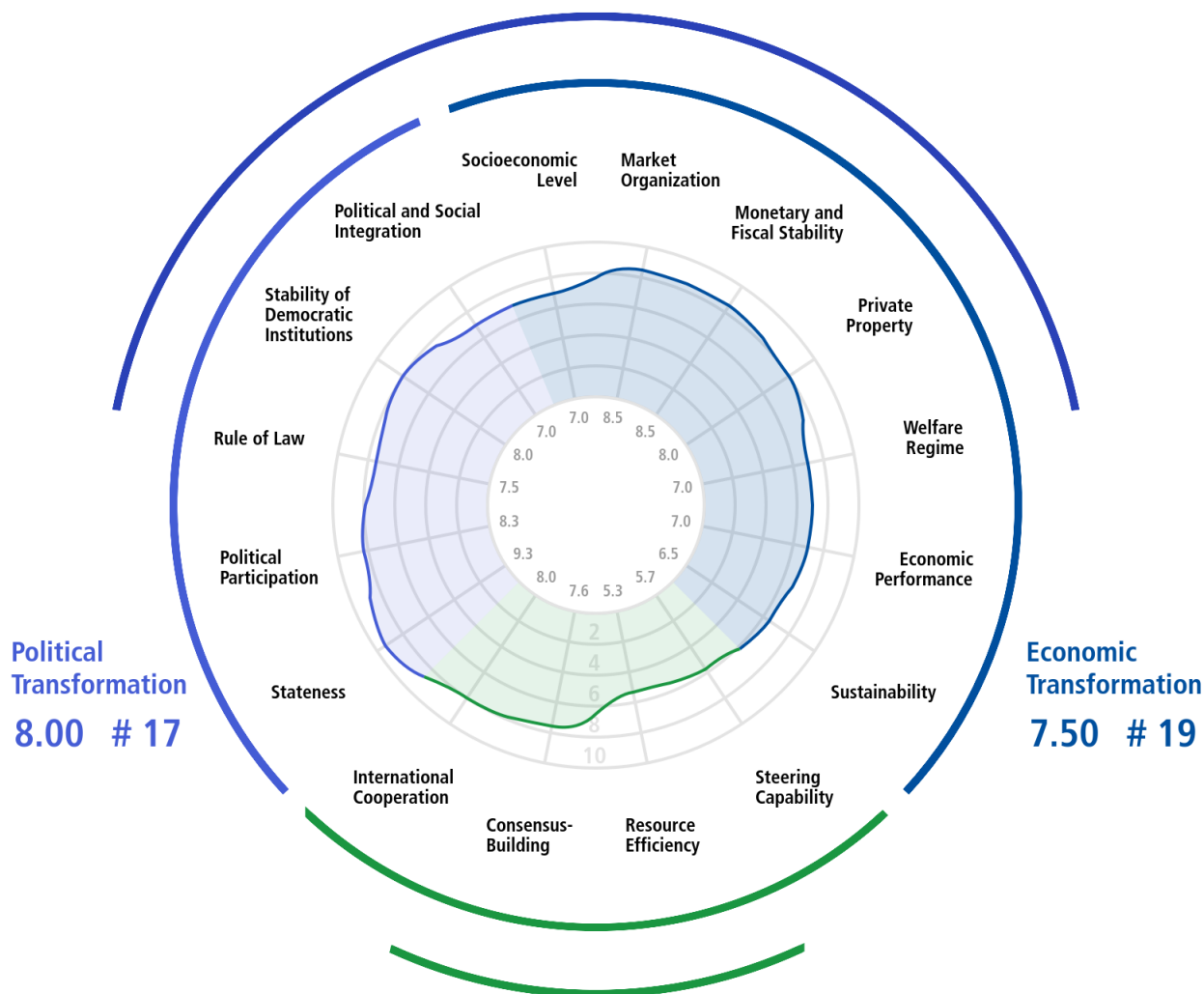


Romania

Status Index

7.75 # 15

on 1-10 scale out of 137



Political Transformation
8.00 # 17

Economic Transformation
7.50 # 19

Governance Index

5.58 # 37

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	19.3	HDI	0.828	GDP p.c., PPP \$	31946
Pop. growth ¹	% p.a.	-0.4	HDI rank of 189	49	Gini Index	35.8
Life expectancy	years	75.5	UN Education Index	0.765	Poverty ³	% 5.1
Urban population	%	54.2	Gender inequality ²	0.276	Aid per capita \$	-

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Politics has become less polarized in Romania in the last two years, with norms and institutions prevailing over the momentary impulses of politicians. Changes in power took place at the end of 2019, and again following the 2020 elections, when a three-party coalition cabinet was negotiated relatively quickly. The challenges posed by the coronavirus crisis in 2020 were addressed with no significant risk for the democratic framework of Romanian politics. Comparative evaluations show that in Romania, violations of democratic norms during the crisis were minor, more in line with what happened in Western Europe than in other, more problematic countries of the region.

A right-wing extremist and anti-system party, the Alliance for the Union of Romanians (AUR), became a parliamentary party for the first time at the end of 2020, but its political influence is limited by other actors who do not consider it an acceptable partner. In recent years, Romania has seen nothing of the open conflict or street violence associated with such protests elsewhere. Violence and abuse remain largely verbal and confined to a narrow range of politically inspired events. The Constitutional Court has continued to play an oversized role, repeatedly being called on to arbitrate many disputes which should be adjudicated in the normal process of governing.

Romania began 2020 with a new cabinet formed around the center-right Liberals, and a president of the same party elected for a second term. The parliament, however, remained into the hands of the opposition until the end of the year. As a result, the minority government had to manage the uncertainties of the pandemic while simultaneously fighting against a series of populist and expensive proposals for extra social spending that were intended to derail the budget.

The measures taken against COVID-19 were largely in line with those implemented in Western Europe. There were no redundancies or pay cuts in the public sector, and schemes to subsidize jobs in the private sector. As a result, the budget deficit reached unprecedented levels: 9% in 2020, which is expected to decline to 7% in 2021. The public debt increased correspondingly

and became a source of concern. On the positive side, Romania will get about €30 billion from the European Union's emergency package, on top of the regular seven-year budget. This is so large a sum that the capacity to spend it is likely to become an issue.

Serious structural constraints remained in place, such as the imbalance between a few affluent urban centers and the rural provinces in the east and south, the lack of adequate transportation and social infrastructure, and the demographic problem of a low birth rate coupled with the upcoming retirement of the baby boomer generation. In 2020, the coronavirus crisis exposed serious weaknesses in the education and public health care systems. The response to the pandemic, both in terms of health care measures and economic support, was inspired by and coordinated with the European Union. While this was positive and led to reasonably good results, it means that the outcome cannot count as a purely domestic success.

Consistent implementation of strategies and plans has always been a weak point of Romanian governments, even when motivated by the best of intentions. The digitalization of the public administration has not made much progress despite of being declared a priority and generously funded from European Union budgets. In a climate of loose budget constraints, many allocations of funds were clientelistic or wasteful. Suboptimal spending and even outright rent-seeking have continued, most visibly in state-owned enterprises or ministerial branches in territory, where plans to introduce better management were postponed again. The public procurement process continues to be affected by corruption and favoritism at all levels of government.

The main improvement following political changes is in terms of credibility. The executive and the president are consistent in their messaging once again, while the ruling coalition spends less energy in disputes with Brussels over the rule of law than before. Romania remains a reliable NATO member and supporter of the common security arrangements in a region where Russian and Chinese influence is growing. These are even signs of a more active Romanian foreign policy in the region, with its normally cautious diplomacy taking the lead in supporting the pro-democracy movement in Belarus and in demanding the release of Aleksei Navalny, the Russian dissident.

History and Characteristics of Transformation

The creation of a modern Romanian state started in the mid-19th century and its consolidation following “the European model” as an explicit, deliberate political project continued until World War II. Western models of statehood, democracy and a market economy were transplanted to a largely rural society, with significant ethnic diversity in cities and some provinces. The result was a democracy dominated by a small political and economic elite, which only partly represented wider societal interests. It had not internalized the concept of popular sovereignty, even after the introduction of a general (male) suffrage after WWI. National mobilization became a substitute for modernization or integrative strategies in the new, enlarged state with sizable minorities.

Despite the massive socioeconomic transformations forced upon the country after the Communist takeover in 1947, important flaws and imbalances were perpetuated. The last 10 years of Nicolae Ceaușescu’s autarchic rule, a period described as “sultanistic communism,” were especially harsh on the population. The ruling clan treated the state and the party as their property, rather than neutral instruments of policy. Rampant nepotism followed, as well as economic hardship and the illusion of equity. By the early 1980s, the combination of rhetorical independence from Moscow and Stalinist domestic control through forced industrialization had run its course, resulting in widespread shortages, economic decay, and a return to nationalist propaganda in a desperate attempt to gain some legitimacy.

The regime collapse in 1989 through a bloody popular uprising led to power struggles among different groups of the nomenklatura. The violent end of Communism did not lead therefore to a clean break with the past, but a gradual and painful transition lasting the good part of a decade. The concepts of a market economy and pluralist democracy were not exactly popular among the new leaders, who were mostly reformed communists. Having inherited several disadvantages, Romania was much slower than many other countries seeking EU accession to institute its post-communist reform process.

The first true rotation of elites took place at the beginning of 1997, when the first center-right government started to implement what others in the region had done five years earlier: restructure heavy industry and mining, liquidate economic black holes, consolidate the banking system, privatize large state-owned enterprises, liberalize most input prices and establish currency convertibility. The social and political resistance to reforms was high and led to several rounds of violent uprisings by the losers in the process, mainly blue-collar workers. These chaotic protests, famously carried out by the coal miners throughout the 1990s, were also manipulated by conservative forces and members of the old intelligence services.

The second decade of transition, after 2000, was marked by the struggle between two main political poles. On the center-left, the Social Democratic Party (PSD) pursued a pro-growth agenda and sought to take advantage of the prospective benefits of EU membership, while at the

same time preserving political control through mild authoritarianism and a clientelistic party machinery. On the center-right, the Democratic Party (PD), operated mostly in opposition but nonetheless delivered the directly elected president Traian Băsescu, who supported, partially out of conviction but also for tactical reasons, the EU rule of law agenda. The fight against corruption, increasingly visible and supported by Romania's partners, primarily the European Commission, became the main issue defining politics in Romania after 2005. It became the key factor determining the country's ruling coalitions, the formal and informal parliamentary alliances, and the rise and fall of various political leaders.

The global economic crisis of 2008-09 forced successive Romanian governments to implement a harsh austerity package which cost the leaders in power the elections that followed, but eventually balanced the budget and created the basis for robust economic growth after 2013. The anti-corruption drive was also successful, leading to numerous investigations and convictions of high-level public officials, business leaders and media moguls. The success of this drive made Romania something of a role model among new EU member states. While the country saw several rotations in power until 2020, the government now demonstrates a basic pro-European and pro-NATO orientation.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is uncontested throughout the territory. Autonomist rhetoric among some representatives of the Hungarian minority increases and decreases with the political cycles, but their actions have stayed firmly within constitutional boundaries. Electoral support for radical groups remains marginal. Though the anti-system right-wing AUR party did take 9% in the 2020 elections, the AUR's nationalist and centralist views do not challenge the state's monopoly on the use of force. Urban gangs sometimes settle scores violently, but they do not systematically control any territory. The gun ownership rate is among the lowest in the world, and violent crime is rare. The traffic of persons through EU-wide criminal networks is regarded as a serious problem, but such groups do not aim to create visible territorial fiefs.

About 10.5% of the population belongs to national minorities, according to the 2011 census. Ethnic Hungarians form the largest minority (6.1%), followed by the Roma (3.1%, but this number is unreliable). Minorities are not discriminated against in law, although some individuals belonging to minorities face social exclusion and discrimination, especially the Roma. The most politically active ethnic minority, the Hungarians, generally accepts the existing nation-state but fights politically for greater local autonomy. Since 2014, the president, who has been directly elected twice, has been an ethnic German, and his identity is not a subject of significant political debates. However, the new extreme right parliamentary party, AUR, is somewhat likely to provoke controversy over ethnic heritage in the future.

The Romanian Orthodox Church (BOR) is relatively independent from politics, but it widely benefits from state financial support. Other recognized denominations receive funding, mostly for maintaining cultural monuments. On the other hand, this is also a form of control of churches by the state: there is no tradition of anti-government opposition from the religious establishment (except during the Communist purges in the 1950s). Religious education was introduced as an optional subject in schools in the 1990s, but the impact of this change has remained largely symbolic: the declining of educational standards has other multiple causes. Groups

Question
Score

Monopoly on the
use of force

10



_____ 1

State identity

9



_____ 1

No interference of
religious dogmas

9



_____ 1

with religious affiliation oppose gay rights and, to some extent, the coronavirus restrictions introduced in 2020. Some are also active in the anti-vaccine movement, and a small number of high-profile clerics propagated conspiracy theories about the vaccine or politics in general. All these gained parliamentary representation after the December 2020 elections, but the anti-system AUR party remains mostly a channel of marginal voices, not of the religious establishment. Separately, a new generation of young political leaders in the mainstream parties include many who are members of various neo-protestant churches, a relative novelty in Romania. It remains to be seen how they will influence the agenda in the long run.

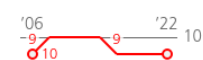
Since, 1989, Romania has reformed its state institutions with increasing assistance and guidance from the European Union. Administrative structures and resource allocation encompass the entire country. Infrastructure in rural regions remains partly underdeveloped, with uneven capacity to act effectively in the event of natural disasters like floods, epizooties, or medical emergencies, as became clear during the coronavirus crisis. Since 2007, membership in the European Union has acted to some extent as a substitute for such shortcomings, such as by integrating the country into a common European response to the pandemic, especially in the second part of 2020. The crisis has exposed the weaknesses of the health care sector, which experienced difficulties in coping with other tasks during the coronavirus crisis. However, considering the chronic underfunding and structural legacies, the system performed reasonably well under stress. The main risks to the consistent functioning of state administration, including the public health sector, remain political clientelism and corruption.

2 | Political Participation

Elections are generally free and fair, with occasional evidence of fraud, unethical campaigning, or voter manipulation, especially in poor rural areas. However, the situation has improved in recent years. There are now more restrictions and transparency in party funding, due mostly to the deterrence effect of the drive against corruption. Otherwise, the Electoral Authority remains a weak overseer. The local elections scheduled for June 2020 were postponed for September due to the coronavirus crisis, and the decision was broadly accepted by all major political actors. The vote was contested, especially in large cities, and the voter turnout was about 2% higher than in 2016. By contrast, following a more subdued campaign, the turnout in the parliamentary elections of December 2020 was 7.65% lower, compared to 2016, and over 13% lower than for the local elections in 2020. Voter registration is done automatically from the national ID list and the identity check is done electronically in stations to prevent multiple voting. Mail voting was introduced recently as an alternative to facilitate participation in the large diaspora present in West European countries. Low participation is a long-term trend. In 2020, it was reinforced by the coronavirus restrictions and has little to do with concerns about ballot confidentiality

Basic administration

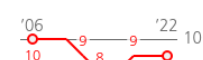
9



1

Free and fair elections

9



1

Generally speaking, democratically elected rulers do have effective power to govern. No political enclaves exist, although interest groups and stakeholders may occasionally exert disproportionate influence and may be viewed as possessing some veto power. The influence of the intelligence services has become a greater concern more recently, after it collaborated with anti-corruption prosecutors for a number of years and active or retired officers became increasingly involved in party life, either directly or as consultants. Throughout 2020, the minority government relied on military personnel to deal with the coronavirus crisis in hospitals; the vaccination campaign started in January 2021 is still managed by representative of the army medical corps, with IT services provided by one of the secret services. The new coalition government formed after the December 2020 elections is made of three parties, and it remains to be seen how much they can change the situation.

The Romanian constitution guarantees the usual political and civil liberties, including freedom of expression, association, and assembly. Rhetorical threats or attempts to discredit independent civil society have abated lately after the more authoritarian and nationalist Social Democratic Party lost power in 2019. The new concerns were about the restrictions related to the pandemic that were introduced in March 2020 and lasted throughout the year in various degrees, fluctuating with the severity of the pandemic in the whole of Europe. At the beginning of 2021, a state of alert was in place which allows authorities to declare quarantine in individual localities depending on the prevalence data. In retrospect, it turns out that the occasional mishaps (fines too high or without a sound legal basis) were more about lack of coordination than deliberate attempts to restrict democracy. The anti-lockdown protests were at moderate levels and in all the comparative evaluations available, the risk of democratic backsliding during the crisis was estimated as low. There were virtually no instances in which citizens were prevented from exercising their rights. If anything, the opposite may be true: police forces failed on some occasions to maintain lockdown measures during the pandemic crisis, mostly in the case of massive religious gatherings.

In principle, the freedoms of opinion and of the press are protected by law, but the 2008-09 economic crisis and the emergence of social networks have affected mainstream media. As a result, there are fewer outlets, lower circulation, and a disappearance of genres (investigative journalism, political commentary, social reportage). Social media has proved to be an imperfect substitute. CNA, the audio-visual media regulator, is weak, politicized, and fails to perform its function: penalties applied for grossly distorted news programs are selective and biased against channels that criticize the ruling coalition. In addition, the coronavirus crisis was used by the minority government as a pretext to buy media loyalty, with anti-crisis economic subsidies and information campaigns. The same was true for several important municipal local governments before the 2020 local elections, especially the Bucharest municipality. The general view is that the media is weaker and more clientelized now than before the crisis, with more undue influence exerted

Effective power to govern

8



1

Association / assembly rights

9



1

Freedom of expression

7



1

over it by parties or the groups controlling resources related to the fight against COVID-19, including the military-intelligence establishment. While there are no direct threats against media outlets or independent journalists, the economic and political situation favor self-censorship and obedient behavior of many mass-media actors. Politicization and mismanagement in public media have made them less relevant over time, negatively impacting citizens' capacity to get quality information and to protect themselves from fake news. This slight deterioration in the conditions of the media has been reflected in cross-country evaluations like Freedom House's Nations in Transit report, which downgraded Romania's "independent media" score in its last assessment.

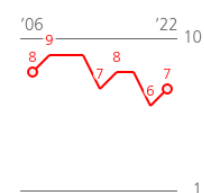
3 | Rule of Law

State powers in Romania are nominally independent: the constitution provides for a separation of powers and checks and balances in the political system. The bicameral parliament and the dual executive, with a directly elected president and a powerful prime minister installed by the parliament, make it difficult to concentrate power, but the limits of the constitution are tested in moments of intense political competition. In 2020, two movements occurred in opposite directions. On one hand, the change of government at the end of 2019, with the more authoritarian and anti-EU Social Democrats losing power, has eased the political pressure on the judiciary. No more damaging legislation was initiated, and the dialogue with the European Union was re-established to fix the damages and fine-tune the system. However, because the government did not have a parliamentary majority, progress was limited. On the other hand, hasty executive decisions were implemented during the coronavirus crisis, during the emergency situation declared in the spring of 2020 and afterward, which were challenged in court by groups that opposed these measures or even the ombudsman, creating an air of confusion. Eventually, it turned out that these were due to a lack of coordination rather than deliberate intentions to affect the separation of powers. Actors on both sides of the political spectrum appeal to the increasingly proactive Constitutional Court – a hybrid institution, not part of the judiciary – to pass decisions that normally should be negotiated politically.

The threat to the autonomy of the judiciary from the ruling powers subsided after 2019 when the National Liberal Party took over the helms of government. Media campaigns against magistrates have abated, and the only challenge to their status these days refers to their privileges (early retirement and high, non-contributory pensions) that are frowned upon by the public. The dialogue with the European Union over judicial reforms resumed during the review period, and drafts laws were prepared and put up for public consultation aimed at rebalancing the system after the excesses of the previous years. It is expected that these laws will be voted on in parliament in 2021; the current coalition made a pledge to avoid changing important

Separation of powers

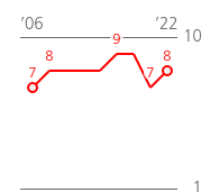
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1

Independent judiciary

8



1

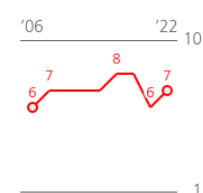
laws on justice through emergency ordinances or other fast-track procedures, as has happened in the past. The Constitutional Court, which technically is not part of the judiciary and is not made up only of magistrates, is the only court with the power to strike down laws or, more often, parts of them, based on reasons of unconstitutionality. In such cases, the acts move back to parliament to be amended accordingly.

The judiciary, primarily the prosecutors, had been less active over the past years, while the political battles over the judiciary gained speed. Final convictions in high-profile cases such as that of Liviu Dragnea, the leader of Social Democrats and the de facto leader of the government, which occurred in 2019, were the result of investigations carried out in the previous period. The credibility of the system was affected when the anti-mafia chief prosecutor had to resign because her husband was convicted for criminal association. However, promises were made in 2020 that new investigations would be launched, and the work would gain speed, without political bias and while avoiding the media publicity at every step. Indeed, the first important anti-corruption case under the new coalition was against one of the top leaders of the main ruling party, PNL, who is the president of a regional council.

The typical EU norms guaranteeing due process, equal treatment, and nondiscrimination are in place. However, court verdicts may be arbitrary, with wide differences in solutions sometimes being adopted in similar cases, as judicial practice has not yet been fully unified. There is a significant backlog of court cases in lower courts and civil matters at a level that remained largely below the radar of the European Commission's high-profile monitoring, focused on anti-corruption. Human rights organizations report cases of police violating basic human rights as well as generally inhumane and degrading treatment in penitentiaries. The traffic of persons and especially of women and minors has recently emerged as a serious preoccupation after a series of acquittals of criminal gangs, with sexism and bullying in schools as associated problems. The Roma communities continue to suffer from various forms of social and economic discrimination. The restrictions introduced in 2020 on the freedom of movement or speech were largely reasonable, proportional, and temporary, and radical groups had the possibility to organize protests unmolested. The fines imposed during the first wave of the pandemics were high, but enforcement was erratic and the measure short-lived.

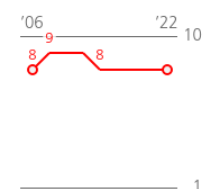
Prosecution of office abuse

7



Civil rights

8



4 | Stability of Democratic Institutions

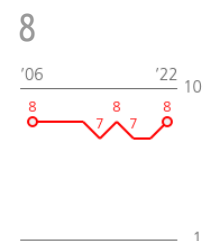
In 2020, political polarization decreased – the institutional framework withstood important tensions, and norms and institutions prevailed over the momentary impulses of politicians. The leader of the ruling left-wing party and de facto ruler of the government was convicted in a corruption case and jailed in 2019; a peaceful rotation of elites in power took place at the end of 2019, and again following the 2020 elections, when a three-party coalition cabinet was negotiated relatively quickly. The strains created by the coronavirus crisis were overcome with no significant risk for the democratic framework of Romanian politics. The Constitutional Court has continued to play an oversized role, repeatedly being called on to arbitrate many disputes which should be adjudicated in the normal process of governing.

Political rhetoric continued to be inflamed and polarized in the past two years. However, major challenges have come and gone without altering Romania's democratic framework: the overturning of a cabinet through a no-confidence motion at the end of 2019; two rounds of local and legislative elections in 2020; and the difficulties created by the pandemics throughout 2020. The effectiveness of governance suffered occasionally, but there was no major democratic backlash or dangerous restrictions to political freedoms motivated by the lockdown. AUR, a populist, right-wing, and anti-system party, surprisingly won over 9% of the vote and entered the parliament at the end of 2020. This ends the “Romanian exception” (no extremist parties in the national or European parliaments) and puts the local politics more in line with the trends elsewhere in Europe. So far no, other political actor seems to intend to form an alliance with this new entrant on the scene.

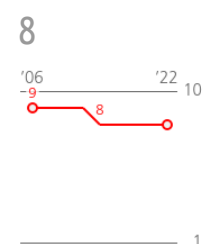
5 | Political and Social Integration

The December 2020 parliamentary elections were free and reasonably well organized, despite low turnout and the challenges posed by the pandemic. The legislature elected is the least fragmented in recent history, with just five parties crossing the threshold; three of them formed the ruling coalition around the Liberals. A right-wing extremist and anti-system party, AUR, became a parliamentary party for the first time, but its political influence is limited by other actors who do not consider it an acceptable partner. Splinters and smaller groups composed of politicians changed parties often did not make a return to the new parliament, which makes the alignments clearer. With two mainstream parties, a civic-liberal upstart, the small Hungarian ethnic union, and the newcomer, AUR, capitalizing on the protest vote, religious sentiments and the anti-vaccine movement, the spectrum of social opinions is quite well represented in the legislature. Arguably, such representation is more accurate with the removal of free-floating political groups. The percentage of first-time MPs is also the highest in

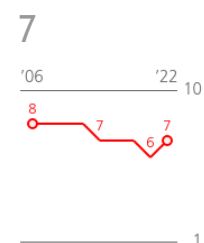
Performance of democratic institutions



Commitment to democratic institutions



Party system

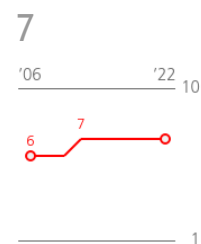


decades, which signals a certain rejuvenation of the ruling class. However, the problem of clientelism as a party-building strategy remains, especially affecting the two large parties which typically use state resources to reward their followers in territory: the Socialist party on the left and the Liberals on the right.

In general, the political system in Romania has been slow to respond to direct societal pressure. The coronavirus crisis in 2020, if anything, made things more difficult, generating high levels of social stress and new priorities in governance. The decisions taken by the authorities in this interval, while not undermining democracy, were not very transparent or based on consultations with the representatives of the businesses affected by lockdowns, for instance. On the other hand, the two electoral campaigns in 2020, for the local and parliamentary elections, forced the parties to be more open in terms of cadre policy and issues, causing a broader spectrum of social concerns to be channeled through the system. There is less risk now than in previous years of seeing backsliding on the civil rights agenda (LGBTQ+ and women's rights). The trade unions remain weak and mostly present in the public sector. The Economic and Social Committee, an EU-style institution with an advisory role in government decision-making, is functional once again, but its actual power to alter legislation tends to be low. Business associations are also rather weak as many large companies, including multinationals, prefer to lobby the relevant decision makers case by case and cut deals individually. Measures which are very unpopular with the public and perceived as illegitimate privileges, such as the early retirement and special pensions of the magistrates, policemen and other militarized institutions, have remained in place despite electoral promises to abolish them. This is a good illustration of the influence these professional categories have over the decision-making process.

In 2020, the coronavirus emergency reduced the scope for debates and other forms of transparent advocacy, making broad participation in decision-making more difficult than before. The decisions made by the authorities in this interval, while not undermining democracy, were rather opaque and not based on consultation with stakeholders. Law and order institutions had the upper hand while military personnel were appointed to deal with emergencies. On the other hand, the two electoral campaigns in 2020, for local and parliamentary elections, forced the parties to be more receptive to public signals, in terms of cadre policy and issues: people from civil society and grassroots organizations ran in elections and became mayors or councilors in a number of large cities following the local elections held in September. Ironically, it is the extreme-right alliance AUR, a loose collection of nationalist and religious activists, which has a lively online presence and benefits from the tacit support of a part of the church establishment, that is one of the most socially entrenched political groups today. They are a collection of interest groups that scored a spectacular success in influencing the agenda. With a new government coalition in place, economically rooted, established multipartisan interest groups

Interest groups



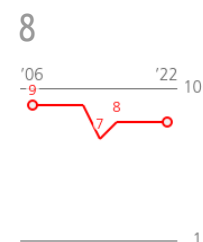
began to feel the pressure to renegotiate their power positions, especially on the local level. This can be observed in the conflicts which arose during the state budget negotiations between the central government and certain mayors and local leaders of political parties. The trade unions remain weak and mostly present in the public sector.

Surveys show that most Romanian citizens prefer democracy to any other political regime, while support for the European Union and NATO remains among the highest among the member states of the two organizations. The new anti-system party, AUR, won slightly over 9% of the vote in the parliamentary elections with inflamed rhetoric based on conspiracies, nationalism, and opposition to measures taken against COVID-19. Their commitment to democratic norms and discourse is uncertain, but so far, they are isolated in the legislature and unlikely to exert much influence on decisions. When people report in opinion polls that they dislike the direction the country is heading, this is mostly related to dissatisfaction with the quality of governance, not the democratic system as such: in the summer of 2020, over 80% reported that “democracy is important,” but only 50% believe they live in one. However, it is difficult to disentangle the effects of the coronavirus from the more general dissatisfaction with the state of democracy in the polls. If anything, the medical and economic response to the crisis organized on a common basis at the EU level seems to have tacitly reinforced the pro-Union attitude of the Romanian public, which typically goes hand in hand with the acceptance of democratic norms. As a long-term trend, the army (68%) and the Orthodox Church (55%) lead in the opinion surveys of trust, followed by NATO (52%) and the European Union (50%), scoring way above national political institutions like the government or parliament.

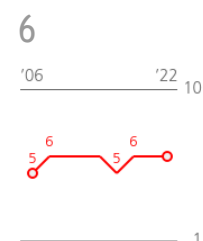
Levels of trust are traditionally low: according to the European Quality of Life Survey 2016, Romania scores below the EU average on generalized trust, although slightly higher than most of its Balkan neighbors. In contrast, trust in EU institutions and the country’s Western partners is relatively high. The more informed, activist middle class, especially in large cities, has become increasingly assertive and able to organize itself, either in political parties or issue-oriented movements, and increasingly advocates for causes like better health care, protecting the environment, or local development. Large social service-providing NGOs have consolidated, some working successfully as subcontractors of local governments in areas of elderly or homeless care; a group has started a fundraising campaign to build the first new non-profit hospital in Romania since 1989, without state help.

On the other hand, these cases remain the exceptions. Due to the county’s long authoritarian tradition, most people in poorer regions are inclined to resort to state assistance and guidance than to self-organization. Mainstream parties are used to controlling their political base through clientelism. An increased concern is the infiltration of independent groups and even political parties by the intelligence community, in particular by granting these groups or parties privileged access to resources, including EU funding.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

In 2020, the coronavirus crisis put an end to sustained growth that had lasted almost a decade after the global economic crisis of 2008-09. The recession was mitigated by the governmental job-supporting schemes which followed the German model (Kurzarbeit). In the coming years, the extraordinary financial package created by the European Union to assist its member states is expected to help alleviate the effects of the crisis. As a result, there was no significant spike in unemployment; public jobs were fully protected throughout the interval.

The IMF reported a GDP per capita (PPP) of \$27,750 in 2019, which is higher than the average for the 17 East-Central and Southeast European countries. In 2019, Romania was rank 49 in the world in terms of HDI (0.828). Its Gender Development Index is close to 100% of the HDI, but its Gender Inequality Index is the worst in the region (2019: 0.276). Also, UNDP poverty-related indices suggest that poverty, though not extreme, is a real problem in parts of society. The Gini coefficient decreased compared to the pre-accession period, falling from 0.39 to 0.36 between 2006 and 2018. Significant urban-rural disparities, with deep historical roots, make social exclusion structurally ingrained in Romania. FDI and economic growth are strongly focused on the capital city, a handful of other major cities, and the western regions, whereas underemployment and poor social services (including education) persist in rural areas.

Marginalized groups, such as the Roma, sometimes find it difficult to take part in the formal economy. The labor force participation is significantly lower than in Western Europe, due to early retirement and rural household occupations. The slight increase in life expectancy over the last decade suggests overall improvements in the delivery of services. However, the pandemic will probably put a dent in these trends in 2020 and possibly subsequently. The health care crisis exposed the weaknesses of the sector; whether this will be a trigger of reforms and improved financing remains to be seen.

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	211695.4	241457.4	249696.9	248715.6
GDP growth	%	7.3	4.5	4.1	-3.9
Inflation (CPI)	%	1.3	4.6	3.8	2.6
Unemployment	%	4.9	4.2	3.9	4.8
Foreign direct investment	% of GDP	2.8	3.0	2.9	-
Export growth	%	7.8	5.3	4.6	-9.7
Import growth	%	11.5	8.6	6.8	-5.1
Current account balance	\$ M	-6584.2	-11136.1	-12191.4	-13137.7
Public debt	% of GDP	36.8	36.5	36.8	49.8
External debt	\$ M	114008.0	112546.9	118298.2	142389.7
Total debt service	\$ M	20553.7	21900.8	19222.9	20347.1
Net lending/borrowing	% of GDP	-2.8	-2.9	-4.2	-
Tax revenue	% of GDP	15.5	14.5	14.6	-
Government consumption	% of GDP	15.7	16.8	17.6	18.9
Public education spending	% of GDP	3.1	3.3	-	-
Public health spending	% of GDP	4.0	4.4	-	-
R&D expenditure	% of GDP	0.5	0.5	-	-
Military expenditure	% of GDP	1.7	1.8	1.8	2.3

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

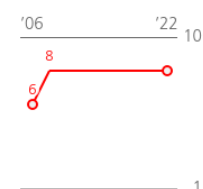
7 | Organization of the Market and Competition

Following accession to the European Union, the institutions of the market economy became more consolidated. These include freedom of trade, currency convertibility, strong anti-monopoly and anti-state aid regulators, and the transposition of EU rules. In the first phases of the transformational process, Romania had been criticized for reserving too large a role for the state in economic development, with legacies of overregulation coexisting with virtually unhampered forms of business practice beyond the control of the authorities and regulations; things have improved over time in this respect. A major issue is the quality of management in state-owned enterprises (SOEs), mainly in the energy and extractive sectors, where politicization is widespread and performance uneven. Tax evasion and the informal sector are still sizable, which is a symptom of weak public institutions meant to deal with such problems. Informal employment differs from region to region. The highest proportion is observed in the northeast, where the informal sector accounts for 40% of total employment, mostly in rural, subsistence households. The procurement system, while compliant with EU rules in principle, is occasionally an avenue for clientelism and organized corruption. According to the World Bank's 2019 Doing Business report, it is relatively inexpensive to establish a business in Romania (0.4% of average income per capita), but it takes six procedures and 35 days to do so, placing the country at a meager rank of 111 out of 190 in the "starting a business" sub-index. However, the main obstacle for entrepreneurs is not creating a company, which is a one-off event, but running it on a monthly basis and complying with the many requirements imposed by a state bureaucracy that cannot shift procedures online. The investment climate has become more stable and encouraging after the government change in 2019, with less rhetorical hostility toward multinationals and more predictable legislation affecting the sector.

Regulations prohibiting monopolies do exist and the Romanian Competition Council (RCC) and other market arbiters, which are fully in line with EU rules in principle, have gained a body of practice on which to rely. There were investigations on cartelization and fines imposed in various sectors such as energy, banking, or telecoms. Further liberalization took place in regulated sectors, such as natural gas and, at the beginning of 2021, the electricity market. The market for public works, especially at the local level, has always been sensitive to the risk of clientelism and corruption. More recently, the information and communications technology (ICT) services for public institutions, including projects with EU funds, emerged as a prominent concern, with media uncovering illicit cartel practices, political interference, and influence exerted by intelligence services. The state of emergency in the early months of the pandemics allowed fast-track procurement for medical supplies and related services. Some of these contracts turned out to be unjustified, costly, or clientelistic. The same problem appeared in relation to the publicity campaigns ran by the government or several large municipalities.

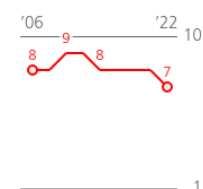
Market
organization

8



Competition policy

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Romania is a full member of the EU common market. All restrictions imposed by tariff and non-tariff trade barriers have been abolished, and there have been very few exceptions from this regime in the past years, all in line with EU norms. Inside the EU, Romania's position has been largely in favor of the free trade agreements with the United States, Canada, and East Asia, as well as for the liberalization of services within the European Union, which would create a clear advantage for freelancers based in Romania and operating in the common market.

The banking sector has been restructured to meet European standards and has weathered the global crisis a decade ago and its aftermath reasonably well, without public bailouts. Private ownership is high: it was 91.9% at the end of 2019. Foreign banks – mostly Austrian, Italian, and French – hold 76% of the country's banking assets, but the biggest player in terms of operations is a local private bank, Transylvania. The solvency of the Romanian system is currently around 19%, above the EU average or the recommended level of 8%. The share of non-performing loans declined steadily after the global economic crisis, reaching 4.4% in 2020. The pandemic did not have a significant impact on the banking system. In general, oversight of the banking sector is strict and operators behave cautiously, with a regulator leaning toward conservative positions. The price of this stability is more difficult access to credit by entrepreneurs. Politically motivated attacks on the system and populist drafts of anti-banking legislation were frequent in the past, but much less so during the last two years; the situation is likely to stay this way for the whole political cycle starting in 2021.

8 | Monetary and fiscal stability

The exchange rate is managed but floating. According to IMF reports in the last years, the real exchange has been broadly in line with medium-term macroeconomic projections. The currency was fairly stable after a brief devaluation episode in 2019 and it remained so throughout 2020, despite the economic recession and an increase in the budget deficit, as the center-right government in office since November 2019 was credited for its moderation in terms of public spending. The central bank has remained relatively strong, independent of political power, and committed to monetary stability. The prospect of joining the Eurozone was postponed again indefinitely due to the coronavirus crisis.

Liberalization of foreign trade

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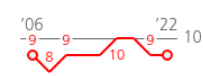
Banking system

9



Monetary stability

9



Fiscal policies and public spending during the coronavirus crisis were largely in line with those implemented in Western Europe: no redundancies or pay cuts occurred in the public sector even when activity slowed down, and there were German-inspired Kurzarbeit schemes to subsidize jobs in the private sector. As a result, the budget deficit reached unprecedented levels at the end of 2020 at 9%, far above the 3% Maastricht threshold. The deficit is expected to be 7% in 2021 and to slowly decline afterwards. In just one year, public debt jumped from 35.4% in 2019 to 43% at the end of 2020. It is projected to be 55% in 2022. Generous legislation on massive pension increases (by 40%) plus other universal social benefits passed by the previous legislature with present deadlines to kick in, poses a serious problem for the new government. On the other hand, market confidence is maintained by the influx of about €30 billion allocated to Romania from the European Recovery and Resilience Facility (RRF), on top of the €50 billion provided in the regular EU budget for 2021-2027. Romania's capacity to spend such sums remains an issue, however, especially concerning the RRF, which must be allocated quickly and spent entirely by 2026.

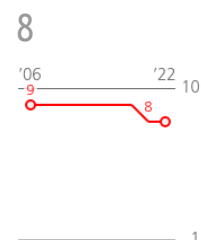
9 | Private Property

Romanian legislation on the acquisition and protection of property rights is generally in line with the EU acquis, but despite increased efforts to prosecute copyright-related crimes both in the arts and the software industries, there are still loopholes in the protection of intellectual and industrial property rights. The share in GDP of the private sector has grown steadily in the last three decades, currently reaching 80%. The large-scale post-communist privatization is almost completed; the actions still discussed consist in listing minority shares in the remaining state-owned companies which are profitable, such as those in the energy sector, on the stock exchange. Overall, Romania is gradually becoming more business-friendly in terms of procedures and the time it takes to accomplish them, although digitalization in public administration is slow, and e-government schemes disappointing. According to the 2019 Doing Business Report, Romania ranks mid-level among EU member states in terms of the ease of registering a property. The judiciary remains problematic when it comes to enforcing contracts through the courts, as the waiting time and vulnerability to corruption are high. A series of anti-corruption investigations initiated in the last few years revealed how a few criminal circles at the top of politics and public administration exploited the property restitution system to unduly enrich themselves; high-profile convictions were pronounced at the end of 2020. Public property tends to be less protected and more prone to abuse through preferential concession contracts, especially at the local level.

Fiscal stability



Property rights



Romania's infrastructure for private enterprise is firmly in place, and the inviolability of private property is stated in the constitution. Expropriation for reasons of public utility is defined in law and rather slow and difficult to implement in practice. This means cases are adjudicated in courts and expropriations are admissible only for major public infrastructure projects, like highways, not for the redevelopment of land.

On average, the state offers competitive taxation regimes to investors, although the instability of the legal framework, especially in fiscal and taxation policy, remains an issue. With respect to the number of official procedures required to start a business, Romania has been doing reasonably well in World Bank's Doing Business rankings. The main difficulties are not related to establishing a company, but rather with the routine burdens imposed on it by the state bureaucracy in areas such as tax payments or inspections. Frequent initiatives to decrease bureaucracy amount to little, in spite of the support given by foreign partners such as the European Commission (EU funding mechanisms) or the World Bank (economic governance) in the form of regulatory impact assessments of e-government best practices. In 2020, government schemes were created to help the business sector in crisis, including small- to medium enterprises (SMEs), using both national and European funds. The state-owned enterprises (SOEs) remain politicized, portioned out among the parties in power and used as sources of patronage. As a result, their performance is very uneven, with some incurring significant losses (the railways, the coal mines, the municipal district heating, etc.).

10 | Welfare Regime

Social security is organized by the state and covers all relevant risks in principle, while some non-profit charities have started to play a role, especially in partnership with municipalities. There are universal and targeted benefits, mostly in cash, available throughout the country. Health care is available to all citizens throughout the state territory, but coverage is sometimes inadequate, especially in rural areas. Romania has one of the smallest health care budgets as a percentage of GDP in the European Union, and access to subsidized services and drugs can be erratic, depending on monthly allocations. The salaries in the health care sector were substantially increased in the last few years. However, doctors and nurses continue to emigrate to the West faster than medical schools can replace them, blaming the clientelism in the system. The coronavirus crisis exposed these weaknesses in the system and promises were made to reform the public health care during the whole electoral year of 2020.

The demographic problem is also concerning, in particular the low birth rate and the upcoming retirement of the baby boomer generation, because the three main components of the social safety net (pensions, health care, social protection) are funded entirely through taxes on labor.

Private enterprise

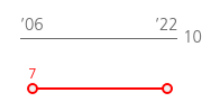
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Social safety nets

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

Another effect of early retirements is that today, the employment rate in Romania is rather low by EU standards (63%) and so is the effective retirement age (around 56). In general, the state is much better at distributing handouts than proactively assisting people to find work.

In theory, social safety nets are comprehensive, but many components are poorly targeted, sometimes abused, and rigid at the point of use. In a legacy of communism, the system is overextended compared to the resources available and promises more than it can deliver, despite the recent budget increases. This is especially the case for poor municipalities, as the state has gradually transferred responsibility for social assistance to the local level over the past decade. Remittances from the 3–4 million Romanians working abroad, mostly in the European Union, are filling the gaps to some extent. The deficits in the public pension system continue to accumulate, and no political actor has seriously addressed the crisis looming once the baby boomers retire.

The coronavirus crisis in 2020 created some temporary obstacles for the free circulation of persons across borders and destroyed jobs in the service sector in many EU countries where Romanian work, but so far, no massive flux of returning emigrants was observed. Domestically, the focus of policies during the pandemic was the conservation of jobs: there was no redundancy or salary cut in the public sector, even in the domains with reduced activity. With the goal of avoiding layoffs, the private sector was supported with subsidies as a fraction of the salary for reduced work program, modeled after the German Kurzarbeit.

Romanian society retains elements of uneven and/or discriminatory access. Education, basic social security, and health care offer limited compensation for social inequality. Egalitarian attitudes are widespread in the state-provided services, but a lack of resources constrains implementation. Access to free public services or public administration in general is often subject to informal filters like connections or informal payments. In the long run, the main threat to state welfare services is represented by the gradual depletion of assets and a lack of infrastructure maintenance. The plight of the Roma community in terms of access to health care and education indicates a weakness in Romanian state-provided services. The UNDP gender-related indices and other relevant indicators no longer display progress, but rather stagnation. While policies and institutions exist to prevent open discrimination in law or penalize it when it happens, they are not powerful enough to compensate for de facto differences and to achieve equality of opportunity.

The gender difference in labor market participation in Romania is the largest in the European Union after Malta and Greece. Female labor participation is 61.3% in Romania, compared with the 67.3% EU average. This is a consequence of the lower

Equal opportunity

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retirement age for women, which was the norm under communism, as well as the over-representation of women in informal sectors and household work, especially in rural parts of the country. Women are not disadvantaged in education and are even overrepresented in higher education (the ratio of girls to boys enrolled in tertiary education is 1.2), but they may end up earning less than men while working in similar jobs. An independent study in 2020 showed that slightly over 20% of the candidates in local elections were women; the figure is only 10% for important and directly elected offices like mayors. 2020 ended with a small public scandal when the new cabinet of 18 members included just one woman – an all-time low.

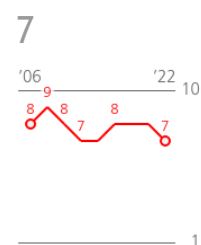
11 | Economic Performance

Romania's economy recovered relatively fast after the global economic crisis and sustained consistent growth, with rates between 4 and 5% before the coronavirus crisis struck. It had the highest economic growth in the European Union over the past two decades: 4.4% on average between 2000 and 2019. The trend reversed in 2020, with a projected decline of 5.2%, increased budget deficit, and ballooning public debt. The current account deficit was estimated at 4.9% of GDP in 2020. The adoption of the euro is no longer realistic for a number of years, as the Maastricht criteria cannot be met on two of the three important indicators. The full impact of the crisis was alleviated with public spending, which kept unemployment low, at 5.3% in the fall. The main concerns relate to several structural weaknesses, such as the regional and urban/rural disparities (agriculture produces just 6% to 7% of the GDP, despite employing 30% of the workforce) and the high share of the gray, untaxed sectors of the economy, which keeps the total tax revenues at below 30% of the GDP, the lowest level in the European Union.

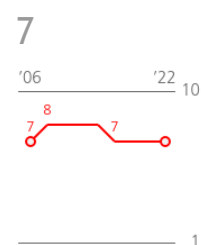
12 | Sustainability

To some extent, environmental hazards in Romania have been reduced naturally in the process of deindustrialization during the 1990s, as well as by a wave of greenfield investments that introduced new technologies. Implementation of the EU acquis forced many heavy industrial plants and energy producers to comply with modern standards. Industry-related air pollution remains an issue in some cities and in the northwest of the country, and the public is increasingly aware of it, which stimulated independent monitoring and activism. Few cities and no smaller settlements had wastewater treatment plants or ecologically sound landfills before accession to the European Union; massive investments were made afterwards, but the problem is far from solved. Romania has been threatened with penalties by the European Commission for non-compliance with wastewater and landfill requirements. Progress was more visible in renewable energies and energy efficiency: many buildings were insulated and the fraction of renewables has steadily increased, reaching 44% in 2020.

Output strength



Environmental policy



In general, most relevant pollution reduction targets and carbon taxes are EU policy, imposed and monitored by Brussels. This is the case with the taxes on fuels, the emission trading scheme, the energy efficiency in buildings and the recycling targets. All are powerful instruments that discipline the national decision-makers, although delays in implementation occasionally occur.

As a car-producing country, Romania had an interest in imposing severe restrictions on the import of second-hand cars and encouraging buyback schemes in the past. This scheme had to be abandoned in 2017, since it was not in line with EU competition rules, and no replacement was found by successive governments. As a result, the number of used cars brought from Western Europe, in particular diesels, went up, making the average registered car older and more polluting.

Civil society has become stronger and more visible on environmental issues and has held the government in check over various mining and drilling projects, as well as on the sensitive subject of logging and deforestation. A monitoring scheme was created to detect and prevent illegal logging. Another civic project created an independent network of sensors to measure air pollution in Bucharest. This exposed the dysfunctionality of the government's system and generated ample media coverage in 2020, as well as more public awareness of the problem. The significant presence of two upstart civic parties with environmental leanings in the national and European parliaments is a reflection of this social preoccupation and indicates that the subject of environmental balance and conservation will remain on the political agenda.

The coronavirus crisis brought about several waves of school closures in 2020, which are likely to continue into 2021. This affected the education system severely, adding to preexisting problems such as a visible erosion in the quality of teaching, fraud in class and national exams, which makes the official figures unreliable indicators of real achievement, and increasing dropout rates, especially among vulnerable groups. The ministry and its territorial branches (regional inspectorates) which de facto govern the school system were utterly unprepared for the shift to online teaching, both in terms of equipment and methodology. While the first problem was gradually addressed throughout the year by allocating money to buy and distribute tablets to pupils in need, the quality of online teaching remains very uneven and mostly poor. Analysts speak of “a lost generation,” at least in the cases when parents cannot provide private instruction, as most cannot.

The inherited systemic problems of the education and R&D sector were difficult to address by mere budget allocations even before the pandemics. The financial distribution remains skewed in favor of higher education at the expense of primary and vocational schools. Many universities, public and private, are of doubtful quality, but reform is blocked by the strong lobby of rectors and parliamentarians, who double as university professors in search of prestige and extra pay. Scandals related to fake diplomas and clientelism in universities occur regularly and involve political leaders and public figures.

Education policy /
R&D

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The skewing of the female-to-male enrollment ratio, which is close to 100% in primary and secondary education but 134% at the tertiary level, is typical for post-communist countries, especially in Southeastern Europe. Romania's shortcomings are not in enrollment ratios for primary (100%) or tertiary education (65%) – these are comparable to those of the most advanced EU-10 countries - but in the quality of outcomes (i.e., the actual performance of graduates). In cross-national tests, for example, Romanian secondary students score below 90% of the OECD average in terms of reading and mathematical skills, and the gap is growing. This should put pressure on universities to reform and consolidate, but there is little sign of this happening. Adult education and lifelong training have not yet become popular: participation rates are below EU-27 averages.

The UN Education Index lags slightly behind neighboring Bulgaria and Serbia (0.765 in 2019). Public spending on education (3.1% of GDP) and R&D has traditionally been below EU and OECD averages (around 0.4%-0.5% of GDP) and is likely to remain so, given the constraints on public spending in 2020 and subsequently. However, this is true for most types of public expenditure, since Romania collects significantly below the EU average: the aggregated budget revenues were 27% of the GDP in 2019, against an EU average of 41%. The influx of EU funds can help but cannot change the low quality of spending in this sector: money does not finance projects and results, but mostly outdated state research institutions. On the other hand, R&D spending in the private sector tends to be lower than in Western countries.

Governance

I. Level of Difficulty

There were two new important constraints on the government's actions in the past year and a half. First, between November 2019, when it took office, and the end of 2020, it had to govern as a minority cabinet with a hostile majority in parliament, which ambushed it with legal acts leading to overspending and derailing the budget. Second, this happened against the background of the coronavirus crisis, which made life notoriously difficult for every government in Europe. In hindsight, the health crisis was not as severe as it could have been. At the beginning of 2021 Romania was one of the less affected EU countries, with 38,000 cases and less than 1,000 deaths per million of population. It also fared relatively well during the first wave of the pandemic in Spring 2020. Social anxiety was as high as elsewhere but eventually, the pandemic proved to be less severe.

Apart from this, the other, historic structural constraints on transformation remained in place. The socioeconomic imbalance between a few affluent urban centers and the rural provinces in the east and south has not diminished, despite the massive investments of EU funds after accession. A few large cities concentrate the middle class working in the technology and service sectors, and part of the agricultural sector has become more efficient over the past decade. By contrast, a large proportion of rural areas are still trapped in archaic production methods, underemployment, social marginalization, aging, and depopulation. The urban-rural divide dates back to Ceaușescu's disastrous policies of the 1980s, but poverty and infrastructure deficits have cemented existing divisions. Membership in the European Union helped to spur the implementation of rational agenda-setting and programs directed toward specific transformation deficits (e.g., rural development and administrative capacity-building), both of which have been a positive influence on Romania's transition management. As the years pass, this legacy of communism is likely to become less and less important. However, the country's political class has shown little management capacity and a disinclination to take risks or overcome party politics for the sake of a coherent long-term strategy. The labor force inherited from the previous regime was reasonably well educated, especially in technical fields, even though somewhat rigid and inflexible outside their niche specialization. It functioned as a resource during the years of high growth and a safety valve through external migration when times turned sour: private remittances make up for insufficient public assistance to the elders and youngsters left behind. More

Structural
constraints

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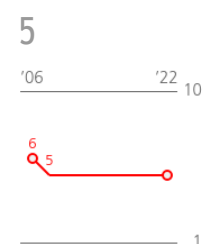
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recently, the coronavirus crisis may lead to restructuring and layoffs in Western Europe, in particular in services and other sectors employing manual labor, in which the Romanian diaspora tends to work. This may cause some reductions in remittances, even if a significant return flow of migrants is unlikely. On the upside, the relative size of the country and its energy independence create some room to maneuver.

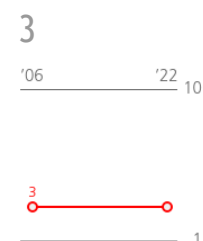
Romania's civil society traditions have historically been weak, even before the disruptions of the communist period. Today, there is a comparatively small number of active and sustainable NGOs working in the country. Participation in public life and in voluntary associations remains limited. Despite 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 neighboring Bulgaria or Serbia, the Romanian version of Balkan communism was anti-intellectual in its approach and actively discouraged any form of social organization outside those controlled by the state. Civil society organizations (CSOs) are still fighting an uphill battle to make their voices heard in matters of policies and governance, and the European Union is too bureaucratic to function as an effective supporter of civil society since the more flexible bilateral donors left. However, with improving living standards, a burgeoning service sector and rising educational standards, a constituency for CSO work and employment are growing incrementally. Effective public campaigns against corruption or for environmental causes exemplify this trend toward modernization, as the success of new centrist parties with roots in civil society movements testify, especially after 2017. Some of these activists successfully entered politics in 2020, winning seats in both the local and parliamentary elections. New nuclei of civic and charity activity appeared in the fight against the pandemic throughout the year.

Outside the narrow circles of the mainstream politicians, commentators and the highly clientelistic media (especially TV stations owned by oligarchs), the intensity of social conflict is rather low, though the rhetoric becomes more confrontational during electoral campaigns. To date, political conflict has cut across social and cultural cleavages rather than overlap with them, which has limited the risk of social fractures. Ethnic conflict with the Hungarian minority in Transylvania seems to be firmly under control: occasional verbal rows may appear during campaigns, but the ethnic Hungarian party (UDMR) is once again the junior member in the ruling coalition formed after the 2020 elections, with important economic portfolios in the cabinet that continue the entrenched practice of consociationalism. President Klaus Iohannis, an ethnic German and a member of the Lutheran faith, was re-elected by a large margin for a second mandate at the end of 2019. Hate speech and intolerance have instead been directed against the LGBTQ+ population, who are socially stigmatized and have few advocates, and, in 2020, against the restrictions imposed by the authorities in order to deal with the pandemic. A loose alliance of such anti-

Civil society traditions



Conflict intensity



system groups (AUR) won 9.1% in the parliamentary elections in December 2020 by capitalizing on public's anxiety, anti-vaccine rhetoric on social media and the anti-EU and anti-modernization discourse. However, Romania has seen nothing of the open conflict or street violence associated with such protests elsewhere throughout the last year. Violence and abuse remain largely verbal and confined to a narrow section of politically inspired events.

II. Governance Performance

14 | Steering Capability

Romania continues to be characterized by a tradition of half-baked reforms, muddling through and state capture combined with deep skepticism among the population concerning state policies, low trust in institutions, and, as a result, a tendency to subvert the implementation of policies or find ways around them. The exceptions to this norm have been the successful anti-corruption drive started in 2005, pursued with an institution-building component and the diligent adoption of the main common policies of the EU. It was adopted without much protest or attempts to create mischief in Brussels: to a large extent, this was a wholesale import of steering capability.

This was achieved by a handful of skilled and determined political operators, massively supported by international partners, and was largely a fortunate succession of tactical decisions, rather than a pre-agreed plan in parliament or by the government. Strategies do exist – in fact, they are too numerous, centrally and locally – but fail to make any connection with the budget process, and thus tend to remain wish lists decoupled from reality. The cabinet of the Liberal Party took office at the end of 2019 with great plans to steer the policies away from reckless social spending toward structural reforms, but the coronavirus crisis derailed their plans. In retrospect, they adapted reasonably well to the radically new context, with moderately successful performance. The measures taken in 2020, a year with two rounds of elections, did not unduly affect the democratic framework or the freedom of expression. A few mayors elected in big cities are likely to be more capable than the old administrations in prioritizing and managing their constituency. The three-party coalition which took power at the end of 2020 has a longer time horizon and is forced by circumstances to invest political energy in planning during its first months in office: both the EU's Resilience and Recovery Plan, and the regular budget for seven years of Structural Funds, must be submitted in 2021. Most of the strategic capacity of the Romanian government will be invested in these two exercises.

Question
Score

Prioritization

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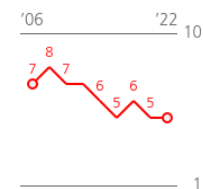


The consistent implementation of strategies and plans has always been the weak point of Romanian governments. In general, spending in the existing structure works well and is executed effectively, as happened during the pandemic with the job-support program and the disbursement of other handouts, or the organization of the vaccination campaign. Structural changes involving institutional construction are much more difficult to implement. For example, the anticipated pro-growth fiscal package had to be postponed, as well as the promised corrections in the public pensions system. Often, interest groups sabotage the strategic orientation through party politicking or simulated implementation. There is a high degree of instability and unpredictability, especially in the taxation and regulatory regimes, and the coronavirus crisis in 2020 only magnified this uncertainty. The absorption of EU funds remains among the lowest in the European Union and is subject to data manipulation or post-factum corrections, making the absorption rate appear higher than it actually is. The poorest performers regarding the use of EU funds are not private companies or local governments, but central ministries in charge of large strategic projects. No significant changes were made to the public education system that has been performing poorly and was badly hit by the lockdowns.

The quality and consistency of policymaking in Romania continue to decline, though the pandemic admittedly complicated the environment significantly. Most of the response to the crisis, both in terms of health care measures and economic support, was inspired by and coordinated with the European Union. While this was largely positive, it cannot count as a domestic policy success. The capacity to learn from – or even to remember – past programs and experiences remains low. Institutional memory in central government is weak and dependent on the fate of the individual civil servants who carried out such programs in the past. Policy learning at the top is limited because vested interests and party-political calculations take precedence over a sober assessment of the effectiveness and net results of policies. The new coalition cabinet which took office at the end of 2020 came with many flagship policies promised by each partner during the campaign, but many look unrealistic from the perspective of past experience, even without the additional constraints created by the coronavirus crisis. Under stress, the government had to learn to be more flexible and adaptable to circumstances which change quickly, such as in the public education and health sectors. E-government projects such as the electronic vaccination platform and the system of indicators to determine which areas go in and out of quarantine had to be adapted and communicated with the public throughout 2020.

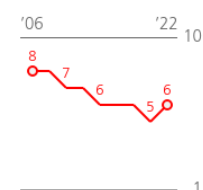
Implementation

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Policy learning

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15 | Resource Efficiency

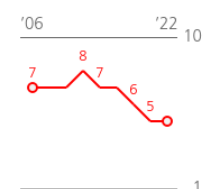
2020 was a bad moment to think about resource efficiency. There was significant urgency to throw money at the two main priorities: the health care system and the economic support for the economic sectors most affected by the lockdowns. The budget deficit ballooned, and there was no time to think of the cost-effectiveness of subsidization schemes, as quantity beat quality when it came to public spending. This only magnified the pre-existing problem of low resource efficiency. Many decisions taken locally, in a climate of loose budget constraints, turned out to be clientelistic or simply wasteful. Suboptimal spending or outright rent-seeking have continued, most visibly in state-owned enterprises or the territorial institutions with ministerial subordination, where plans to introduce better corporate management were postponed again. Certain public companies, owned by the government or the municipalities, suffer from over-staffing and clientelism. Public procurement remains affected by corruption and favoritism at all levels of governance. Benchmark analyses of unit costs show that public procurement produces too little useful output for the volume of resources it consumes, whether this is for services, public works, or medical equipment and drugs. Competent civil servants who continue to work in ministries may be demotivated by poor political leadership.

Policy coordination in Romania during the past year has been largely a by-product of working in tandem with Brussels and the other EU members to respond to the emergencies brought about by the coronavirus crisis. Both the minority cabinet installed in November 2019 and the coalition cabinet that resulted from the 2020 elections stated their intention to implement more consistent plans than the haphazard economic and fiscal policies of the previous years, but the pandemic severely limited their ability to do so. Important sectors such as health and education are governed through a patchwork of short-term responses to the crisis, which is evolving unpredictably. Digitalizing the public administration continues to be listed as a priority, but no clear plan has been produced so far beyond the rhetoric. The routine of governing is ensured by the residual professionalism in ministries, where certain policy coordination occurs below the level of the political leadership, leading to a decoupling of bureaucratic ranks from the political levels.

In the last years before accession to the European Union, Romania created a good anti-corruption framework, including a specialized section of prosecutors to deal with important corruption cases (DNA), a national agency to collect, check and make public declarations of assets and interests from all dignitaries and civil servants (ANI), and a restrictive set of rules for party financing, based on verifications and subsidies for the parties from the state budget which make up most of their spending during campaigns. The framework has been actively supported by the European Commission and functioned rather well - and sometimes beyond expectations, which made some parties eager to push back and defang it.

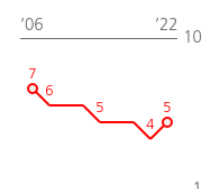
Efficient use of assets

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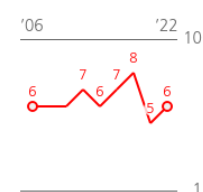
Policy coordination

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Anti-corruption policy

6



The domain where the most visible change of direction occurred in November 2019, when the center-left government was replaced by the center-right, has been precisely anti-corruption. The permanent undermining of the judiciary and other anti-corruption institutions by the political power has stopped and constructive dialogue on the subject with Brussels has resumed. A new package of judiciary law was drafted and put up for public consultation, redressing past shortcomings; they are expected to be adopted by the new majority in 2021. There are signals that the special anti-corruption prosecutor is again gearing up for action, after a few years in which they were less active because of political pressure. Indeed, new high-profile cases started again to appear toward the end of 2020. There is also a sense that lessons were learned from past mistakes and exaggerations, and the prosecutors' work will become more professional.

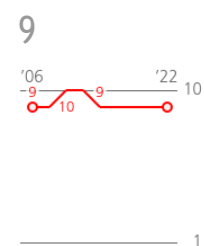
16 | Consensus-Building

In principle, the political establishment has accepted the goals of a market economy, democracy and NATO membership. No important political actor questions membership in the European Union, support for which remains high in the wider population. An anti-system, right-wing party won seats in parliament at the end of 2020, but this only makes Romania less exceptional among the other EU members: previously, it was among very few without an extremist actor in the legislature. The Social Democrats in opposition took advantage of the coronavirus crisis in 2020 to criticize the minority cabinet during the electoral campaigns, but their political actions were relatively mild and non-disruptive.

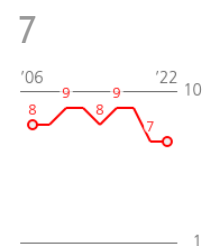
All major political actors agree on consolidating a market economy as a strategic, long-term goal of transformation. No relevant political or social actor challenges the basics of the market economy in Romania, though most of them are ready to tolerate vested interests and rent-seeking.

Support for openly anti-democratic actors in Romania remains low, despite economic difficulties and social anxiety created by the coronavirus crisis. An anti-system right-wing alliance took slightly above 9% in the parliamentary elections of December 2020, which was considered a great surprise; they were practically nonexistent in the local elections three months earlier. However, they are isolated in the legislature, poorly organized, and unlikely to exert much influence on policy. Moreover, their high score is partly explained by Social Democrats moderating their tone and becoming more technocratic after the change in leadership in 2019: it was the PSD who usually occupied the conservative-nationalist, occasionally xenophobic end of the political spectrum. Jingoistic, anti-European, and anti-minority language continues on TV and in social media, where various groups vie for influence by agitating against socially liberal subjects. The degree to which intelligence services have penetrated political parties and control various leaders remains a concern: the mechanisms of civilian control over the intelligence community have traditionally been feeble.

Consensus on goals



Anti-democratic actors

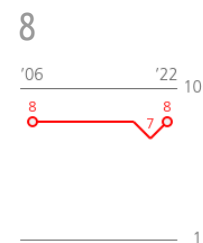


The main cleavages in Romania are ethnic (there are sizable Hungarian and Roma minorities) and geographic (rural-urban); the 2020 elections have confirmed this once again. Whereas the Roma (estimated at some 3% of the population) are not organized politically, the Hungarian ethnic party (UDMR) consistently achieves a share of votes close to the Hungarians' share in the population (6–7%). Their involvement in almost every government of the last two decades has set an important standard of consociationalism and integration. The main cleavage that threatens social cohesion and political peace concerns growing socioeconomic disparities between urban and rural populations and between the winners and losers of the post-Communist transition. The disparities are visible regionally: the Bucharest-Ilfov development region has surpassed the EU average GDP per capita, but the predominantly rural northeastern and southwestern regions lag behind. Despite this, there are no truly regionalist parties to exploit these divisions; parties remain strongly Bucharest-focused, while party affiliations and voting cut across class and region, dissipating potential lines of conflict.

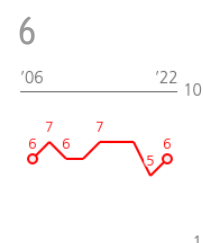
The Romanian government has always been rather awkward in conducting a policy dialogue with civil society, despite many legal provisions mandating such consultations. In 2020 this was due less to open hostility toward NGOs, as was the case under the previous center-left administration when “anti-Soros” laws were being initiated in imitation of the Russian or Hungarian notions of “foreign agents” and administrative constraints imposed on independent civil society. In the past two years, it had more to do with disorganization and the impact of the pandemic. Considerations of expediency often prevailed over broader consultation with groups such as the trade unions, business associations, or grassroots organizations. By tradition, Romanian politicians tend to cooperate with an elite circle of think tanks and NGOs that are not necessarily representative of the population, and only to the extent that these organizations further their political interests. The presence of quasi-non-governmental organizations (QUANGOs) and the extent to which a number of “civil society” actors are just a front for vested interests, including some with visible connections in the military-intelligence apparatus, is concerning. On the other hand, the 2020 elections resulted in a younger parliament with a higher fraction of first-time MPs, many of them with civil society backgrounds; the same is true for the local administration in a number of large cities, including Bucharest.

Ever since the bloody revolution of 1989, Romania has been exceptional in the handling of its wartime (as an ally of Nazi Germany) and communist past. Ceaușescu's nationalistic denial of Romania's involvement in offensive warfare, war crimes, or the Holocaust continued for a while in the public discourse after 1989. It was only in the second decade of transition that the state leadership broke the taboo and admitted the Romanian role in the Holocaust. The pressing issue of communist repression and expropriation was also a point of contention after 1989. In contrast to some neighboring countries, post-communist lustration was never actually implemented in Romania, although it has been repeatedly discussed after

Cleavage /
conflict
management



Civil society
participation



Reconciliation



the fall of the old regime. In recent years, a new push to investigate and bring to trial the political leaders responsible for the violent events of 1989 (the fall of Ceaușescu regime) and 1990 (the miners' march on Bucharest to suppress dissent) was not really successful and left many supporters of these processes dissatisfied. The hopes of many people that, with the Socialists out of power in 2019, the unfinished elements of transitional justice could be finally settled, were largely betrayed. As a result, legacies of the communist regime continue to haunt society. Former Securitate officers, with access to resources in the early stages of the transition, managed to pass their wealth and connections to their children, who thus have an unfair head start in life and became part of the new politico-economic elite.

17 | International Cooperation

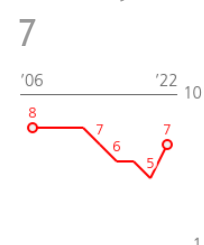
Overall, Romania made effective use of international support from its international partners, be it economic (EU, EIB) or in terms of politics and security (NATO, bilateral relations). Indeed, the country's primary coping strategies were largely guided by these international organizations, which functioned as disciplinary anchors of governance. This is also true about the strategies and resources for fighting the effects of the coronavirus crisis in 2020: the response was closely coordinated with Brussels, measures followed the best practices of other member states, and the country benefited from the common EU schemes to buy medical supplies and vaccines. Political and military support from the United States has continued, even during the turbulent years of the Trump presidency. There is tacit alignment with the long-term U.S. policies to contain Russia and China, and thus embrace a more Atlanticist agenda inside the EU. Romania is among the main beneficiaries from the new European Recovery and Resilience Facility (it receives about €30 billion), which is in addition to the regular seven years budget allocation (some €50 billion), but concerns about the feasibility of the projects included and its ability to spend the sums remain.

This is one area in which Romania's position gradually changed for the better during the review period, after a change in leadership at the top of the Social Democratic party and the change of the government put an end to the quarrels with Brussels over the rule of law. The new cabinet has been less distracted by the attempts to pick up fights with the European Commission or lobby on behalf of narrow interests in Washington, which were threatening to put the regime in Bucharest into the same category of Eastern troublemakers with those in Budapest and Warsaw. The executive and the president speak again with the same voice, which makes the Romanian governance more trustworthy. The government is determined to implement all the recommendations coming from the European Union and thus terminate the special monitoring mechanism of the rule of law set up for Romania (and Bulgaria) at accession in 2007. Even through the previous turbulent period, Romania had been a reliable NATO member and supporter of the

Effective use of support



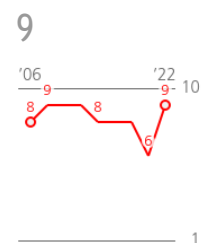
Credibility



common security arrangements in a region where Russian and Chinese influence is growing. At the beginning of 2021, after signing strategic memoranda with the United States, Bucharest took a harder line toward China, ruling out Huawei's participation in 5G and banning all Chinese companies from tenders for public infrastructure.

In the past, Romania was not very effective in playing an active role in the European Union decision-making process concerning the region, largely because of poor policy planning capacity and inconsistency in following up on its own priorities. Furthermore, for several years, the political elite in power in Bucharest was busy opposing the European Union for its own political gain, taking erratic positions, and picking fights with the Commission. After 2019, the situation has changed and relations with European institutions have warmed up substantially. As far as NATO was concerned, Bucharest has remained a faithful ally all along, living up to its defense spending commitments and implementing the investments in the common military capabilities with its partners. Its soft power in the region has correspondingly increased in the past years and a half and as a result, it obtained the right to host the European Cybersecurity Agency. Being less distracted by the populist fight against Europe, the new government is in a good position to assist the new pro-European president of the Republic of Moldova. Uncharacteristically for normally cautious Romanian diplomacy, the minister of foreign affairs was among the first in the region to voice support for the pro-democracy movement in Belarus in a series of statements and public events coordinated with the more typically forthcoming Baltic States and Poland. It was also unusually blunt in demanding the release of Aleksei Navalny, the Russian dissident. These are signs of an increased level of Romanian activism in the region. The government is cautiously supportive of Kiev and avoided loud criticisms regarding the minority language status of Romanian in Ukraine. Cooperation with Bulgaria, a fellow EU member, is likely to intensify through the opening of the regional electricity market scheduled for 2021.

Regional cooperation



Strategic Outlook

Romania faces three types of risks in the short and medium term. First, difficult legacies from the past are still present in its economic and social structure. The shortage of basic and social infrastructure is still manifest and will create a permanent mismatch of priorities with the European Union, and occasional clashes of agendas. This is obvious both in the regular, seven-year budget programming and in the extraordinary Recovery and Resilience facility, the European Union's response to the coronavirus crisis: while the Western part of the continent intends to invest in research and the new green agenda, the Eastern part still struggles with a deficit of roads, railways, and canals. Population aging is hard to reverse and will create a substantial solvency problem for the public pension system in about a decade.

Second, the challenges posed by COVID-19 remain serious in 2021, with plentiful uncertainties and a complex vaccination campaign to carry out. The budget deficit went up substantially in crisis and acts as a constraint on whatever reform plans the government may have. By the current estimates, it will take at least three to five years to get back into the Maastricht deficit criterion of 3% of the GDP. Joining the Eurozone was postponed indefinitely; the same is true about the prospect to join the Schengen free movement area.

Third, regional instability could be a threat, as a weakened regime in Moscow may seek re-legitimation at home through aggressive adventurism (e.g., in Moldova) while China is making its economic presence in Europe increasingly felt. The extremist, right-wing party which made it into the parliament in 2020 may deliberately or inadvertently serve as a conduit for non-democratic influences. But at least the current Romanian government, unlike its predecessor, seems willing to become a promoter of democracy and rule of law in the region.

On the bright side, there seems to be less turbulence coming from the Western partners of Romania after the finalization of the Brexit negotiations and the U.S. presidential elections. The polarization of Romanian politics will decrease correspondingly, as a certain degree of mimicry of the West has always existed among the local political class. There will be no electoral campaigns in Romania until 2024, when four types of elections are due: local, parliamentary, presidential, and the European Parliament. This creates an unusual interval of "electoral calm" of more than three years, and thus an opportunity to conceive and implement more consistent policies.

The emphasis will therefore be less on the competition among parties and more on the political fights within each camp, among factions positioning themselves for succession, eyeing either the leadership of their own party or the position of a presidential candidate in 2024; this is true especially for the two large mainstream parties, the Liberals (in power) and the Social Democrats (in opposition). The ruling coalition is less populist or eager to pick fights with Brussels than the previous one, meaning that smooth cooperation on common European policies is expected. The chronic problem of weak governance due to the government's inability to prioritize, stick to its own strategies, or design sensible policies will remain, but mostly as a symptom of lack of capacity, not as a lack of good intentions. The influence of military-intelligence structures, overt or covert, in parties, public institutions, large projects financed with EU funds, or the business sector remains a source of concern.