In general, the government does not appear to welcome a broader policy dialogue with CSOs, despite manifold legal provisions to do so. Considerations of expediency prevail over broader consultation with organizations such as trade unions, business associations or churches. At best, politicians cooperate with an elite circle of think tanks and NGOs that are not necessarily representative, and only to the extent that these organizations further their political interests. The gradual increase in career permeability between the government bureaucracy and representative political institutions on the one hand, and civil society and advocacy organizations on the other, may be considered a positive trend. However, some of the relatively few critical voices have been effectively silenced by co-optation into administrative and political responsibilities, or have migrated into business or consulting spheres following the international donors' withdrawal from the region after EU accession. A hard core of civil society and independent media people, acting mainly as freelancers and in social networks, have nevertheless remained strong advocates of cleansing politics, improving the quality of governance and defending the independence of the judiciary against politically motivated attacks. In addition, self-organizing groups with environmentalist leanings managed to trigger the largest anti-government street protests in the last decade, in Bucharest and a few other large cities, drawing at one point in 2013 tens of thousands of people. The initial rallies were organized in opposition to an unpopular mining project that the cabinet tried to rush through fast-track approval, but the protest subsequently generalized, as happens, against bad governance in general. The same type of sudden mobilization through social media, this time involving the three-million-odd Romanian diaspora in Western Europe, is also credited with overturning the expected results of the presidential elections in November 2014, when the electorate turned against the government-supported candidate in the second round of voting.

Civil society participation

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Ever since the bloody revolution of 1989, Romania has been an outlier in its handling of its wartime (as an ally of Nazi Germany) and communist pasts. Ceausescu's nationalistic denial of any Romanian involvement in offensive warfare, war crimes or the Holocaust was perpetuated in the post-1989 public debate. It was only in the second decade of transition that President Ion Iliescu, a former communist, broke the taboo and admitted the part Romania had played in the Holocaust. The pressing issue of communist repression and expropriation was also a point of contention after 1989. Post-communist lustration was never actually implemented in Romania, unlike in some neighboring countries, though it was hotly discussed in the years directly following the overturn of the old regime. The body created to screen and expose former collaborators with the Communist secret police has seen its work frustrated by bureaucratic obstacles; and in any case, the aim of the law was more to expose than to punish. A listed fund set up in 2005 to compensate victims of Communist

Reconciliation

8

expropriation (Fondul Proprietatea) was eventually taken over by a professional manager in 2010, gaining transparency thereafter. However, the issue of restitutions remains thorny, especially after a high-profile investigation by prosecutors in 2014 revealed corruption on a grand scale among top political echelons aimed at plundering state resources through this compensation mechanism.

17 | International Cooperation

Overall, Romania has made effective use of international support from the European Union, the European Bank for Reconstruction and Development (EBRD), the IMF and the World Bank during the course of the current crisis. Indeed, the country's primary coping strategies were largely guided by these international organizations. On average, the consensus among experts is that the country has performed better than might have been expected, especially in the area of macroeconomic stabilization. This is particularly true given the bitter political polarization over the last decade, with permanent struggles between the president and a parliamentary majority over the rule of law, and the fact that electoral years (such as 2014) are typically lost for reforms. On the downside, the country has been unable to use EU structural funds effectively: the rate of absorption of payments disbursed was just 46% at the end of 2014, the worst among member states, which makes it virtually impossible to use all the funds in the remaining year when they can still be spent. This failure can be attributed to the lack of administrative capacity, incessant high-level politicking and outright corruption.

Effective use of support

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Romania continues to suffer from a relative lack of credibility as an international partner. Some problems are not of its own making: it has to endure a permanent negative barrage in tabloids and Euroskeptical media, in countries like UK, Italy or France, where many Romanian citizens have gone in search of work or assistance. At the same time, the antidemocratic slips in the summer of 2012, during the presidential impeachment referendum, led to open spats between ruling Romanian politicians and European leaders such as EC President Barosso, German Chancellor Merkel and EU President Van Rompuy, all of which were covered in main international newspapers. The problems of personal integrity Prime Minister Ponta and several of his colleagues had to face at home, after they were exposed by the media for various transgressions, further weakened the capacity of the government to engage with its European peers. Increased isolation from Romania's traditional partners (EU, USA) occurred in the last few years, at least as far as personal rapports were concerned. Timid gestures at warming up Romania's relationship with China instead, by promoting an unrealistic list of investment projects, could not dissipate this impression. While Standard & Poor's upgraded Romania's rating to the investor grade level in May 2014 and Romania successfully issued sovereign bonds, deficiencies in the business environment have constrained inflows of foreign direct investment.

Credibility

6

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

Regional
cooperation
8

Strategic Outlook

Romania is confronted with economic risks originating from three sources exogenous to the system of governance, at least in the short term: its difficult legacies, still present in its economic and social structures; the chronic slowdown of growth in the EU; and the possible onset of a financial crisis triggered by the collapse of markets in Russia, Ukraine and Greece. However, the country's political risks are predominantly self-inflicted and stem from a weak system of governance, which is unable to prioritize, stick to simple strategies or implement policies; and popular dissatisfaction with a political establishment perceived as self-serving. The unexpected result of the presidential elections of November 2014 was, to a large extent, due to unprecedented mobilization and anti-system voting by the youngest, most informed and active strata of society, which includes the diaspora in Western Europe. Expectations are high not only that the current cabinet, delegitimized by the prime minister's electoral loss, will be toppled by a no-confidence vote in the spring of 2015, but also that new parties will appear to challenge the status quo before the next legislative elections in 2016. Although this is technically difficult, because legislative barriers against registering new contenders are high in Romania, it is expected that a pro-EU party promoting clean governance and bringing new leaders to the forefront will somehow emerge, taking advantage of the social media networks which played a crucial role in 2014.

Economically, the underdevelopment of the agricultural sector and of rural areas in general constitutes a heavy burden. The positive effects of pre-2009 economic growth were unevenly distributed territorially and across social groups. FDI flows to Romania have always trailed those in other new EU member states, and are sensitive to international downturns both small and large. The same is true of migrant workers' remittances (though remittance volumes dropped less than expected during the course of the crisis). Fiscal limitations will make it difficult to engage in any creative solutions beyond following the recommendations and conditions set by the European Union and international financial institutions. Romania is likely to continue to apply macro discipline, no matter what one party or another says when it is in the opposition. There are no extremist actors represented in the parliament, whether radical right or radical left. Moreover, the fact that the new president is from an ethnic minority and has a centrist agenda is likely to diffuse whatever cultural tensions might have existed on the political scene. The anti-system challengers, should they appear, are likely to be more, not less pro-European, because this is the faction of the electorate which currently feels more disenfranchised and less represented by the mainstream parties.

The epic struggle over the fate of reforms in the crucial field of the rule of law and the independence of the judiciary is likely to continue in the background, with periodic resurgences of tension when important appointments must be made, such as top figures within the prosecutor-general's office. Romania is monitored by the European Union under the Cooperation and Verification Mechanism (CVM), but the institutions praised by EU progress reports will continue to be under attack by politicians at home, and more so the more successful they are.