

# Romania 2019



**Total: 69.67**

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## Quick facts

Population:	19.524 million
Unemployment rate:	4.2 %
GDP:	239.552 billion \$
GDP growth rate:	4.1 %
GDP per capita:	26450 \$ PPP

## Political Freedom

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### 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 elections. Recently adopted legislative changes improved to a certain extent the quality and pluralism of the electoral process, but 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 political parties, of 8% and 10% respectively. Throughout the observed period, political life in Romania was very intense. After last year's change of Prime Minister, when Viorica Dancila had replaced Mihai Tudose, both having had been backed by the ruling Social Democratic Party (PSD), government faced mass public demonstrations. Following two no-confidence votes in the parliament, the third one, in November 2018, dismissed the Government and replaced it by a minority one, led by the conservatives from the National Liberal Party (PNL). In such environment, amid preparations for the European Parliament elections, that were held in May 2019, and presidential elections, having had been scheduled for November 2019, the ruling PSD had taken even more conservative and Eurosceptic stance on politics. Massive anticorruption protests were held in August 2018, with more than 100.000 citizens gathered in Bucharest, demanding resignation of the PM Dancila. In October 2018 the referendum on definition of the marriage failed to meet the needed 30% threshold. In such environment Romania welcomed in the 2019 European Parliament elections, with National Liberal Party (PNL), PSD and liberal coalition Save Romania Union – The Freedom, Unity and Solidarity Party (Alliance 2020 USR-PLUS) won 10, 9 and 8 seats respectively. The turnout was around 51%. At the presidential elections in November the pro-European and pro-NATO acting president Klaus

Iohannis was reelected with 66% of the votes. Almost one million of Romanians abroad (10%, of the entire electorate) voted by 94% for the European path.

## **Absence of Unconstitutional Veto Players : 7.5**

There are no unconstitutional veto players in Romania that are able to undermine decision-making processes. Still, ruling PSD party chairman and head of the Chamber of Deputies (lower house of the Romanian bicameral parliament), Liviu Dragnea, who himself, personally, was prohibited from holding office, on the grounds of past electoral frauds, has had a big influence on the country's politics. By replacing three governments in a year through his PSD, Dragnea undermined the division of powers and proved that at the moment he was representing the biggest threat to democratic procedures in Romania. But at the end of his trail for corruption he was sentenced and imprisoned - in May 2019, to 3.6 years. Strong ties between political and business elites and widespread corruption in Romania are as well considered as factors that are able to shape political decisions.

## **Freedom of Press : 7.43**

Freedom of the press is granted by the constitution in Romania and to certain extent upheld in practice. There is a wide variety of broadcast, print and online media outlets which operate in the country, but fewer of those who are providing independent and objective journalism. Reporting coming from most of the media outlets is subordinate to interests and political leaning of their owners, who are either involved into politics or maintaining close ties with politicians in power. Therefore, this extensive politicization of public and private media outlets threatens media diversity in Romania, while on the other side pluralism is at stake due to financial problems. Government do not restrain from abusing power to increase pressure on outlets critical of their activities and of Liviu Dragnea. In one such case, at the end of 2018, investigative media group was threatened by the National Supervisory Authority for Personal Data Processing to reveal sources of its information for the articles that had connected Dragnea with corruption and embezzlement of public money. Both economic and political pressure made self-censorship a regular practice among journalists. Romania deteriorated by 3 places in the Reporters without Borders 2019 World Press Freedom Index, currently holding 47th position. In August 2018, during demonstrations that had turned violent, unlike all previous recent ones, many domestic and international journalists were injured due to the use of excessive force by the police.

## **Rule of Law**

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### **Independence of the Judiciary : 5.33**

Freedom House has noted in 2019 that in Romania „judiciary is generally independent, but it faces increasing pressure from the executive and legislative branches”. Judicial reform, launched in 2017 and mostly – upon fierce debate and amid serious concerns in the EU - adopted in 2018, opened new challenges instead of further advancing independence of judiciary. Due to those, Romania has resumed being under additional scrutiny by the European Commission, through Mechanism for Cooperation and Verification (CVM) established in 2006. Moreover, it was warned for failure to engage in improvements thereby suggested by the CVM. The vicious circle of meager

capacity of judiciary to fight corruption (especially in high level cases) and corruptive influences on judiciary is the main impediment to the rule of law in the country.

## **Corruption : 4.7**

Besides independence of judiciary, corruption is another aspect of rule of law in Romania that has been monitored by the EU through the special Mechanism for Cooperation and Verification (CVM). Initially assuring, and having had been better than in the similar neighboring EU-2007 member Bulgaria, the results have recently worsened. Bodies established to fight corruption, such as DNA, have suffered political pressure, which culminated in the removal of the head of DNA Laura Codruta Kövesi in July 2018 and subsequently also of the Prosecutor General Augustin Lazar. EU has later embraced Kövesi and appointed her as the European Public Prosecutor. Legal changes in Romania in 2018 have weakened safeguards against corruption and led to violent anti-graft demonstrations. Generally, the public and civil society have been, ever since 2015, extremely sensitive to issues of corruption, whereby political elite (or parts thereof) increasingly failed to meet those public expectations and demands. Meanwhile, Romania's score in the Transparency International's Corruption Perception Index fell in 2018, to 47, sharing places 61-63 of 180 countries of the world.

## **Protection of Human Rights : 6.88**

Academic freedom in Romania is well respected, despite occasional cases of corruption or of politically biased or crony allocation of the education funds. Similar holds for the freedom of expression. But public gathering rights have been constrained in 2018, by a ban on spontaneous gatherings. Ethnic (except Roma) and religious minorities (except some small or new cults) enjoy support and are mainly well integrated into society, to a degree that current President is a member of an ethnic, linguistic and religious minority. Women are under-represented in politics, while domestic violence is still a serious problem. Human trafficking, for forced labor or begging or prostitution, persists despite efforts to curb it, to a huge degree due to excessive corruption. Equality of LGBT persons (and in particular their unions) is still to be sought for. Positive developments were in that same-sex unions concluded abroad were recognized, while the efforts by the ad-hoc alliance of left-wing and conservative „pro-family“ associations to constitutionally ban same-sex marriage failed, lacking necessary majority at a referendum.

## **Economic Freedom**

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### **Security of Property Rights : 6.44**

Property rights in Romania are relatively secure. But the judiciary faces many challenges. The courts are generally perceived as fair, but there are signs of strong external, mostly political influence over their work in important cases. Corruption among the judiciary officials is also still present. Contract enforcement is very slow, lasting almost 1.5 years on average, and it incurs high costs. There is also the problem of inconsistency of court verdicts, which creates a lack of predictability, since verdicts can significantly differ in similar cases. This may be connected to the fact that there are no specialized commercial courts, and local courts can often lack specialized expertise in commercial matters. Enforcement of property rights through judicial process could be

lengthy, costly and difficult, and even challenged by public administration. Not all restitution claims have yet been fully addressed, which increases the uncertainty of property rights. The Bucharest International Arbitration Court was established in late 2016 in order to provide a faster track for dispute resolution, but mediation remains underutilized. 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. Insolvency procedures are very slow, with cases lasting longer than 3 years on average, and with a low recovery rate of 35% of the claim, brought to by piecemeal sale. Most statutory deadlines in these cases cannot be complied with in practice due to the high number of cases and delaying tactics used by the debtors. Property rights might prove as ill-defined, as in the case of real estate property land ownership and the right to use the land, which are divided, resulting in uncertain or unclear property rights. Registering property is an efficient process that uses online procedure at the cadastre and notaries, whereby most urban land has a clear title. The situation is, however, less favorable in the rural areas and smaller towns, since the National Cadaster Agency estimates that approximately one third of the existing real estate assets (lands and buildings) were registered in the cadaster registry in early 2019; the deadline for full registration is 2023. Non-EU foreign nationals face restrictions in ownership of agricultural land, but they might either lease or obtain the ownership via setting up a company in Romania.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **7.94**

Size of government in Romania is modest, when compared to other European countries, with general government expenditures reaching 32% of GDP in 2018. The high rise in public sector wages and the pension benefits due to the new pension law have led to a significant rise in current expenditures. Current fiscal policy is pro-cycle, with high budget deficits of 2.8% of GDP in the last two years, and the latest rectification of the state budget made by the new government operates at the end of the 2019 with a high deficit estimated at 4.3% of GDP. The economy is growing strongly, even above the potential, by 4.1% in 2018, on the basis of growing consumption and exports. Unemployment has plummeted, falling below 4.2% in 2018, while public debt has been on a downward path since 2014, standing at 37% in 2018. There are approximately 1200 state owned enterprises in Romania, including those subordinated to the central and local authorities. The management of SOEs is prone to political influence through appointments of managing and administration boards. The 2016 corporate governance law, that was introduced to increase the quality of SOE management, was not yet fully implemented, since some SOEs were exempt from it in 2017. Many companies are still managed by the interim boards, which is a recurring practice, often with board members without a significant business experience but with good political connections. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs has been put on hold. The SOE continue to play a notable role in the economy, especially in the infrastructure, energy and transportation sector. While the government currently owns just 2 smaller banks, there are plans for establishing a new state development bank that would invest in SMEs and infrastructure, and a sovereign wealth fund that would govern a portfolio including profitable SOEs and government minority stakes in privatized energy companies. After strong revisions of tax rates that took place in 2015 and 2016, general VAT rate now stands at 19% - the same level before its increase during the fiscal consolidation program. Preferential VAT rate remains 9%, and even 5% for certain products. Both personal and corporate income tax rates are flat. In 2019 the corporate tax remained 16%, with a special treatment of micro companies with 1-3% tax rate. The income tax is currently 10%, down from 16% the previous year. On the other hand, special energy taxes imposed in 2013, that were supposed to

be temporary (firstly envisaged to be terminated already in 2015) are still in place; and they were complemented by the new taxes on banking and telecommunications in December 2018. The bank tax was later decreased in March 2019, but others remained. This showed a significant problem of business environment unpredictability due to government policy. Another important example of this is the increase in the “clawback tax” that was done retroactively in February 2018 for pharmaceuticals sale in 2017. Due to the high social contributions for health and pension insurance, total labour tax wedge in Romania is high, approximately 41% on the average wage, which is the highest in the SEE region.

## **Regulation of Credit, Labour, and Business : 5.92**

Regulation in Romania is mostly business friendly. However, as in other countries in the region, the quality of regulation is of secondary importance, when compared to its full and impartial implementation in practice, due to low administrative capacities and political influence over it, coupled with corruption. Regulation could also be unclear and ambivalent, which creates possibilities for misconduct. Regulatory unpredictability, stemming from frequent government changes in recent years or profound changes in government policies, also poses a significant burden on businesses. Although starting a new business is relatively easy and inexpensive, with low minimum capital requirements, this process was altered by introduction of a voluntary VAT registration. The latter is less time consuming than the mandatory one, but the introduction of fiscal risk assessment criteria increased the time for this process. Securing necessary zoning permits, environmental approvals and construction permits are often time consuming, while getting an electricity connection is very expensive. Labour market regulations are mostly flexible, since the maximum duration of a single fixed term contract is 36 months and it can be extended to 60. On the other hand, regulation of the maximum work hours stipulates a 5-day workweek which is restrictive, with priority rules for redundancies and reemployment, but notice periods and severance pay are neither high nor they increase with years in tenure. Minimum wage has more than tripled since 2012, which could have strong negative effects on employment of older workers and people with low qualifications, since this rise was significantly above productivity growth. Furthermore, in December 2018, a differentiated minimum wage for workers with 15 years of tenure or a university degree was introduced, which is almost 15% higher.

## **Freedom to Trade Internationally : 8.6**

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 5.2%, but it can be much higher for agriculture goods. However, necessary product standardization and certification procedures pose a significant non-tariff burden, increasing import costs. Transportation infrastructure quality is another problem, especially the roads and railroads, since it impedes the flow of goods and increases freight costs. Romania has no expressway from its biggest harbor at the Black Sea in Constanta to its western borders. In addition, the average speed of freight trains in 2018 was just 17 km/h. Although significant EE funds are allocated to this area, Romania faces a low absorption rate due to low administrative capacities, further exacerbated by the low SOE investments from the transport sector. 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 can be a slow and bureaucratic procedure. The number of allotted work permits is set each year, and has

been increasing in recent years from 5 500 in 2017 to 7 500 in 2018 (but increased mid-year to 15 000), and again to 20 000 in 2019. Recent legislative changes in this area also substantially decreased the cost of employing non-EU citizens, by lifting the requirement for employers to pay a minimum salary equivalent to the gross average wage. The minimum wage also applies here, and skilled non-EU nationals must receive at least twice the gross minimum wage. There are no mandatory local employment requirements, apart from the offshore companies, whose 25% of personnel need to be Romanian nationals.