

Romania 2018



Total: 67.8

Political Freedom

Free and Fair Elections : 8.93

Romania is a parliamentary democracy in which citizens have opportunities to elect their representatives in a free and fair electoral process. Local elections were held in the second half of 2017. All went without serious irregularities which might have endangered the process. Period under review was marked by the government instability and overall public dissatisfaction, bringing citizens to the streets on many occasions, to protest against the government. In the mid-2017 Mihai Tudose was elected as new Prime Minister of Romania, following the vote of no confidence against the former PM Sorin Grindeanu, who had governed for six months. Both come from the ruling Social Democratic Party (PSD). Thus, the changes reflect internal disputes within that party. However, the government of Mihai Tudose had similar “destiny” as the previous one. In October, two ministers were replaced on the PM’s initiative. When he, in January 2018, wanted also to replace the Interior Minister, who was close to the party chairman Liviu Dragnea, the PSD party turned back on him, resulting in his resignation. At the end of the same month, Romania got its third PM since the elections held in December 2016 when President appointed Viorica Dancila to lead the new government and parliament approved it. Although recently adopted legislative changes improved to certain extent the quality and pluralism of the electoral process, the problem of high number of signatures for candidacy has remained. It requires 1% of the electorate (ca. 183.000 voters) to merely participate at the parliamentary elections. Changes also introduced thresholds for coalitions consisting of two or more than two parties, of 8% and 10% respectively. Mayors are elected through a single ballot, so at the last local elections some of them were elected, even in big cities, with less than 30% of the votes cast. At the last parliamentary elections in December 2016 only 8.889 persons registered and only 4.561 voted by mail. Over 4 million Romanians are estimated to be living abroad, but only 106.038 had voted at the diplomatic outposts.

Absence of Unconstitutional Veto Players : 8.33

Elected authorities in Romania have a power to govern without interference from unconstitutional veto players. Despite that, the work of the government is largely influenced and shaped by the PSD party chairman Liviu Dragnea, who himself, personally, is prohibited from holding office, on the grounds of past electoral frauds. By dominating party structures, he was able to use the power to change three governments in a single year, undermining independence of the parliament and executive and therefore representing the biggest threat to democratic procedures in Romania. Frequent attempts to increase political influence over judiciary led to several mass protests and

loud criticism by the international community. As a country notorious for corrupt practices among public officials in the past, political decisions in Romania are still marked by strong ties between business and political elites and by intertwining of their personal interests.

Freedom of Press : 6.2

There is a wide range of printed, broadcast and online media outlets in Romania, with the latter two taking a dominant share on the media market. Despite improving its position in the Reporters without Borders 2018 World Press Freedom Index from 46th to 44th place, many problems in Romanian media landscape still remain, hindering both pluralism and diversity. While pluralism is threatened by financial problems, diversity is in decrease due to extensive politicization of public and private media outlets. There is a widespread fear that the weak system of checks and balances will prove unable to ensure editorial independence after being decided that public broadcasters are funded directly by the government. During the year, government also tried to push through the parliament a law which would enable parliament to replace the chief of the national press agency Agerpres, which was widely criticized by international watchdogs. Journalists are exposed to pressure coming from politicians and their close allies who own media outlets, limiting editorial independence. Abuse of power is used to silence the media critical of Liviu Dragnea. Due to all these, not only that reporting is censored, but also journalists often practice self-censorship. Public TV and radio stations are under the domination of the government party.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 4.42

In spite of the sophisticated selection procedures designed so as to prevent direct political influence on courts, the latter is indirectly still very much present. Fierce political fighting has been on over having the judiciary in the sphere of influence of one or another political block, mainly in order to get away with past or future corruption or other misuse of office. Meanwhile, corruption in judiciary itself is far from being eradicated. Judicial reform, planned since August 2017 and in part adopted until June 2018, is still a matter of debate and opposition by the EU and by the President of Romania. In summer 2017, the Government issued by-laws to ease the pressure on - hence improve bad conditions in - detention facilities, by more extensive use of electronic tagging or early release of some prisoners.

Corruption : 4.8

Together with Greece and Jordan, with 48/100 points (same as last year), Romania shares the places 59-61/180 on the CPI 2017 list of the Transparency International. Both TI and Freedom House have recently noted stagnation. Yet the situation is much better than in 2007, when she became a full EU member. Civic activism against high level corruption has gained momentum since 2015 and occasional mass street protests are the major obstacle to any setbacks (a few of

which attempted by the government, in forms of loosening the anti-graft rules and/or de facto amnesty of the past culprits). The National Anti-Corruption Directorate (DNA) was for years at the forefront of the struggle, bold enough to charge the highest ranking officials yet vulnerable to political attacks (some of which hinting at its own alleged political bias or connections to the “deep state”, others to do with illegitimate methods of gathering information). In spring 2018, after long proceedings and delay, courts have acquitted several highest ranking politicians, including former PMs Victor Ponta and Calin Popescu Tariceanu, as well as former Mayor of Bucharest Ludovic Orban. Moreover, when Ministry of Justice decided to have fired the head of DNA Laura Kovesi, Constitutional Court overruled President of Romania Klaus Iohannis’s veto and obliged him to confirm her dismissal. However, in two other high level cases in spring 2018 courts have, at the first instance, sentenced to prison the head of the ruling party PSD Liviu Dragnea, as well as a major tycoon and media mogul Sorin Vantu.

Protection of Human Rights : 6.75

Freedom of assembly is constitutionally guaranteed in Romania, yet the legislation needs updating, to prevent occasional arbitrariness by the police. NGOs are founded and operate freely, though their financing is uncertain, political parties try to attract them into their orbits and opponents occasionally smear or accuse them of treason. In education, a law was adopted in late 2016, which banned segregation in schools, due to ethnic origin, disability, socio-economic status and a number of other grounds. Romania tries to respect ethnic minority rights according to EU standards, but some communities such as Roma still face problems, despite ongoing governmental programs of desegregation. A rivalry seems to be on between Romanian and Hungarian nationalists, as demonstrated through the court litigation over a right to a beer brand. In psychiatric care institutions, conditions were, by the Amnesty International, described as “extremely precarious”. Romanian government is struggling hard to stop human trafficking, whereby the country is both the one of origin and one of transit. In a conservative crusade against LGBT equality, a mottled left-right civic initiative Coalition for Family, supported by all the big political parties and religious groups, made it to call a referendum in favor of a constitutional ban of same-sex “families”. Referendum failed due to a low turnout.

Economic Freedom

Security of Property Rights : 5.9

Property rights in Romania are relatively secure. However, the judiciary system faces many challenges. Although the courts are mostly perceived as fair, there are signs of strong external influence in important cases which restrict judicial independence. Corruption among the judiciary officials is also still present. Contract enforcement is very slow, lasting almost 1.5 years on average, and incurs high costs. Enforcement of property rights through judicial process could be lengthy, costly and difficult. There are no specialized commercial courts, and local courts often lack expertise in many commercial areas, and therefore judgments in similar cases can substantially deviate between courts. Not all restitution claims have been fully addressed, which increases the uncertainty of property rights. Due to all those problems, mediation is slowly becoming more popular and the Bucharest International Arbitration Court was established in late

2016. The new civil procedure code has recently transferred some enforcement responsibilities from courts to bailiffs in order to make contract enforcement easier, but these expectations have not yet been fulfilled. Non-EU foreign nationals face restrictions in agricultural land ownership, but they may either lease or obtain the ownership via setting up a company in Romania. Property rights might prove as ill-defined, as in the case of real estate property and land ownership, where the rights are divided, resulting in uncertain or unclear property rights. Registering property is an efficient process that uses online procedure at the cadaster and notaries. Most urban land has a clear title, but the situation is much less favourable in the rural areas and smaller towns. National Cadastre Agency estimates that less than one third of the existing real estate assets (lands and buildings) are registered in the cadaster registry in 2018. The envisaged deadline for full registration of lands and titles in the cadaster is 2023. Insolvency procedures are not well designed, with cases lasting longer than 3 years on average, with a recovery rate of 35% of the claim.

Size of Government: Expenditures, Taxes, and Enterprises :

7.71

Size of government in Romania is modest, when compared to other European countries, with general government expenditures reaching 31% of GDP in 2017. The recent massive tax reforms as well as the rise in current expenditures for public sector wages (due to the Unitary Wage Law these were increased by 25%) and pensions resulted in a strong pro cycle policy and high budget deficits, reaching 2.8% of GDP in 2017 and envisaged to reach even 3.6% this year. Economic growth rates are robust, reaching as high as 6.9% in 2017, based on rising private consumption due to fiscal stimulus and increases in wages, but public investments hit annual record low due to the low absorption of the EU funds. These growth rates are expected to moderate after the influence of these policies dissipates. Unemployment has plummeted, falling below 5% in 2017. Inflation is rising. State owned enterprises in Romania are numerous, their number being close to 1200, and although a significant proportion of them are local utilities, some do play a notable role in the economy, especially in the infrastructure, energy and transportation sector. The government is the owner of just 2 smaller banks, but there are plans for establishing a new state development bank. SOE corporate governance is weak, with low performance and profitability, but SOE financial situation on average has improved due to the overall growth of the economy. Many SOEs are managed by interim boards, often with politically appointed members. The enforcement of the SOE governance code was weakened since the government exempted several SOEs from following the code in December 2017. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs has been put on hold. After strong revisions of tax rates that took place in 2015 and 2016, general VAT rate now stands at 19% - the same level as before the fiscal austerity measures that took place after 2009. Preferential VAT rate remains 9%, and even 5% for certain products and accommodation. Both personal and corporate income tax rates are flat; in 2018 the personal income tax was reduced from 16% to 10%, while corporate tax remained at 16%. On the other hand, special energy taxes imposed in 2013, which had at first been envisaged to be terminated by 2015, are still in place. They were turned into permanent in December 2017. Due to high social contributions for health care and pensions, total labour tax wedge in Romania is high, approximately 43% on the average wage, which is the highest in the SEE region.

Regulation of Credit, Labour, and Business : 6.07

Regulation in Romania is mostly business friendly. However, as in other countries in the region, there is a significant issue regarding partial implementation of existing regulations, favouritism coming from government officials and corruption. Regulation could also prove as unclear and ambivalent, while government bureaucracy is not considered as efficient. In recent years, frequent government changes have led to rapid changes in government policies, which complicated the business climate and increased the level of unpredictability. Slow progress in e-government solutions and complex administrative procedures also have a negative impact. Although starting a new business is relatively easy and inexpensive, with low minimum capital requirements, obtaining a construction permit and getting electricity grid connection are very lengthy processes, with many procedures and high fees. The Public Private Partnership Law was once more revised in 2017, but the implementation rules have not yet been published, which made the law ineffective in practice. Labour market regulations are mostly flexible. Maximum duration of a single fixed term contract is 36 months, but it can be extended to 60. Firing regulations are cumbersome, with priority rules for redundancies and reemployment, but notice periods and severance pay are neither high nor increase with years in tenure. On the other hand, regulation of the maximum work hours stipulates a 5-day workweek, which is restrictive since it does not allow for more working hours in case of an increased workload. The minimum wage has more than doubled since 2012, surpassing the ratio of 50% to the average wage. After the 2017 rise of 15% it was increased again in 2018 by additional 30%. Such a high level of minimum wage could have strong negative effects on employment of older workers and people with low qualifications, since it was above productivity growth. Legislation on national collective bargaining agreement is still pending in the parliament. The biggest obstacles to a better business environment in Romania are high tax rates, inefficient government bureaucracy and access to financing.

Freedom to Trade Internationally : 8.69

Freedom to trade internationally in Romania is mostly respected. As an EU member country since 2007, Romania has been implementing the common EU trade policy with the overall low tariffs on imported goods. The applied MFN tariff rate is 5.1%, but it can be much higher for agriculture goods. However, necessary product standardization and certification procedures pose a significant non-tariff burden, incurring higher import costs. Low public transportation infrastructure quality, most notably of the roads and railroads (with the average speed of just 15 km per hour), serves as another impediment to free trade, resulting in high transportation costs and limiting trade volume. These large infrastructure needs, however, are not met due to the curbing of public investments in order to increase current spending, to low absorption rate of the EU funds allocated and to low investments of the SOEs in the transportation sector. Romania experienced a current account deficit of 3.7% of GDP in 2017, which is envisaged to increase further, due to the rise in wages and consumption. Romanian economy is well connected with the EU market: its main partners are Germany and Italy, but also Turkey. Its geographical position – especially the Danube transport corridor and the Black Sea – make Romania an important hub for transit trade. Although EU nationals can work and reside in the country with no restrictions, obtaining a work permit for non-EU nationals is a costly and slow procedure. The number of allotted work permits is set each year. It was recently increased from 5 500 to 7 000.