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# THE SOCIAL DIMENSION IN SELECTED CANDIDATE COUNTRIES IN THE BALKANS: COUNTRY REPORT ON ROMANIA

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# The Social Dimension in Selected Candidate Countries in the Balkans: Country Report on Romania

Constantin Zaman and Manuela Sofia Stănculescu\*

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## Abstract

This country report surveys the economic and social development of Romania. It shows that most of Romania's social indicators lag behind those of the EU. Persistent macroeconomic imbalances have slowed the real and nominal convergence process. The economy is still affected by low levels of competitiveness, incomplete restructuring, modest productivity in agriculture, a high level of employment in subsistence agriculture and slow disinflation.

Regional disparities have grown and amplified social inequities, mainly between urban and rural areas and between large cities and small, mono-industrial towns. Rural areas are affected mostly by a lack of access to utilities and infrastructure.

The healthcare system faces problems in terms of access to medical services for low-income groups and limited coverage in rural areas and small towns. The pension system suffers from inequities in pension levels, a low number of contributors, a reduced coverage rate and insufficient resources. Social assistance, unsuccessfully reformed in 1995, was replaced in 2002 by a minimum guaranteed income.

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## **Executive Summary**

### *General economic trends*

Economic growth in Romania has resumed since 2000, but its drivers have gradually shifted from investment towards private consumption, while the level of development is still significantly lower than the EU average. Most of Romania's social indicators lag behind those of the EU. Persistent macroeconomic imbalances have slowed the real and nominal convergence process. The economy is still affected by low levels of competitiveness, incomplete restructuring, modest productivity in agriculture, a high level of employment in subsistence agriculture and slow disinflation.

A combination of population decline, lagging job creation and early retirement resulted in employment decreasing significantly in the 1990s, although the employment rate has stayed above the average levels in the new member states. Industrial restructuring and land restitution have induced a peculiar shift in the employment of less qualified and older workers from industry to agriculture, which has represented a 'survival strategy' for those with inadequate skills. Urban unemployment rates have been significantly above rural ones, since subsistence agriculture has absorbed a share of the jobless figures. Yet agriculture hides a large pool of unemployment. Informal employment is very high: it is estimated that up to 1.2 million persons are involved in undeclared activities, which represents 11% of the labour force.

The structural challenges facing the economy are related to the size and characteristics of the agricultural sector, the unfinished process of privatisation and the restructuring of the economy. Other factors are the low levels of efficiency and transparency in public administration, weak law enforcement, a high 'modernisation deficit' (especially in rural areas), poor physical infrastructure, incomplete fiscal reform, deficiencies in the educational system and in the skills of the population at large.

With respect to education, enrolment rates are below those observed in many EU countries, while the dropout rate is high, particularly in rural areas. The quality of education is becoming a key issue. Students tend not to perform too badly as far as knowledge of the curricula is concerned, but the skills they acquire appear insufficient for competing successfully in the labour market.

### *Demography*

Poverty, employment uncertainty and stress have altered demographic behaviour; consequently, fertility diminished from 2.19 to 1.3 children per woman between 1989 and 2004. Thus, population ageing will be the main demographic difficulty facing Romania over the next 25 years.

Urban-to-rural migration has increased from a mere 3.5% in 1990 to 33.8% in 2000 (it was 31.8% in 2004), becoming the dominant flow throughout most of the transformation period. Emigration was a very important factor in the population decline of some 1 million persons between 1992 and 2002. In the first two years of the transition, emigration was mainly legal, but then shifted to informal migration. Since the second half of 1990s, temporary migration to developed countries for work has become the main form of external migration.

### *Living conditions*

Inequality has tended to decline during periods of recession and increase during recovery periods. The gap between a small group of wealthy persons and the large mass of people on low incomes, often close to the poverty line, has continuously widened during the transition. Non-monetary income still accounts for a large share of household income, especially among small farmers and rural households. A combination of subsistence agriculture and informal cash

activities has represented the most effective survival strategy for low-income groups. Regional disparities – an outcome of the inadequate economic structure inherited from the communist period – have grown and amplified social inequities, mainly between urban and rural areas and between large cities and small, mono-industrial towns. Rural areas are affected mostly by a lack of access to utilities and infrastructure, while urban areas by perceived insecurity.

The poor have been hit relatively less hard by the recession, but have also benefited less from recovery. The highest levels of poverty can be observed among those households that are headed by unemployed persons, by individuals who are self-employed in agriculture and by economically inactive persons. Households headed by uneducated or poorly educated individuals are also among the poorest. In rural areas, the incidence of poverty has been much higher than in urban areas. Although the rural population has been less affected by recession, urban populations have tended to gain more from recovery. Poverty among children is higher than for other age groups: in 2004, about 1 million children lived in poverty (350,000 in severe poverty). A large share of young couples cohabitate with their parents/relatives, mainly owing to the lack of housing opportunities and insufficient income.

### *Tax benefit systems and policy approaches*

The institutional structure of social protection is fragmented, with an indistinct delineation of responsibilities, especially between the central and local levels. An excessively high number of central agencies make the financing of many social protection programmes unclear. The healthcare system has engendered some serious problems in terms of access to medical services for low-income groups and limited coverage in rural areas and small towns. The pension system, although reformed in 2000, continues to suffer from inequities in pension levels, as well as a low number of contributors, a reduced rate of pension coverage (less than half of the active population is currently insured) and insufficient resources. Social assistance has developed since 1990 to cope with crises, but it is highly fragmented and ineffective. The system was unsuccessfully reformed in 1995 and replaced in 2002 by a minimum guaranteed income, funded partially by local budgets and partially by the state budget.

Overall, public expenditures on social protection, education and health (as a percentage of GDP) have increased during the transition period, but are still among the lowest in Europe. The coordination of spending among various public institutions continues to be a weak point, with a negative impact on its effectiveness.

### *Governance structures*

State institutions tend to lack the capacity to design, adopt and implement public policies. The policy-making process (highly politicised), tends to be confined to drafting and passing legislation, which in many instances is then changed frequently. Most of the functions transferred to local governments are in reality merely mandates passed down for execution, without any real decision-making power – which is particularly the case with the sums allocated for education and social protection. The budgetary process is long and complex, and it (de facto) subordinates local to national budgeting, which has an adverse effect on local autonomy, especially for rural localities.

### *Specific issues*

Romania has the largest Roma population among the Central and Eastern European countries. More than half of this minority is affected by severe poverty, exacerbated by entrenched patterns of discrimination, prejudice and incidences of ethnic violence. Social marginalisation contributes to economic exclusion through limited economic opportunities. Romanian legislation requires that job applicants have at least eight years of education, which

automatically excludes a large share of Roma. The same legal provision applies to trainee applicants; thus, Roma are often excluded even from training especially designed for them.

Agriculture continues to lag behind all other sectors of the economy. Individual farms account for 68% of total agricultural production and 60% of the total agricultural area, with an average size of less than 2.5 ha. A large number of small family farms have narrow strips of land, with low productivity and a large share of their crops intended for personal consumption. Subsistence farming reflects the response to high urban unemployment, low incomes and the lack of non-agricultural alternatives for employment in rural areas.



## 1. Introduction

Romania is neighboured by Bulgaria in the south, Ukraine in the north, Moldova in the east, Serbia in the south-west and Hungary in the west. It covers a territory of 238,391 km<sup>2</sup> and has 21.6 million inhabitants (2005). The population density varies from 47 persons/km<sup>2</sup> in rural areas to 383 persons/km<sup>2</sup> in urban areas. Romania's 245 km coastline on the Black Sea has two main ports, Constantza and Mangalia. The Danube River is also an important transport corridor. Airports exist in 16 major cities. Administratively, the country is organised (2005) into 41 counties (plus Bucharest),<sup>1</sup> grouping a total of 314 cities and 2,828 communes. About 200 cities have a population under 20,000 and are mainly characterised by mono-industrial activities; fewer than 80 Romanian cities have more than 100,000 inhabitants.

Since 1998, Romania has been divided into eight regions (NUTS II – so-called 'development regions'), although they do not have a juridical status. After Bucharest, the other seven regions have a similar size in terms of population (2.8 million on average) and area (33,795 km<sup>2</sup> on average).

In the 2002 census, the population was estimated at 21.7 million, 4.9% less than the 1992 census. This reduction is owing to declining birth rates, increasing mortality<sup>2</sup> and emigration. Life expectancy in 2004 was 71.3 years – 67.7 for men and 75.1 for women.

Romania is a parliamentary democracy; both the bicameral parliament and the president are elected every four years. The president nominates the prime minister, who is then confirmed by parliament. Romania's political life has been tense since the 2004 elections, being dominated by confrontations between the two major parties of the ruling coalition, conflicts within the parliamentary opposition and between the president and the prime minister.

Romania faces some of the worst starting conditions among the candidate countries: extremely distorted markets, all-encompassing state ownership, an over-dependence on energy and heavy industry, a badly eroded capital base and a precarious physical infrastructure (World Bank, 2003). Many years of isolationism imposed by the Ceausescu regime crippled the country's technological and intellectual capital, while building up an unstable social environment controlled by an insecure, politicised and corrupt bureaucracy. The forced repayment of external debt in the final years of the communist regime led to the widespread impoverishment of a large segment of the population.

Following a period of stop-go reforms in the 1990s, the economy has recovered somewhat since 2000, with GDP growth averaging around 5% per annum. In 2005, GDP per capita at purchasing power parity (PPP) represented 32.5% of the EU-25 average. In the same year, employment was at 58.4% for the 15-64 age group, just above the average for the 10 new member states (NMS). After a period of increasing poverty in the late 1990s, the poverty rate declined substantially and in 2004, the poverty rate stood at 18.8% (and the severe poverty rate of 5.9%).<sup>3</sup>

Romania has the largest Roma community in the region. This ethnic minority is characterised by very low levels of education and employment, social exclusion and severe poverty. The share of the rural population in Romania (47%) is higher than in most other European countries. Subsistence agriculture has been an increasingly important 'survival strategy' for low-income groups, leading to a positive balance of migratory flows from urban to rural areas. Employment

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<sup>1</sup> These are NUTS III areas.

<sup>2</sup> Between 1990 and 2004, the birth rate declined from 13.6% to 10%, while the mortality rate increased from 10.6% to 11.9%.

<sup>3</sup> This rate is derived from poverty line calculations based on the methodology of the World Bank, CASPIS and NIS (see section 5).

in agriculture includes many unpaid family members; thus, there is a large, hidden pool of unemployment in the sector.

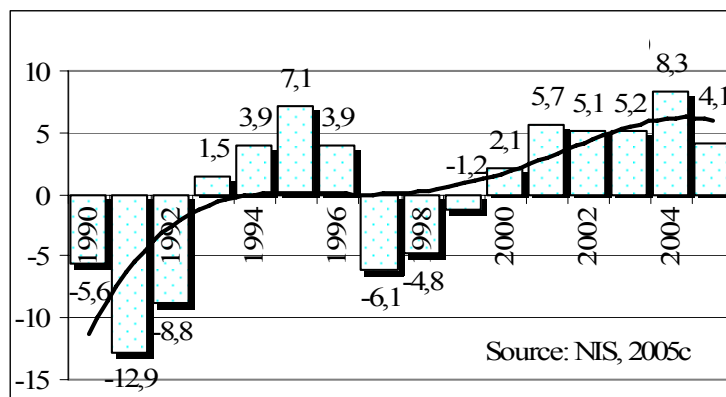
## 2. General economic trends

### 2.1 Macroeconomic developments

#### 2.1.1 Real sector

Until 2000, Romania was one of the poorest performers among the transitional economies, with a 36% poverty rate and inflation averaging 54% per year. Since 2000, the economy has grown rapidly at around 5% per annum (Figure 1), but more recently its drivers have shifted from investment towards private consumption, fuelled by rapid credit expansion and tax cuts (with flat income and profit tax rates of 16%, introduced in January 2005). In 2004, the economy reached the GDP level of the last year of communism, but a sharp decline in agriculture (owing to floods) and the fall of industrial production slowed growth in 2005 (IMF, 2006). Although growth rates over the past five years are comparable to NMS economies, Romania has a lower GDP per capita at PPP and lags in most other social indicators compared with the others in the group. Improvements in competitiveness have been limited, while restructuring is still incomplete. Arrears, although significantly reduced in 2005, have not been fully eliminated. Productivity in agriculture is low and employment in subsistence agriculture is the highest in Europe (World Bank, 2006).

Figure 1. Real GDP growth rates (compared with the previous year, %)



Source: NIS (2005c).

The shares of value added generated in industry and services have broadly remained stable over the period 1999–2005 (28% and 45%, respectively). A relatively constant share of agriculture in total value added could be observed between 1999 and 2004, but in 2005, it declined to 8.5% because of nationwide flooding.

The current account deficit has widened in recent years, reaching 9.2% in 2005, driven by growth in domestic demand. Nevertheless, the external financial position remains comfortable, since the large inflows of foreign direct investment (FDI) in recent years are expected to continue over the medium term, following EU accession.<sup>4</sup> The trade deficit averaged €5,750 million during the period 2000–05. Machinery and light industry products account for half of

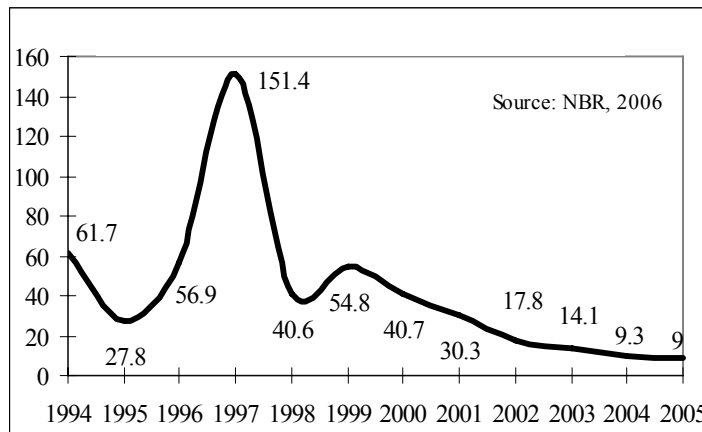
<sup>4</sup> Net FDI grew by 130% in January–April 2006 compared with the corresponding period of the previous year, reaching €2.3 billion.

Romania's trade – in the case of both imports and exports. An increasing tendency can be observed in exports of high-tech products. The EU is Romania's main trade partner: in 2005, EU countries absorbed 67.6% of Romanian exports and provided 62.2% of imported commodities. Among EU countries, Italy is the largest trade partner, accounting for 28.4% of all Romanian exports to the EU and 24.8% of goods imported from the EU.

### 2.1.2 Monetary issues

Since early 1999, the National Bank of Romania (NBR) has tried to pursue the twin objectives of gradual disinflation and a sustainable external position, by using the exchange rate as a soft nominal anchor. Because of loose fiscal, income and monetary policies, disinflation has been slower than would normally be expected (Figure 2); consequently, at the end of 2005, Romania still recorded the highest inflation rate among EU and candidate countries (8.6%).

Figure 2. The rate of inflation (compared with the previous year, %)



Source: NBR (2006).

Monetary policy rates have been cut significantly since June 2004, which mitigated the risk of capital inflows when the capital account was further opened in April 2005. In August 2004, the NBR moved from a framework based on an exchange rate to a formal inflation-targeting regime. In November 2005, the NBR gave more flexibility to the exchange rate and the currency has since appreciated by around 12% against the euro, helping to alleviate inflationary pressures.

After the easing of interest rate policy and sterilisation operations in the second half of 2005, in an attempt to stem growing capital inflows and reallocate lending from foreign currencies into the domestic currency, the NBR adopted a tighter monetary stance in the first half of 2006. In addition, Forex market interventions have been almost entirely eliminated since September 2005. The minimum reserve requirements on foreign currency-denominated liabilities were increased from 30% to 40%.

### 2.1.3 General fiscal trends

Fiscal policy, like most of other government priorities, is largely driven by the objective of EU accession; its goal is a deficit of 3% of GDP, together with other constraints tracking the Maastricht requirements. The government programme does not include specific deficit targets beyond this deficit limit. Fiscal policy has continued to benefit from favourable cyclical conditions and improved tax collection rates, but the pro-cyclical impact of public sector wage increases and major tax cuts have widened macroeconomic imbalances. Yet, favourable

developments to date allowed for 9% real growth in budget revenues in 2005 (compared with 2004), largely on the back of strong VAT collection and a further 12.5% increase in the first five months of 2006 (real values obtained by using the consumer price index as a deflator).

In 2005, general government spending accounted for 34.5% of GDP, against 33.6% of revenues collected. Payroll taxes were increased in the late 1990s in the hope of raising budget revenues, but this measure shrank the collection base because of the expansion of informal activities and the widespread practice of under-declaring wage payments (Deloitte, 2006). The recent introduction of a flat tax on income and corporate profits and the adjustment of state pension levels for some categories of pensioners were earlier estimated to lead to a revenue loss of 1% of GDP. A policy of fiscal relaxation is envisaged for the period 2006–08, through the reduction of social contributions by 2 percentage points a year. This measure poses new fiscal challenges, which are not being met by an appropriate set of economic policies. Mobilising the necessary revenues to co-finance the EU structural and cohesion funds and the future obligation to contribute to the EU common budget (estimated at 1% of GDP) places an added burden on public spending. Moreover, the 2004 unification of collection and administrative responsibilities for income and corporate profit taxes within a single institution (the National Authority for Fiscal Administration), together with unemployment and social contributions, has brought new challenges in terms of the institutional and operational consolidation of revenue administration.

Public debt has declined since 2002, when it represented 27.6% of GDP, and is expected to reach 20% of GDP in 2006. The vast majority of this debt is payable to international creditors and is excessively burdened by governmental guarantees for credits, mainly contracted by state enterprises. These guarantees accounted for 40.6% of the 2005 debt (MFP, 2005).

Fiscal decentralisation has transferred expenditure functions to the local level in areas of public health, education and social assistance. Since 2000, local authorities have had enhanced powers to collect local taxes and fees, including property tax. The 2003 Emergency Ordinance on Local Public Finance provides a legal framework for local budgeting. The national budget remains an important source of local government funding with revenue-sharing arrangements extending to personal income tax and value-added tax.

#### *2.1.4 Regional economic characteristics*

For reasons of balanced development, Romania was divided in 1998 into eight regions (NUTS III). The most developed is the capital region (Bucharest-Ilfov); the least developed are the north-east, on the border with Moldova and the south-west, neighbouring Bulgaria and Serbia. The proximity to EU markets has attracted more foreign investment to the centre, west and north-west regions (RG, 2005b) and helped them grow faster than the rest of the country, which suggests a certain diverging tendency in terms of regional development (CASE, 2004). But the most important determinant of regional imbalances remains their economic structure inherited from the communist period, when Ceausescu's regime imposed a policy of regional specialisation, rather than a diversification of economic activities at the local level. The communist regime created 'agrarian zones', where industry was very weakly represented, as well as mining basins where no other activity was developed (Valea Jiului, for example) and 'poles' of metallurgy or heavy industry. These areas were affected the most by restructuring and were consequently hit hard by unemployment and poverty; pockets of underdevelopment started to appear in most regions. Both inter- and intraregional disparities started to grow, more rapidly at the intraregional level, especially between urban and rural areas. These disparities are exacerbated by the uneven development of infrastructure. For example, 18.7% of the road network in the north-east is in very poor condition. Many small towns have limited access to road and railway networks and in certain zones some rural localities are completely isolated.

The discrepancies are more accentuated between urban and rural areas – Romania experiences a much higher development gap between urban and rural localities than among regions. Rural areas are worse off in terms of infrastructure, access to education and health, the coverage of basic public utilities and employment opportunities.

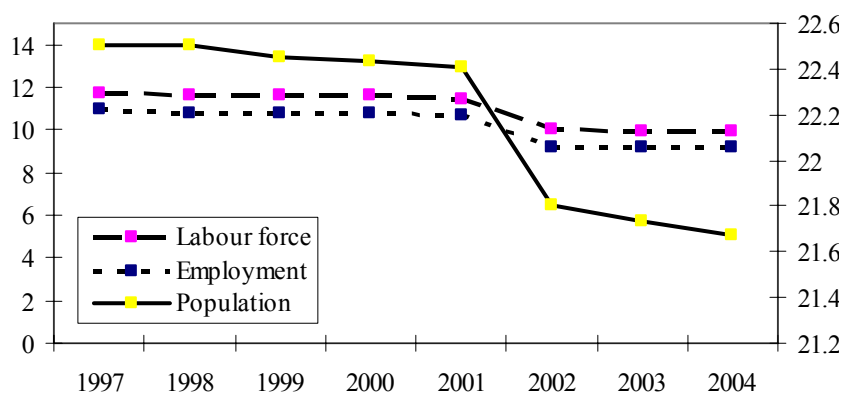
## 2.2 Labour market trends and main issues

The Romanian labour market is marked by the persistence of long-term unemployment and high youth unemployment, low average qualifications, insufficient job creation, a poor connection between the educational system and the needs of the labour market, regional disparities in terms of employment and the existence of socially marginalised groups for which very little has been done. In addition, restructuring is still far from being finalised and will therefore continue to have a negative impact on employment.

### 2.2.1 Main trends (employment, unemployment and economic activity)

Post-communist demographic trends show a substantial reduction of the total population, the labour force and employment (Figure 3).<sup>5</sup> The 15 years of transition have reduced employment by more than 2.3 million. Early retirement, the emergence of unemployment and external migration are the main factors responsible for the decline in employment (see section 3 for a description of the main demographic trends).<sup>6</sup>

Figure 3. Population, labour force and employment (million)



Note: Population on the right axis.

Source: NIS (2005c).

After 1990, Romania experienced two major hikes in unemployment: 10.9% in 1994, when the first restructuring measures were initiated, and 11.5% in 1999, generated by the restructuring and liquidation of some major loss-making state enterprises. Unemployment has stabilised since 2000 at around an average rate of 7.5%, reaching 7.9% in 2005, but these figures should be regarded with caution, since neither employment nor unemployment measures are very accurate (UNDP, 2003).

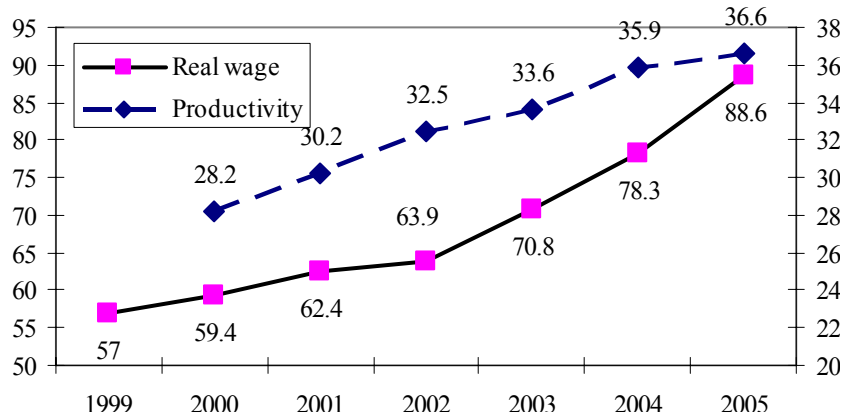
During the first decade of transition, the net average wage was below €100 per month; it has significantly increased since 2002 (Figure 4), but its 2005 level represented only 88.6% of the

<sup>5</sup> The drop in 2002 was recorded by the March census.

<sup>6</sup> The sudden drop in the population, labour force and employment in 2002 was also owing to the fact that the adjustments of the three indicators had not been properly recorded between the two censuses (1992 and 2002).

average wage earned in 1990. Productivity, expressed by GDP in PPP prices, records a lower rate of increase than the real wage.

Figure 4. The evolution of real wages and productivity



Note: 1. Real wage expressed in % (1990 = 100), deflated by CPI  
2. Productivity expressed in GDP/employee at PPP

Sources: MLSSF (2005) and RG (2005b).

### 2.2.2 Structure of employment and wages

One peculiar feature of the Romanian transformation during the 1990s was that sectoral employment patterns were somewhat different from those observed in other countries. Labour shifted from industry to agriculture, while the share of services in total employment remained broadly constant. Agriculture has absorbed the labour force freed by industrial activities during restructuring and privatisation processes; in this respect, land restitution has helped the agricultural sector to act as a buffer for redundant labour. The shift from industrial to agricultural activities has been significant in the case of less qualified and elderly workers, who have turned to subsistence agriculture in rural areas. Since 2001, the process stabilised and even reversed as a result of economic recovery; moreover, the share of industrial employment has increased since 2001, while the proportion of agriculture in total employment has declined. Nevertheless, individuals who move back from rural to industrial activities are generally those with the highest qualifications. Thus, the gap between rural and urban employment in terms of education and qualifications is widening.

The acceleration of reforms since 2000 and subsequently the higher speed of privatisation and restructuring reduced the share of employment in the public sector by almost 15 percentage points between 1999 and 2005.

In terms of **age structure**, the most important decline in the employment rate can be observed in the younger (15-24) and older (55-64) age groups. In the first case, the fall is owing to increasing enrolment in tertiary education. In the second case, the decline is explained partly by early retirement schemes and partly by the changing work environment, in which the skills of older persons have not been sufficiently adaptable. The insufficient ability to adjust to the new qualification requirements imposed by the market economy has pushed many of these individuals out of work and many have moved to agricultural activities. The fall of employment rates for women in the 55-64 age group has been higher than for men from the same age category.

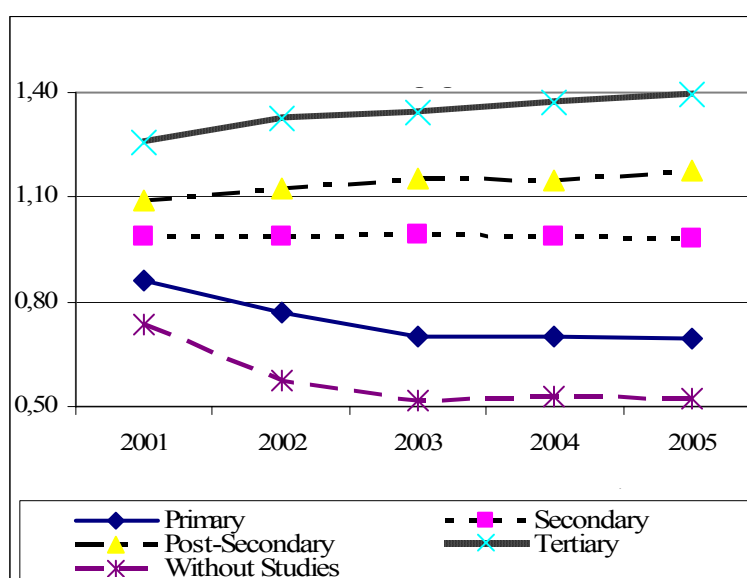
In terms of **education**, the employment rate has increased for individuals possessing tertiary and post-secondary education, but remains constant for those with secondary education. The indicator declined by 14.7 and 17 percentage points in the case of those with primary education, and individuals without any formal education,<sup>7</sup> respectively. The structure of the labour force by education is presented in Table 1. Based on this data, we calculated the ratios between the two structures (labour versus population), which is presented in Figure 5. A decreasing ratio in the case of less educated persons implies that they leave the labour market more easily than do those from other categories, because employment opportunities for less qualified persons are insufficient. This could be also explained by the fact that less educated individuals are more strongly represented among older cohorts – those aged 55 and above.

Table 1. Structure of the population (pop.) and labour force (LF) by education level

	LF	Pop.	LF	Pop.	LF	Pop.	LF	Pop.	LF	Pop.
	2001		2002		2003		2004		2005	
Primary	6.45	7.49	5.50	7.15	4.88	6.98	4.74	6.75	4.54	6.56
Secondary	77.86	78.94	78.53	79.53	79.43	80.13	77.67	78.87	77.58	79.16
Post-secondary	4.85	4.45	4.87	4.32	4.55	3.94	4.78	4.16	4.76	4.04
Tertiary	9.96	7.94	10.49	7.92	10.60	7.91	12.07	8.79	12.44	8.94
No formal education	0.87	1.18	0.62	1.08	0.55	1.05	0.75	1.42	0.68	1.30
Total	100	100	100	100	100	100	100	100	100	100

Source: Calculations based on data from MLSSF (2005).

Figure 5. The ratio between the education structure of the labour force and the population



Source: Calculations based on data from MLSSF (2005).

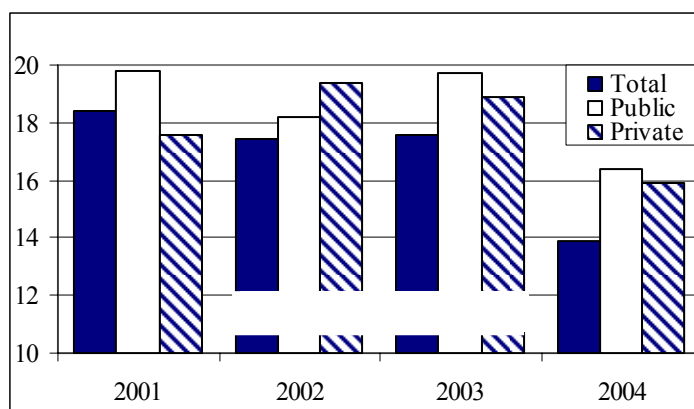
<sup>7</sup> Individuals without formal education are defined as those who did not complete the first four years of primary education.

Wage policies in the public sector have been lax over the whole period of the transition. Prior to the 2004 elections, the government implemented two wage increases in the budgetary sector; the current government followed the same policy by raising these wages twice in a single year (2005), by 8.1% and 9.2%. In the corporate sector, wage growth has generally matched productivity growth. For the whole economy, the wage structure by sector has not changed significantly since 1998; real estate activities offer the highest wages in the economy, more than double the national average.

Because of a significant wage increase in the public sector, the average productivity of labour has increased more slowly than the average wage in the economy. In reality, however, the wage–productivity gap may be lower than that indicated by official statistics. Surveys have revealed that reports filed by employers may have underestimated the shedding of labour in some sectors with declining activity because of the formalisation of labour contracts after the introduction of the flat tax rate on profits. High employment growth in other sectors may be the result of the change of status from informal to formal employee. Both effects would statistically reduce labour productivity, although not in the real economy.

The wage differential between working men and women is higher in the public than in the private sector (Figure 6) and more evident in manufacturing, trade, education and healthcare. The overall difference decreased significantly in 2004 and it is expected to decline even more in the near future. Officially, the wage differential is explained by the nature of work, with women more likely to be involved in activities characterised by lower value added (RG, 2005b). Differences between regional average wages appear relatively high, although caution is needed in interpreting them as the quality of data is very poor. In 2003, for example, the recorded average wage in the south-west region, which is one of the poorest of the country, was 1.16 times higher than in the centre – a relatively affluent region.

Figure 6. Wage differential between men and women (%)



Source: MLSSF (2005).

### 2.2.3 Structure of unemployment

The Romanian economy has never experienced exceptionally high rates of transitional unemployment. Two rises were recorded, in 1994 and 1999, each time when major restructuring took place, but since 2000, unemployment has stayed broadly constant at moderate levels (Table 2).<sup>8</sup> The main factors responsible for transitional unemployment are related to the fall in labour

<sup>8</sup> It should be stressed that the official statistical information on unemployment should be regarded with caution as significant differences appear from different sources. For example, in 2005 the International



demand, especially in the industrial sector. Higher unemployment for men than for women stems from the restructuring process, which affected the male workforce most. Urban rates of unemployment have been significantly above rural ones, since agriculture – especially its subsistence component – has absorbed a large share of the jobless from rural areas. There is, however, substantial hidden unemployment in the agricultural sector.

*Table 2. Main unemployment indicators*

<b>Unemployment rate</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Total	7.1	6.6	8.4	7.0	8.0	7.9
– Men	7.7	7.1	8.9	7.5	9.0	8.5
– Women	6.4	5.9	7.7	6.4	6.9	7.6
Rural	3.5	3.1	2.8	5.4	4.3	6.2
Long term	3.6	3.2	4.5	4.3	4.7	–

*Source:* MLSSF (2005).

Long-term unemployment has increased slightly since 2000: almost 60% of jobless persons were recorded as long-term unemployed in 2004. Men's long-term unemployment went up from 3.1% in 1999 to 5.5% in 2004, while the rate for women rose by only 0.8 percentage points during the same period. In urban areas, long-term unemployment grew from 4.9% in 1999 to 5.4% in 2004. Rural long-term unemployment also increased in the same period from 1.2% to 3.9%. For the 15-24 age group, the rate of long-term unemployment increased by 3.1 percentage points to 14.3% in 2004. Long-term youth unemployment in urban areas decreased from 25.3% to 18% between 1999 and 2004, while in rural areas the indicator grew from 5.1% to 10.8% during the same period.

The Romanian government (RG, 2005b) has tended to explain the persistence of long-term unemployment by the rigidity of the labour market and the insufficient capacity of the economy to generate jobs, as well as by what it has deemed an excessively generous minimum wage policy. The educational mismatch between the supply and demand for labour could also explain this phenomenon. The small and medium-sized enterprise (SME) sector, the main source of new jobs, has faced bureaucratic barriers in its development, while corruption and legislative volatility have reduced its job-creation potential. The initial decline in economic activity affected the entire labour force. When growth resumed, the return to employment was much more difficult for less qualified persons. Skilled groups have tended to benefit more from economic recovery, while those who remain unemployed or outside the labour force are mostly less qualified individuals, for whom there are very limited employment opportunities.

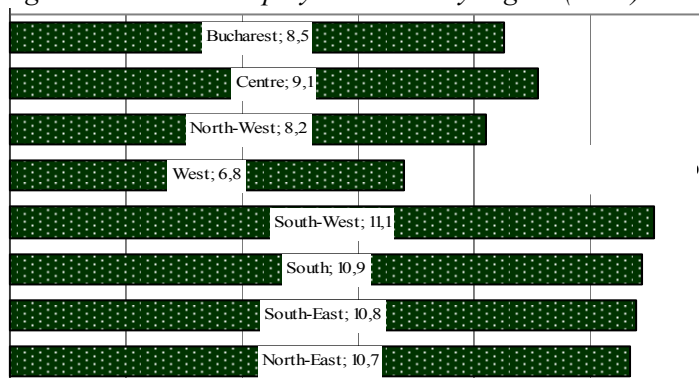
#### *2.2.4 Regional and ethnic dimensions*

After an initial decline in participation and employment rates, the indicator stabilised at the regional level in 2000 and 2001. The south and south-west regions record the lowest rates in terms of both employment and participation. In the poorest regions (north-east and south-west) more than 60% of the rural population lives off agriculture (mainly its subsistence form), while the migration from urban to rural areas is more important than for the rest of the country. Poor regions also record the highest urban unemployment (Figure 7). The centre has the highest unemployment within the group of economically developed regions because restructuring is still taking place on a large scale, while agriculture is less important in this zone.

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Labour Office harmonised rate of unemployment was 6.5%, while in the Pre-Accession Economic Programme the rate was 7.9% for the same year.

Figure 7. Urban unemployment rates by region (2003)



Source: RG (2005b).

Employment opportunities come mainly from urban areas (particularly those in better-off regions). An alternative is reliance on subsistence agriculture. Individuals losing jobs are faced with a choice between trying to find employment in cities or staying in rural areas and living off subsistence agriculture. The first option makes sense for those able and willing to move or stay in large urban agglomerations with diversified industrial structures, particularly with significant and expanding service sectors and developed infrastructure. At the same time, agriculture is likely to absorb a large share of the unemployed in poor regions. Consequently, in 2005 the official unemployment rate was the lowest in the north-east (6.5%) and the highest in the south (11.2%). The relative feasibility/popularity of the two strategies described above may help explain the large regional variations in employment, unemployment and poverty rates.

The whole system of labour and unemployment statistical indicators needs to be overhauled in Romania, however, since differences in reporting practices often lead to problems with employment indicators at both national and regional levels. Information on the registered unemployed usually held by the National Agency for Employment (NAE) differs in coverage and definition from that used in the Labour Force Survey. In 2002, for example, registered data showed a substantial decrease in the registered unemployed, while Labour Force Survey data showed a moderate increase.

Ethnic discrimination is not all that affects the Roma community, which is largely confronted by social exclusion. Although there is no information regarding the wage discrimination of this community, in terms of access to employment the Roma are generally discriminated against and offered less qualified jobs. Up to 20% of Roma do not have identity papers (NDI, 2003) and therefore are not entitled to any form of social assistance or social insurance. The Roma employment rate is much lower than the national average: the share of active earners aged 15 or older is 13% among Roma and 35% among non-Roma living in close proximity to Roma (UNDP, 2005). Among employed Roma, 41% work in agriculture and 31% are unqualified workers. Overall, half of Roma have no qualifications and 41.7% are involved in sporadic seasonal and daily informal activities (Nasture, 2005).

The Romanian government is seeking a solution to break down the social exclusion of this minority: of 11,572 jobs offered through a special programme in 2004, 9,845 were given to Roma. It should be mentioned, however, that the specificity of Roma traditions and culture contributes significantly to their exclusion.

While most of the other minorities are generally concentrated in particular regions of Romania (Hungarians in Transylvania, Turks in the south-east, Serbs in the south-west and west), the Roma are dispersed across the whole country, predominately in rural areas. Known in the past as a very mobile segment of the population owing to its nomadic tradition, the Roma

community settled far more often during the communist regime and there is no evidence of higher than average mobility.

### *2.2.5 Employment institutions and policy*

Employment relations are protected by a large number of institutions and an impressive set of regulations (laws, decisions, emergency ordinances, orders from various ministries and agencies), at the core of which stands the Labour Code. The regulations are changed very often; in the 16 years of transition parliament has adopted eight laws on unemployment and an uncountable number of additional regulations in the same field.

The main Romanian institution in charge of employment and social protection is the Ministry of Labour, Social Solidarity and Family (MLSSF), which has legal responsibilities in designing and implementing employment and wage policies at the national and regional levels, monitoring working conditions and labour inspection. Several specialised institutions of the ministry are in charge of professional training, the pension system and social security, child and family protection and the protection of the disabled. The MLSSF's main policy-making body in the field is the Directorate for Labour Force Policies. A tripartite National Committee for Employment advises the government on employment policies.

The NAE is the main body responsible for the provision of employment services and implementation of labour market policies. Its tripartite Administration Board at the central level consists of 15 members, of which employers and trade unions make up two-thirds. The president of the NAE functions simultaneously as the president of the Administration Board. The NAE has an extensive national network of 42 county agencies, 135 local agencies and 115 working points. It has developed a steadily growing network of training centres, established in areas where the existing provision for adult learning needs to be enhanced. The tripartite Consultative Councils at the county agency level became operational in mid-2002, with a three-year delay related to a dispute with the unions on representation in the county councils. The county agencies are involved in developing local employment programmes, labour market statistics, analysis and forecasting, vocational guidance, the organisation and financing of training, provision of subsidised credits to enterprises, supporting labour mobility, supporting companies under restructuring in case of mass redundancies, establishing employment local partnerships, providing passive measures, accreditation of private employment services, supporting legislative reform, the administration of employment promotion programmes, administration of the unemployment fund, as well as all internal administration, audit and control functions.

From its inception, the NAE has been responsible for the payment of unemployment benefits and for the collection of contributions to the fund. This last task was taken over by the National Agency for Tax Collection from 1 January 2004. Despite ample opportunities to influence labour market policies and service delivery, the real impact of social partners' participation at the national and county level remains largely unknown. Reported proposals from the social partners' side have concentrated so far on the 'structural' issues of the Agency, such as investment and personnel, instead of the expected proposals to improve the impact of the active measures or the quality of employment services.

The new Employment Law (76/2002) established the National Committee for Employment Promotion as a high-level tripartite body supplementing the Economic and Social Council (ESC) and the Administration Board of the NAE. The National Committee for Employment Promotion is approved by the prime minister. It includes eight senior officials from key ministries, eight representatives of employers' associations and five representatives of trade unions. Since 2004, the NAE's role in the field of training/re-training has been taken over by the National Adult Training Board, a tripartite policy advisory body on adult learning. The National

Adult Training Board has recently absorbed the Council for Occupational Standards and Assessment, set up in the mid-1990s to supervise the development of occupational standards.

A new labour code was passed in March 2003, replacing the one adopted during the communist period. Although its provisions are generally in line with the EU model, the labour code does not fully meet the specific needs of the Romanian labour market. It is considered relatively rigid by employers and consequently does not contribute sufficiently to raising employment, while providing little incentive to legalise informal activities.

The main instruments of employment policy in Romania are the minimum wage and unemployment benefits. After the fall of communism in December 1989, the minimum wage was set at 65% of the average wage, while the first transitional government adopted a generous system of unemployment and social benefits. The minimum wage declined up to 1999, at which time it represented 27% of the average wage and recovered slowly afterwards to 30% of the average wage in May 2006. It is estimated (CASE, 2004) that around 30% of all employed persons are currently paid at the level of the minimum wage.

In 1997, the government elaborated its National Programme for Active Labour Market Policies (ALMPs), whose objective was to reduce the impact of privatisation, restructuring and the closing down of state enterprises. The programme proposed a set of measures aimed at helping the reintegration of redundant workers: assistance in moving to other regions, retraining, assistance for starting small businesses and various projects for developing business incubators. The programme is mainly implemented by the National and Local Employment and Training Agencies throughout the country. In parallel, the National Action Plan for Employment provides a set of policies to sustain lifelong learning; there is even a special law on lifelong learning, but the policies mainly address current problems and needs. A broad national concept of lifelong and life-wide learning and a joint vision of Romanian workforce development over the next 5-10 years are still lacking. Participation in training remains at a very low level: the number of unemployed persons who graduated from training courses organised by the NAE is less than 3% of the total unemployed.

The ALMPs are principally focused on job subsidies and credits for training as a reintegration measure. Rigid requirements regarding post-training reintegration have resulted in a reduced provision of vocational training services to the unemployed. More than three-quarters of training activities are reserved for the unemployed with placement guarantees (100% reintegration) and very little for groups that are more difficult to integrate.

Spending on the ALMPs reached 0.16% and 0.12% of GDP in 2003 and 2004, respectively. According to an evaluation by the MLSSF, the national programme has proven successful, given that the placement rate for permanent jobs represented 18.7% of total participants (34.6% for both permanent and temporary jobs). Yet, the relative success of the programme largely stemmed from a particularly high rate of economic activity in 2004; to a great extent, the ALMP initiatives have been targeted at persons who would have found employment even in the absence of these measures.

Expenditures on the ALMPs are financed from the unemployment fund. Both the fund and the NAE budget, including allocation of expenditures per various categories, are annually approved by parliament, based on proposals prepared by the MLSSF (which subsequently come from the NAE). In case of deficits, transfers from the state budget may supplement the unemployment fund, but in practice, this has never occurred. So far, cash flow problems have been overcome by treasury credits, which have been fully repaid. The deficits registered by the unemployment fund over several years before 2001 have had a negative impact on active employment policies. The deficits were caused by low collection rates of contributions from state-owned enterprises

and by the large severance payments allocated for mass redundancies. These two factors led to delays in the payment of unemployment benefits in 1999 and 2000.

In addition to the unemployment fund, several international organisations and bilateral donors have provided financial support, mainly for co-financing or financing active measures, in the context of economic restructuring and mass redundancies. The World Bank has provided support to the NAE in financing contracts with public and private service providers at the county level and in delivering targeted services to displaced workers, as well as establishing several regional training centres. The EU is the most important donor in the ALMP field; several PHARE programmes have helped to establish local and regional structures, involve social partners, assist in the development of employment-related training and education and help in restructuring loss-making state-owned companies. With the support of the German government, three adult training centres were established under the auspices of the Romanian–German Foundation. One centre for young unemployed persons was established as an autonomous training foundation.

Private providers' access to public funds is very limited. Most private employment services are located in Bucharest and are active in job mediation and recruiting for better-paid jobs and for jobs abroad.

The government has designed several policies to support the integration of youth into the labour market. Policy coordination is divided between the MLSSF and the Ministry of Education, without a clear delineation of responsibilities. The measures have not been effective; the training is not correlated with market demands and no vocational guidance exists. Some measures for stimulating entrepreneurship among young persons have been initiated, by providing moderate credits for enterprising students and tax facilities for students who want to start a business, but in reality, they do not appear to be playing a significant role.

There are important problems connected with the functioning of the basic education system, which does not entirely match the requirements of the labour market. No particular interest has been shown in supporting the integration of young persons from rural areas in the labour market or of those with low levels of education. There are no distinct measures for supporting the career development of young persons with the best educational achievements, which may in turn encourage them to leave the country.

The high rate of statutory social contributions (47.5% of gross salary in 2005) discourages participation and tends to push workers into informal employment. According to Albu (2003), the share of the shadow economy represented 20.7% of official GDP in 2002. Pippidi et al. (2000) arrived at a similar conclusion for the year 2000 (19%). The 2004 report of the National Institute for Labour Research and Social Protection (2004) concluded that up to 1.2 million persons were involved in undeclared activities, which represents 11% of the labour force. This figure does not include “subsistence agricultural activities”. The National Development Plan (RG, 2005b) estimates that the informal sector represented 49% of 1998 GDP, including undeclared activities related to self-employment and family businesses. With respect to policies in relation to shadow employment, the main regulation is Law 130/1999, which provides no explicit definition of undeclared work, but still outlaws such practices. The main body responsible for implementing and overseeing appropriate policies is Labour Inspection. In April 2004, a new law was adopted, which provides a set of incentives for employers to create jobs in the formal economy (subsidies, non-reimbursable loans and reduced social security contributions).

Low incomes from official sources that are insufficient to meet certain needs are the primary motivation for involvement in informal economic activities. Yet, most of those involved in non-agricultural undeclared work (the unemployed and low-income groups) are declaring that

in principle they would be ready to enter the official sector (Pippidi et al., 2000) and therefore benefit from social insurance. Nevertheless, it should be mentioned that the notion of informality is ambiguous in Romania: for example, certain studies consider any tax avoidance not as an informal practice but as a criminal activity. This makes the distinction between undeclared economic activity (undertaken to supplement insufficient incomes from official sources) and large-scale tax evasion somewhat blurred for analytical purposes.

## 2.3 Structural reforms – Level, current pace and plans

### 2.3.1 Identification of the main structural problems and challenges

Opinions on the main structural challenges vary widely. Three themes are most frequently mentioned, in both academic and public debates: the very large share of agriculture in employment and gross value added (32% and 15% respectively in 2004), corruption and external migration, and the increasing deficit of skilled employment, especially in construction, the food industry and health. Other issues of concern refer to the relatively low absorption capacity of EU funds, scarce budget revenues available for matching pre- and post-accession funds and for financing national policies and projects, the lack of efficiency and transparency of the public administration, and a high “modernisation deficit”, especially in rural areas (European Commission, 2005).

### 2.3.2 Ownership structure and privatisation

In 1990, compared with other post-communist countries Romania was characterised as having one of the lowest shares of the private sector in the economy (Milanovic, 1998). Privatisation was slow, difficult and delayed by political decisions, especially in sectors where workers had strong bargaining power. The evolution of the private sector is presented in Table 3.

*Table 3. Evolution of the private sector in the economy (%)*

	1997	1998	1999	2000	2001	2002	2003	2004
Total employment	53.1	56.9	62.1	67.1	70.4	69.9	72.1	73.9
Total employees	27.8	34.6	39.4	44.5	49.0	51.9	55.4	57.2
Gross value added in industry	42.1	46.0	53.7	68.4	76.0	80.6	84.2	80.6
Gross value added in services	71.5	76.1	76.6	71.6	68.4	67.6	62.3	71.2
Exports FOB	54.8	49.0	65.7	65.8	66.7	66.6	69.2	68.8
GDP	60.6	–	–	65.6	68.0	69.4	67.7	72.2

*Notes:* Data for 1998–04 are calculated according to SEC 95 methodology. Data for 2004 are provisional.

*Sources:* NIS (2005c and 2006a).

The small-scale privatisation index of the European Bank of Reconstruction and Development (EBRD) has remained stable at around 3.7, while the index of large-scale privatisation increased from 2.7 in 1999 to 3.7 in 2005 (EBRD, 2005a). The process slowed down, however, in terms of both the number of enterprises sold and the state-owned share of capital divested (European Commission, 2005). Companies continued to bounce back to state ownership because of unresolved disputes between the government and investors over privatisation contracts and problems were encountered in re-divesting such companies. Bankruptcy and other liquidation procedures are not yet effectively applied to foster market exit. Of the 21 bankruptcy cases launched between July 2004 and September 2005 against major tax debtors, only 5 have been successfully concluded. Of 68 such cases initiated since 2003, involving accumulated tax arrears of close to 1% of GDP, 19 companies have been declared bankrupt. Of 549 large debtors to the state budget, with tax arrears of close to 2.5% of GDP, 13% were either declared bankrupt or are undergoing bankruptcy procedures, while 20% were granted debt-rescheduling schemes and 6% were placed under special administration.

### 2.3.3 Institutional and legal reforms (regulatory framework, corruption and governance)

The public administration has made gradual progress in supporting the business environment, although lack of good governance is still perceived as widespread. Various new initiatives are underway, such as attempts to increase staffing, IT investments and specialised bodies for commercial rulings, but overall progress in reforming the complex procedures and increasing administrative capacity in the judiciary has been limited. Contract enforcement through the judicial system has been hampered by the large number of procedures. The time and cost required to resolve bankruptcy cases remains unfavourable and resorting to the judiciary in insolvency cases is often not an effective remedy. The judiciary is not always perceived as sufficiently qualified or objective. The state's inability to ensure the liquidation of the RAFO refinery, which had accumulated tax arrears of more than 0.2% of GDP and represents a legacy of bad corporate governance, demonstrates the persistent deficiencies of the bankruptcy framework and the inadequate degree of creditor protection, which continue to affect the business environment.

Efforts to enhance public administration have continued, for instance by simplifying company registration and by applying the new Fiscal Procedures Code. VAT reimbursement procedures have accelerated, notably for large taxpayers and for taxpayers not belonging to sectors in which VAT fraud is widespread and who have a sound fiscal record. Nonetheless, the VAT administration is still perceived as an obstacle by many businesses, particularly as regards reimbursement delays. The amendment of the Labour Code in June 2005, following close consultation with social partners, was a step forward towards relaxing restrictive legal provisions, which are widely considered the main impediment to enabling an investment climate. The modified conditions for fixed-term contracts, collective dismissals and the redistribution of working hours are intended to lower existing barriers to hiring new employees. The functioning of the labour market is still inflexible, however, and continues to be hampered by the centralised wage-bargaining system, the benchmark role of the minimum wage and the compulsory extension of collective agreements to non-signing parties, which inhibits wages from reflecting productivity differences across regions and skill profiles.

The competition *acquis* covers both anti-trust policies and those that control state aid. In both areas, legislative alignment is complete. Amendments have been made to the Competition Law, abolishing the discrimination between state-owned and other enterprises. The State Aid Law was further amended, clarifying the definition of state aid in line with the Community concept and reinforcing provisions on the obligatory recovery of incompatible aid. Many other implementing rules have been issued or amended, including the December 2004 regulation on state aid for rescuing and restructuring firms in difficulty. According to the European Commission (2005), there has been a noticeable improvement in the enforcement activities of the Competition Council, mainly because of the new institutional mechanisms established in September 2004.

For many years, corruption has been the overriding problem of Romanian society, as all opinion polls consistently show. Generally, the focus of the state's fight against corruption is still on adopting new legislation and changing the institutional landscape, with significant changes implemented in 2005. Yet the major challenges do not stem from an inadequate legal framework. Serious concerns persist about the effective implementation of the existing laws, while the institutions within the criminal justice system remain affected by corruption. Integrity tests and disciplinary sanctions are still preferred over criminal trials in such cases and these do not always serve as the most effective deterrents or increase public confidence in these institutions. To date, institutions have achieved some success in dealing with cases of petty corruption, but have yet to demonstrate their capacity in dealing with high-level corruption. On

the other hand, the process of offering ‘gifts’ in return for better services is already a cultural norm and awareness of the negative consequences of conflicts of interest (and nepotism) is rather low in a society whose functioning is heavily based on social networks.

In conclusion, Romania has made significant progress with structural reforms; the European Commission’s 2005 *Monitoring Report* concludes that the country continues to comply with the criterion of a functioning market economy. The EBRD transition indicators (Table 4) reflect the same progress, with the most significant improvements recorded in the areas of privatisation, banking reform, governance and enterprise restructuring. The business environment has also improved, according to the EBRD (2005a) Business Environment and Enterprise Performance Survey. The largest improvements were recorded in the cost of doing business, macroeconomic stability and access to finance. On the other hand, conditions have deteriorated in the perception of entrepreneurs with respect to the labour market and taxation. Nevertheless, the capacity of the Romanian economy to cope with the competitive pressures of the common market needs to be strengthened.

*Table 4. EBRD transition indicators\* (2005)*

	<b>Romania</b>	<b>Bulgaria</b>	<b>Accession countries**</b>
Large-scale privatisation	3.67	4.00	3.77
Small-scale privatisation	3.67	3.67	4.20
Enterprise restructuring	2.33	2.67	3.20
Price liberalisation	4.33	4.33	4.30
Trade & Forex system	4.33	4.33	4.33
Competition policy	2.33	2.67	2.80
Banking reform & interest-rate liberalisation	3.00	3.67	3.67
Securities markets & non-bank financial institutions	2.00	2.33	3.03
Overall infrastructure reform	3.33	3.00	3.17

\* The indicators range from 1 = low or no progress, to 4 = standards similar to advanced economies.

\*\* Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

Source: EBRD (2005a).

### 2.3.4 Education

Since 1990, a trend towards polarisation has emerged within the education system. The number of faculties in 2004–05 was 7.35-fold higher than in 1989–90 with nearly fourfold more enrolled students. But the number of students is still low (30 per 1,000 inhabitants in 2004) compared with most European countries. At the other extreme, at the secondary level, vocational and apprenticeship education has been radically reformed, with the number of vocational schools diminishing from 798 in 1989–90 to 77 in 2004–05. Yet the number of pupils in vocational and apprenticeship schools, after strong declines until 1999–2000 (when it reached a minimum of 222,234 pupils compared with 304,533 in 1989–90), has recovered, with 289,494 pupils being recorded in 2004–05.

Romania’s child population is decreasing sharply. Negative demographic trends have started to affect the number of children in pre-school, primary school and at gymnasium level. The number of children enrolled in pre-school education decreased from about 836,000 in 1989–90 to 611,000 in 2000–01, and 644,000 in 2004–05. At primary school and gymnasium level, the number of enrolled children also declined (from around 2.9 million in 1989–90 to under 2 million in 2004–05). The level is expected to diminish further with a 15-20% decline over the period 2002–12. This fall will enforce serious changes in school and teaching staff networks,



especially in rural areas, where 8.2% of children aged 7-14 do not attend school (compared with 5.7% in urban areas). School dropouts are much more common in rural areas (1.9%) than in urban areas (0.2%) and a large proportion of rural teachers are not suitably qualified.

Romania retains an inferior position among European countries with respect to net rates of school enrolment at all levels (International Standard Classification of Education or ISCED 1-6) of the population aged 3-23 (Table 5). Between 2000 and 2005, the average number of years spent in school (all levels, including pre-school) increased by one year, reaching 15.6 years in 2005, which is still low by European standards. In addition, Romania has a high rate of early school-leavers in education or training (21% in 2005 according to Eurostat) and poor participation in adult education.

*Table 5. Net rate of school enrolment of the school-age population (%)*

	1996	1997	1998	1999	2000	2001	2002	2003
Total	63.4	63.8	64.9	65.7	66.9	68.2	64.2	64.4
Pre-school (3-6 years)	60.4	62.8	64.2	65.2	66.1	67.5	71.0	70.9
Primary school	87.0	87.8	89.5	89.0	92.3	88.8	89.2	89.3
– Primary school (7-10 years)	92.5	90.2	91.6	91.4	94.2	93.8	93.1	94.0
– Gymnasium (11-14 years)	81.0	85.1	87.5	86.9	90.8	85.3	86.3	85.7
Secondary school (15-18 years)	56.4	56.7	57.0	58.4	66	64.8	65.6	65.2
– High school	42.1	42.7	42.9	43.9	47.8	46.9	47.0	46.9
– Professional/vocational school	14.3	14.0	14.1	14.5	18.2	17.9	18.6	18.4
Post-secondary school (18-23 years)	3.5	4.1	4.5	4.6	4.0	3.9	3.5	3.2
Tertiary school/university (18-23 years)	11.6	12.0	13.7	15.5	18.1	20.3	23.0	24.6

Sources: RG & European Commission (2004).

The secondary school participation rate dropped drastically in the first years of the transition as educational policy changed; the number of compulsory grades<sup>9</sup> was reduced from 10 in the communist period to 8 as early as in 1990. After 1996, the school participation rate at the secondary level improved. Still, a large proportion of persons aged 15-18 (particularly from rural areas) leave the educational system after only completing primary education. Furthermore, while before 1990 the urban-rural education gap was diminishing, after 1990 the trend reversed and the gap has since widened. In 2005, nearly 38% of the rural labour force achieved less than primary education (ISCED 1), 28% completed the ISCED 2 level (with no qualifications), while just 1.5% graduated from higher education (NIS, 2006b). These rates stem from three factors:

- Labour in the agricultural sector tends to be older and thus poorly educated.
- The scarcity of financial resources impedes young persons from continuing education since most vocational and high schools are based in cities, and education-related costs (transport, accommodation, etc.) are excessive.
- Young persons who attended higher education have tended to leave villages in favour of urban areas or, more recently, in favour of a Western country.

In contrast, more than half of the urban labour force graduated from the second stage of secondary education and 12% has higher education.

The situation of the cohorts that exited the education system after 1990 (the 20-35 age group in 2003) clearly reflects the polarised trends. If only 12% of the 30-34 olds completed eight grades at most, with no qualifications, in the new context of educational reform, the corresponding share has grown to 20% of the 25-29 cohort and 29% of the 20-24 age group. The proportion of

<sup>9</sup> In 2002, under pressure from the EU, the number of compulsory grades was increased to 10.

young persons leaving school before achieving any professional qualification increased more dramatically in rural areas, from 22% of the 30-34 age group to 48% of the 20-24 age group. Some of the educational gap between the cohorts can be explained by the massive external migration of young persons with better education, but this perception has yet to be researched.

The evaluation of educational quality was a weak point of the communist system. There were few mechanisms for systematic quality monitoring of *inputs* (curricula, textbooks, school buildings and equipment) or *processes* (teaching, school and classroom organisation and timetabling). Only in the late 1990s was some attention paid to learning achievement and educational *outcomes* (OECD, 2001). A comprehensive quality monitoring system is now in place.

The relatively poor performance of Romania in the Third International Mathematics and Science Study (TIMSS) for 13-year olds in 1995 helped to bring the quality of Romanian education into focus: out of 41 participating countries, Romania came 34<sup>th</sup> in mathematics and 31<sup>st</sup> in science. Since 1995, the Ministry of Education has carried out its own sample-based national assessments in mathematics and the Romanian language for grade 4 children, and this practice has continued and expanded to give better and timelier feedback on learning outcomes. At the subsequent TIMSS tests, in 1999 and 2003, Romania obtained a better position (25<sup>th</sup> out of 38 countries), but the average national scores did not significantly improve (474 in 1995, 472 in 1999 and 475 in 2003). Of the 43 countries participating in the 2001 Programme for International Student Assessment (PISA), Romania came 34<sup>th</sup>, with a score equal to 85% of the OECD average. While the Romanian system continues to do well by its high-ability pupils (who have won international academic competitions, the so-called ‘Olympiads’), the average performance of all children enrolled in the system is less satisfactory. Taking into account the TIMSS and PISA results, the Ministry of Education and Research (2005) concluded that Romanian children have medium performances in achieving the curricula, but rather poor life and labour market skills.

In 2005, the Ministry of Education and Research issued the first comprehensive analysis of the Romanian educational system based on a European system of indicators. According to this report, three main problems are chronic underfinancing, the quality of education and the decentralisation of education. Improvements in these spheres were considered a priority. Expenditures on education have been under 4% of GDP in Romania, compared with an average of 5.22% for the EU and 5.31% of GDP in the NMS.

The proportion of Roma children of compulsory school age actually attending school is unacceptably low: in 1998, according to the Roma National Survey (Research Institute for Quality of Life), 47% of Roma children aged 7-18 were not enrolled (Zamfir & Preda, 2002). UNDP (2005) data show that the enrolment rate in primary school (aged 7-15) is 76% among Roma and 94% among the majority living in Roma neighbourhoods. Moreover, if ‘access’ is considered in all its dimensions (initial access to, survival in, treatment during and empowerment as a result of education), Roma children do worse than non-Roma, especially in terms of equal access to jobs and social opportunities. In addition, the Roma population has a much lower level of education than the general population in all age groups. Roma mostly achieve primary education (two-thirds), while only 0.1% completes tertiary education (2002 census).<sup>10</sup>

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<sup>10</sup> The census covers a maximum of one-third of all Roma (according to expert estimations) and is considered less reliable on minority issues than expert estimations and surveys; hence, information on education from the census may be seen as less dependable.

### 3. Demography

In the 2002 census, the Romanian population was 21.7 million, of which 48.7% were male. The rural population represented 47.3% of the total. The main ethnic groups were Romanians (89.5%), Hungarians (6.6%) and Roma (2.5%). The majority of Romanians are Orthodox (86.8%), Roman Catholics represent 4.7%, Protestants 3.2% and Pentecostals 1.5%.

#### 3.1 Population trends

Over the period 1977–92, the population grew by around 1 million, while between 1992 and 2002 it diminished by the same amount; in the 2002 census the population size was therefore comparable to that in 1977. The decline has continued since 2002 and various projections<sup>11</sup> indicate that it will continue in the future, reaching a minimum of 16-17 million in 2050. Thus, the current demographic trends point to “a gloomy picture of Romania’s population prospects for the following decades” (Ghețău, 2003). The population decline is the cumulated effect of a complex set of demographic trends recorded after 1990, particularly in fertility, mortality and external migration. Social and economic crises associated with the post-communist transition are considered the most influential causes of the increase in mortality rates during the first years of the 1990s and of the growth of external migration in the late 1990s.

#### 3.2 Fertility and mortality trends

**Fertility** used to be unusually high, under the impact of a forced pro-natal policy promoted by the communist regime, by far the most coercive in Europe. In 1990–91, all restrictions concerning access to contraception and abortion were lifted. Nonetheless, the former communist policy has still had various effects on fertility dynamics since 1990, owing to the size and structure of the population of fertile age. In addition, the transition context on the one hand (poverty, employment uncertainty and stress), and on the other hand the higher availability of information about family planning and the diffusion of Western cultural models, has altered demographic behaviour. Hence, fertility diminished from 2.19 to 1.3 children per woman between 1989 and 2004, with the bulk of the fertility drop taking place in the first two to three years of the transition. The fertility rate is far below the level required for generational replacement, making demographic ageing one of the most serious problems projected over the next 20-25 years, when generations born after 1967 will retire (Table 6).

*Table 6. UN projections for Romania (medium fertility variant)*

	2010	2020	2030	2040	2050
Projected total population (thousand)	21,287	20,396	19,285	18,073	16,757
Projected TFR (children per woman)	1.27	1.40	1.54	1.68	1.80
Projected total dependency ratio	41.90	45.09	46.76	57.65	72.68
Projected old-age dependency ratio	20.93	24.77	27.74	37.52	49.57

*Notes:* The total dependency ratio is the ratio (expressed in %) between the number of persons aged less than 15 and over 65 to the number of persons aged 15 to 64. The old-age dependency ratio is calculated between the number of persons aged 65 and over to those aged 15 to 64.

*Source:* UN Population Division, World Population Prospects DEMOBASE, extract from June 2006.

<sup>11</sup> See Eurostat (2006) and Ghețău (2003).

Romanians have always tended to have children relatively early, with the highest fertility rates being recorded for the 20-25 age group. Starting in 1995, a constant rise of fertility rates among ages over 25 has been recorded. In urban areas, the pattern has already changed from early fertility to fertility that is spread out across a number of years, with the highest values in the 25-30 age group (Ghețău, 2003). This trend, together with the continuously rising age of first marriage and mothers' age at the first birth (from 22.4 in 1990 to 24.3 in 2003) show that having fewer children, at an older age, is becoming the rule governing the reproductive behaviour of young couples.

**Mortality** has always been high, but is expected to decrease in the future, particularly as a result of the rise in living standards since 2000. Life expectancy at birth rose spectacularly after the Second World War, reaching over 69 years in the early 1970s, then fluctuated between 69 and 70 years. After 1990, socio-economic changes were accompanied by a decline in life expectancy, in 1996 reaching the 1972 value of 68.9 years. Health deterioration affected the male population almost exclusively (Ghețău, 1998). After 1996, the trend of life expectancy at birth reversed, recording a continuous and considerable rise. Thus, the values for 2004 – 75.1 years for women and 67.7 years for men – were 2.1 and 2.5 years higher, respectively, than the values for 1996. Despite this positive evolution, there is a sizeable gap between average life expectancy in Romania and in developed European countries, of about 7-8 years (UN, 2001).

Infant mortality rates are significantly higher in rural areas (24% compared with 18% in urban areas) and a higher incidence of disease can be explained by the enormous differences in qualified personnel and medical infrastructure: the number of inhabitants per doctor is almost four times higher than in urban areas.

### 3.3 Population structure

The population structure by age has also changed since 1990. According to Eurostat data, the proportion of the total population of working age (15-64 years) has slightly increased; the proportion of children (aged 0-14) has significantly declined, whereas the share of the elderly (aged 65 years and older) has grown continuously. Consequently, while the youth dependency ratio has diminished, the 'grey dependency' ratio has increased considerably. The degree of population ageing, however, has been relatively less in Romania as compared, for example, with Bulgaria.

The ageing of the population is more accentuated in rural areas, where the proportion of persons aged over 65 is almost double that of urban areas. In addition, around 40% of the active rural population is over 50 years of age.

The changes that may occur in the age structure in the next decades depend on the current age structure and future trends in birth and mortality rates. The current age structure is affected by variations in birth rates over the last 50 years. If the current birth rate fails to improve, when the cohorts born in the forced baby boom years (1967–89) reach the age of economic inactivity, Romania will face population ageing at the top of the pyramid.

The 2002 census recorded 7,320,202 households, with an average size of 2.92 persons (3.07 in 1992). Ethnologic studies show that the Romanian household model tends to be traditionally formed by a single nucleus family. One-person households (mostly single women) account for only 18.9% of the total and comprise two distinct groups: retired widows over 65, mostly located in rural areas, and persons under 25 who have not married or are divorced.

### 3.4 Migration

**Internal migration** registered a sharp increase in 1990, mainly because of the elimination of communist-style administrative restrictions; 1990 was also the last year of the rural exodus to urban areas, when more than 616,000 persons left to settle in urban areas. Afterwards, the internal migration flows were reduced to fewer than 350,000 persons per year. The urban-to-rural flow has increased as a proportion of total migration, from 3.5% in 1990 to a maximum of 33.8% in 2000 (31.8% in 2004) and since 1997 it has become the dominant migration flow.

**External migration** represents the third demographic trend contributing to population decline. This phenomenon developed strongly after 1990. In the first two years of the transition, emigration was mainly legal, in particular consisting of the large German minority leaving Romania for Germany. Emigration then grew in size, diversified and shifted from being formal to informal. Subsequently, external migration was mainly “suitcase trade” to neighbouring countries (Lăzăroiu, 2003). Since the second half of the 1990s, “temporary migration for work” to developed countries has become the main form of outward migration. Consequently, external employment in 1999 was double that of 1992 (Hiriş, 2003). Since 1 January 2002, Romanians have been able to travel within the Schengen space without visas, which has also boosted emigration. An institutional framework has been established and thus in recent years the phenomenon has become increasingly formal again. Yet, official statistics are very poor as they capture only a small part of the reality. Data on informal emigration is scarce and highly controversial. Gheţău (2003), by comparing the 1992 and 2002 censuses, showed that about 600,000 persons were ‘missing’ from the population, mainly from urban areas, who were working abroad at that time. Another study (IOM, 2003) has estimated that 1.7 million persons were working abroad in August 2003 (8% of the total population and 14% of the 20-60 age group). The most recent estimations go up to 2 million persons (Voinea, 2006). Future trends in emigration are unpredictable for the moment, as they depend not only on economic and social developments in Romania, but also on the immigration policies of developed countries.

The level of informal emigration is mirrored by a considerable rise in remittances, which reached €1,823 million in 2003 – more than the amount of FDI (Dăianu, 2003); remittances had increased from €17 million in 1991 to €2,371 million in 2004.<sup>12</sup> By 2005, they were estimated at €4.3 million. Some 40% of remittances are delivered through social networks and 60% through institutional channels. Remittances are mainly used for purchases of durable goods and dwellings, but also for survival (Şerban & Grigoraş, 2000; Sandu, 2000b; Lăzăroiu, 2003); only about 35% are used for investment (Voinea, 2006) and almost nothing for public goods (the church is the only institution that receives donations from remittances). Emigration is expected to reduce poverty, but at the cost of increasing inequality, particularly in rural areas (Sandu, 2005a).

## 4. Living conditions: Key developments and dynamics

This section is based on the methodology of poverty measurement currently used by the government for designing, monitoring and evaluating social policies and social inclusion programmes, jointly developed in 2002 by the Commission for Anti-Poverty and Promotion of Social Inclusion (CASPI), the World Bank and the National Institute of Statistics (NIS) (Teşliuc, Pop & Panduru, 2003). All poverty and inequality measures have been recalculated accordingly for 1995 onwards, based on two NIS surveys – the Integrated Household Survey

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<sup>12</sup> Data derived from the NBR in *Ziarul Financiar*, 03.09.2005 and Constantinescu (2006).

(IHS) (1995–2000) and the Family Budget Survey<sup>13</sup> (since 2001). According to this methodology, poverty is evaluated along two national poverty lines (extreme and total), which, in turn, are evaluated against household equivalent<sup>14</sup> consumption.

The two absolute poverty lines are established by adding up a food component (common to both lines) with a non-food and services component (different for each line). The food component is the cost of a household basket from the second and third decile, priced at the unit value for this group, with quantities scaled up proportionally to give a daily caloric intake of 2,550 calories per adult. The extreme poverty line is calculated by summing up the food component with the amount of non-food and services consumed by those whose total consumption equals the food requirement. The total poverty line is the sum of the food component and the amount spent on non-food and services by those households whose food consumption equals the food component.

Total household consumption includes food consumption (including own food production), purchases of non-food and services and the use value of a small number of selected durables. Because of data constraints (in terms of both quality and availability), the aggregate consumption ignores housing, consumption from household production of non-food or services and publicly provided education, healthcare and other in-kind public services. Current household consumption is deflated with a robust price index to account for inflation, for differences in the cost of living across areas of residence and for seasonality (Teşliuc, Pop & Panduru, 2003).

#### 4.1 Income distribution

The Gini income inequality coefficient<sup>15</sup> rose from 21% in 1989 to 30.7% in 2004, which is in the range of other transition countries from south-eastern Europe, but higher than the EU average (Table 7). In contrast to the absolute poverty level, inequality declined during the recession (1996–99) and increased somewhat during the recovery (after 2000). Between 1990 and 1997, monetary incomes have been substituted by non-monetary ones (homegrown products), which gained an increasing share of the total household budget (from 13.5% in 1989 to 32% in 1997). With economic recovery, the trends were reversed: the share of wages in total income grew, while the share of non-monetary income diminished (Table 8). Yet, non-monetary income accounted in 2003 for 23% of the total household budget and has always been particularly high in the case of small farmers (53.8%) and rural households (45.4%). Inequality is higher in the absence of non-monetary income, yet it demonstrates a declining trend: the Gini coefficient decreased from 37.8% in 2000 to 36.3% in 2004 (Table 9).

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<sup>13</sup> The Family Budget Survey is conducted monthly for a sample of approximately 3,000 households. It preserves the Integrated Household Survey modules on expenditures and incomes, with adjustments to Eurostat definitions and classifications.

<sup>14</sup> The formula used to determine the number of adult equivalent is  $AE = (A+0.5C)*0.9$ , where A represents the number of adults and C the number of children (aged 0-14).

<sup>15</sup> This figure is calculated from household disposable income (including personal consumption) divided by the equivalent household size according to the modified OECD scale, which gives a weight of 1 for the first adult, 0.5 for other persons aged 14 or over who are living in the household and 0.3 for each child aged under 14.

Table 7. The Gini coefficient by residential area (%)

		2000	2001	2002	2003	2004
With personal consumption	Urban	28.1	28	28.1	27.5	28.7
	Rural	29.1	28.7	29.6	28.8	30.4
Without personal consumption	Urban	31.3	31	30.9	30.2	31.2
	Rural	40.2	38.8	38.9	37.2	37.5

Source: NIS (2005b).

Table 8. Structure of the gross total income of households (%)

	1989	1997	2003				
			All	Employees	Small farmers	Unemployed	Pensioners
Monetary income	86.2	67.3	74.9	86.4	45.3	73.0	67.2
– Wages	62.8	37.9	44.8	78.1	6.9	31.5	17.1
– Social transfers	11.7	17.8	19.2	4.7	8.8	23.5	41.5
– Other monetary income	11.7	11.6	8.8	4.0	27.2	9.3	6.3
Value of home-grown goods	13.5	31.7	23.4	11.2	53.8	24.6	31.7

Sources: For 1989 and 1997, UNDP (1999); NIS (2005a).

Table 9. Poverty and inequality trends

	1991	1993	1995	1997	2000	2001	2002	2003	2004
Population with less than \$1 a day (%)	–	–	–	–	2.0	1.3	1.5	0.9	–
Population with less than \$2 a day (%)	–	–	–	–	20.2	16.2	15.5	12.3	–
Food-line poverty (%)	–	–	5.1	5.8	7.3	5.8	5.6	4.1	2.7
Extreme poverty rates (%)	–	–	9.4	11.2	13.8	11.4	10.9	8.6	5.9
Total poverty rates (%)	–	–	25.4	30.3	35.9	30.6	28.9	25.1	18.8
Relative poverty rates (%)	–	–	–	–	17.1	17.0	18.1	17.3	17.9
Gini income coefficient, excluding personal consumption	0.20	0.23	0.29	0.35	0.38	0.38	0.37	0.37	0.36

Notes: The NIS absolute poverty measure is determined on a per adult equivalent consumption according to the World Bank/CASPIS/NIS methodology. The NIS relative poverty rate is that under 60% of the median household disposable income (including personal consumption) per adult equivalent. The NIS Gini coefficient of income inequality is based on household disposable income (without personal consumption) per adult equivalent.

Sources: World Bank (2005b), \$ PPP in 2000, and NIS.

Various studies have demonstrated (Stănculescu & Ilie, 2001) that informal incomes have helped a consistent share of households to escape poverty, especially during the recession. Combining subsistence agriculture with informal cash activities has represented the most effective survival strategy.<sup>16</sup> Informal cash earnings have deepened the inequality, however; in the informal sector, the rich are becoming richer, while the poor are only managing to obtain the bare necessities. In 2004, the income of the richest 20% was almost 4.8-fold higher than the income of the poorest 20%, matching the EU-25 and EU-15 averages.<sup>17</sup> When personal consumption is not taken into account, the quintile share ratio in Romania is one of the worst in Europe, although it fell from 8.5 in 2000 to 7.1 in 2004.

As a result of all these inequalities, several gaps have emerged or widened: between a very small group of wealthy persons<sup>18</sup> and the large mass of those with incomes either insufficient or close to the poverty line; between the developed capital and western regions, on the one hand, and the north-eastern and southern regions, on the other hand; between rural and urban areas, as well as between large cities and medium-size or small towns (particularly former mono-industrial ones); and between large, central and developed villages close to cities and small, peripheral, remote, aged and poor villages. The structural reforms, the non-compensatory social protection policy and the distorted distribution of administrative and budgetary resources are the main causes of these inequalities (Zamfir, 2005; Pascariu et al., 2003).

The deterioration of living standards during the 1980s accentuated the impoverishment process – an estimated 7% of the population was in absolute (extreme) poverty in 1989 (Zamfir, 1995). The transition, economic decline, an underdeveloped market and the social policy deficit<sup>19</sup> have combined to impoverish large groups of employees, pensioners and even small entrepreneurs.

Several studies (Teşliuc & Pop, 1999; Teşliuc, Pop & Teşliuc, 2001; Teşliuc, Pop & Panduru, 2003; CASE, 2004), based on different methods, conclude that

- 1) *Poverty in Romania has high elasticity to GDP variations.* Absolute poverty increased dramatically after 1989, in particular during the economic recession, reaching its peak in 2000, then decreased as the economy recovered and in 2004 it was almost half its earlier value. Despite this significant decline, Romania has a \$2 a day poverty headcount higher than 10%, which is in the range of the former Soviet countries. At the same time, the total poverty rate of about 19% (in 2004) is very high by European standards. The risk of relative poverty is also high; in 2004, around 18% of the population earned only 60% of the median income. Growth incidence curves also show that while the poor were hit by losses relatively less than other groups during the recession, they also benefited less from the subsequent economic recovery (CASE, 2004).
- 2) *Poverty in Romania is rather 'shallow'.* After 2000, the absolute poverty gap shows that that the average consumption of the poor had fallen in 2004 by 23.7% of the total poverty line and by 19.3% of the extreme poverty line. At the same time, the relative poverty gap

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<sup>16</sup> Within the group of households combining subsistence agriculture with informal cash activities, the total informal income (cash and in-kind) reduced the share of severely poor households six-fold in 1998.

<sup>17</sup> The ratios range from 3.3 in Slovenia to 7.2 in Portugal.

<sup>18</sup> After Russia, Romania has the largest number of millionaires in the region.

<sup>19</sup> In the first years after 1989, Romania made modest efforts in social policy to compensate for the social costs of transition (Zamfir, 1997; Milanovic, 1998). As a result, poverty 'exploded' from 4% in 1989 to 20% in 1993, evaluated against a poverty line determined using the 1993 consumption level of 20% of the poorest (World Bank, 1997).



indicates that the average income of the poor has been consistently relatively close to the poverty threshold<sup>20</sup> (22.8% with and 30.8% without personal consumption in 2004).

- 3) *Poverty in Romania is mostly temporary (transient)*. An analysis of poverty dynamics was performed based on the IHS 1995–97 rotating panel, a sub-sample of 3,000 households (the only panel available), using both relative and absolute methods for poverty measurement. These studies (Teşliuc & Pop, 1999; Teşliuc, Pop & Panduru, 2003) categorised the entire population into four groups (Table 10):
- “never poor” between 1995 and 1997;
  - “permanent poor” during the period;
  - “transient poor”, who exited poverty in one good year (1996), but re-entered during the recession year (1997); and
  - “atypical poor”, who either fell into poverty in good years or exited poverty during the recession.

Thus, poverty categories combine exit/entry from poverty with national economic performance (with a rise in GDP in 1996 and a decline in 1997). Regardless of the method used, about 60% of poverty is transient, with only one in five poor individuals in permanent poverty. The balance of about a fifth of the poor is atypical: either economic growth does not ‘save’ them from poverty or they succeed in exiting poverty even when GDP declines.

*Table 10. Entry and exit from poverty, 1995–97 (% of population)*

	<b>Non-poor</b>	<b>Permanent poor</b>	<b>Transient poor</b>	<b>Atypical poor</b>
a) NIS relative method	63.6	6.5	22.1	7.8
b) World Bank absolute method	56.1	9.6	25.6	8.6

Sources: a) Teşliuc & Pop (1999); b) Teşliuc, Pop & Panduru (2003).

The same studies revealed that extremely low levels of permanent poverty are noted for employee-headed households, who seem able to restore their consumption above the poverty level in one or two years after the income shock. In contrast, 22.7% of individuals belonging to households headed by self-employed persons and 28.4% of those headed by farmers consistently remain in poverty. The incidence of permanent poverty among households headed by unemployed persons and pensioners is 13.6% and 10.1%, respectively. Thus, poor households headed by employees, pensioners and even the unemployed are more able to exit from poverty than the others, notably those households headed by farmers or self-employed persons. The estimations based on the relative approach indicated a much higher risk of permanent poverty for the unemployed and a much lower risk for pensioners (comparable with employees’ risk). The results for these two social groups are therefore highly sensitive to the method used for poverty measurement.

During the entire period of transition, the poverty profile remained constant. Those groups with the highest risk of both relative and absolute poverty are those excluded from the benefits of economic growth. As Table 11 shows, in 2004 the absolute poverty headcount among households headed by the unemployed was 32% (about 13 percentage points higher than the national average). The situation was even worse among households headed by those self-employed in agriculture, with a poverty headcount of 36%, as well as those led by housekeepers (disconnected from the labour market), with 38%.

<sup>20</sup> Nonetheless, the at-risk-of-poverty threshold, which gives a sense of the living standards of the relatively poor, has been considerably lower than the EU-15 average at €483 per year, per equivalent adult in 2002 (NIS, 2005b).

Table 11. Poverty profile in Romania, 2004 (%)

Nationality of the household head		Number of children		Area of residence	
Romanian	17.5	No children	13.5	Urban	11.6
Hungarian	12.7	1 child	14.1	Rural	27.3
Roma	74.3	2 children	20.6	–	–
	–	3 children	38.8	–	–
	–	4 children or more	60.1	–	–
Status of the household head		Education level of the household head		Development region	
Employee	5.9	No school	46.6	North-east	25.9
Employer	0.6	Primary school	27.5	South-east	23.9
Self-employed (non-farm)	23.1	Gymnasium	21.6	South	19.8
Agricultural self-employed	36.1	Vocational	13.8	South-west	22.7
Unemployed	31.6	High school	7.2	West	11.5
Pensioner	14.9	Post-secondary	2.6	North-west	14.8
Student	4.0	Tertiary	1.1	Centre	17.0
House person	38.4	–	–	Bucharest	6.1

Source: The CASPIS absolute poverty is based on a per adult equivalent consumption against the total poverty line, according to the World Bank/CASPIS/NIS methodology.

Education also plays a decisive role in vulnerability to poverty. The highest poverty levels were noted in households led by uneducated or poorly educated individuals, while post-secondary and higher education of the household head were almost totally absent from the poverty figures. Consequently, in rural areas, where skills are lower on average and self-employment in agriculture dominates, the total poverty incidence was almost 2.35 times higher than in urban areas. The welfare gap between the two areas of residence in 2004 was so wide that the share of severely poor in rural areas was close to the share of poor in urban areas (and had actually been higher in 2001–03). Furthermore, on average, the rural population was less influenced by economic recession, but the urban population gained more from economic revival. The skilled self-employed and employees in industry and services benefited the most.

Both absolute and relative poverty is significantly higher in the north-east and south-east and significantly lower in the capital and western regions. This regional disparity is a legacy of the unbalanced industrial development of the inter-war period and of the communist policy of forced industrialisation and urbanisation, which artificially developed those areas that were lagging behind (Pascariu et al., 2003). These areas were the first to be affected by restructuring after 1989. On the other hand, the north-eastern and south-eastern regions (and to a lesser extent the south-west) are the least developed regions, largely characterised by single-factory towns, mono-industrial areas, poor town planning and underdeveloped infrastructure. Wages in these regions are significantly lower than in developed ones; between 1995 and 2000 (IHS data), in Bucharest-Ilfov, wages were up to 25% higher than in the north-east region (Păuna & Păuna, 2003).

While in 1995 those aged over 64 had a higher total poverty headcount than children (30.8%, compared with 29.1%), in 2004 their poverty level was much lower (16.7%, compared with 24.4%), as a result of improved protection granted to the elderly between 1997 and 2000. Children (aged 0-16) lost out more during the recession and benefited less from economic recovery (Zamfir, 2005). In 2004, about 1 million children lived in poverty, while 350,000 lived in severe poverty, which accounted for 24.4% and 8.2%, respectively, of the total number of children under 17 years old. The situation was even worse for the 15-24 age group, which had a

total poverty headcount of 26%. The relative poverty figures provide the same evidence: children and young persons are at a disproportionately higher risk of poverty.

Relative estimates of poverty indicate that women and households headed by women face a lower risk of poverty than do their male counterparts. To a large extent, these findings are driven by the assumptions embodied in the particular methodology used to measure poverty: the NIS caloric scale of equivalence attributed a smaller coefficient to women (particularly older women). Consequently, the most recent estimates based on the World Bank/CASPIS/NIS methodology indicate that throughout the period 1995–2004 there were no differences in the incidence of absolute poverty by gender, at the individual level. Households headed by women, however, face a higher risk of poverty compared with men, owing to a higher share of single-parent households and old widows living on low pensions in this category.

Ethnicity is a strong correlate of transitional poverty in Romania. Both the incidence and the degree of poverty of the Roma population are significantly higher than among other ethnic groups. Over the entire period, the total poverty headcount of Roma was above 70% and their consumption expenditures represented only about 60% of the poverty line.

Based on the 1998 Roma national survey by the Research Institute for Quality of Life, Preda (2002) analysed the specific characteristics of the Roma's social exclusion. In the theoretical framework developed by Room et al. (1996), the author distinguishes the “cause-forms” of social exclusion (that determine other forms of exclusion) from “effect-forms” (which result from other forms of exclusion). Accordingly, he identifies as specific to the Roma population from Romania four causes of exclusion: lack of identity documents, lack of education, lack of official marriage (39% of Roma marriages are consensual unions) and lack of a job. As a result, there are serious effect-forms of social exclusion, such as exclusion from housing, children's exclusion from education (owing to a lack of birth certificates, but also to cultural traits), exclusion from the welfare system and location in poor communities that have little to offer as support in critical situations.

Based on a country-level survey (National Agency for Roma, 2005), Sandu (2005b) elaborated a typology of Roma communities relevant for poverty targeting. Roma communities (20 households or more with a contiguous location) are defined as “poor” if problems are identified under at least two of the following three headings:<sup>21</sup> accessibility, infrastructure and income. Out of the 848 Roma communities studied (with about 250,000 inhabitants), 59% proved to be poor (62% of those located in rural and 40% in urban areas), in which about 50% of the Roma population live. The large majority (75%) of poor Roma communities are located on the outskirts of developed communes or small towns (fewer than 30,000 inhabitants). Compared with the average of the total Roma population, Roma from poor communities (especially ethnically homogeneous ones) tend to have lower education and much higher fertility levels (Berevoescu, 2004; Sandu, 2005b).

Another research study (Stănculescu & Berevoescu, 2004) focused on the emerging “ghetto-poor” and showed the development of “poor zones” that have accumulated

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<sup>21</sup> Accessibility problems are measured by three indicators: 1) the Roma community is located on the outskirts of the locality; 2) the road connecting the Roma community with other neighbourhoods is not modernised; and 3) the Roma community is situated in the vicinity of a garbage pit area. Infrastructure problems are measured by two indicators: 1) more than 50% of households in the community lack a source of potable water; and 2) more than 50% of households in the community are not connected to electricity. The income indicator refers to the fact that the main source of income at the community level is the minimum guaranteed income or casual incomes.

- 1) more than half of residents in households that are below the national poverty line<sup>22</sup> (in fact, more than 40% of residents live below the national food line);
- 2) “miserable” housing conditions;
- 3) high unemployment and underemployment (about half of all residents, mainly men, work in insecure, low-paid, manual jobs in the informal sector);
- 4) welfare dependency (mainly a high incidence of child benefits and low level, non-work-related pensions);
- 5) a large share of single-parent families;
- 6) over-representation of the Roma ethnic minority (about 30% of residents);
- 7) high levels of delinquency; and
- 8) negative prestige.

Four main types of poor zones have developed in Romanian cities:

- *the garbage pit* (communities made up of improvised shelters next to a city’s garbage disposal area, with most residents deriving a living from refunded scrap metal);
- *the historical centre* (neighbourhoods of state-owned houses, nationalised in the communist period and transformed after 1990 into social housing);
- *the ghetto* (former workers’ hostels that belonged to communist enterprises); and
- *disaffected industrial neighbourhoods* (blocks of flats built on city peripheries that were previously inhabited by workers in communist enterprises that were closed down).

These poor zones are specific to urban areas; their inhabitants are 60% children (aged 0-14) and young persons (aged 15-29). According to the authors’ estimations, about 3% of the urban population live in “poor-zones”. The most significant factors in determining this type of urban “ghetto poverty” proved to be the level of education of adult household members and household position on the labour market. Ghetto poverty in rural areas is very low. Nonetheless, two types of poor zones have emerged in large and developed villages: Roma communities, generally located along the village periphery, and ‘internal migrant’ communities, found only in villages close to large or average size towns.

## 4.2 Access to goods and services

Nearly half of the population is based in rural areas (47% according to the 2002 census). As a rule, the larger the share of the rural population, the more severe the poverty is in the region/county. After 1989, within the context of structural changes, the urban–rural gap widened, with rural areas being clearly at a disadvantage with respect to infrastructure and living conditions (Table 12).

In recent years, credit access has improved and the population’s income has increased, which has resulted in households having greater disposable income. Despite this, however, rural households tend to have far fewer durable goods than do urban households: in 2005, only 40% had a washing machine, 17% a car and 5% a personal computer, compared with 81%, 31% and 22%, respectively, for urban households (NIS, 2006b). Nevertheless, the majority of the rural population has declared in polls that they are “satisfied” with their living conditions; only jobs and roads tend to be perceived as “community problems”.

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<sup>22</sup> The poverty line is derived from World Bank/CASPIS/NIS methodology based on per adult equivalent consumption.

Table 12. Percentage of households endowed with main facilities/installations by residential area

	1992		2005	
	Urban	Rural	Urban	Rural
Piped water in the dwelling	86.9	11.4	89.2	17.8
Hot water installation	–	–	81.7	15.4
Sewage disposal system	86.4	10.0	89.9	21.3
Electric installation	99.5	93.6	99.6	99.0
Central heating or steam-generating station	71.9	1.7	68.2	2.9
Gas provisioning	–	–	74.7	9.1
Indoor kitchen	96.2	81.8	95.5	71.8
Indoor bathroom	81.3	8.0	84.9	12.5
Telephone	–	–	70.3	25.0

Sources: NIS Census (1992 and 2002); NIS (2005c).

Rural areas are extremely heterogeneous. The main differentiation criteria of villages are geography, population size, distance to a city and administration type (central/peripheral). Some 92% of communes have one central village and one or more peripheral villages. Central villages tend to concentrate the administrative and institutional resources of the commune (the municipality, post office, health unit, church, school and police). Public infrastructure, little modernised across most rural areas, is significantly poorer in peripheral villages. The most affluent villages are those located close to a city (Sandu, 2000a; Stanculescu, 2004). Rural areas are affected mostly by lack of access to services and infrastructure, while urban areas are affected mostly by perceived insecurity (Teşliuc, Pop & Panduru, 2003). The 2005 data show that in urban neighbourhoods the access to services is better than in rural areas.

The limited access to basic social services is particularly worrisome in the case of healthcare provision. There are some isolated villages having no access to any form of medical services, while very basic medical points in other localities do not have permanent medical personnel. This situation is very common in poor areas, where these services are even more needed than in the rest of the country. More broadly, it can be stated that access to medical services is restricted for the following categories of population:

- *those without medical insurance* (as, for example, a large share of the self-employed in agriculture or a significant part of the Roma community). The National House for Health Insurance estimates that around 6% of the Romanian population is not insured;
- *a large fraction of the poor*. Although insured, poor persons cannot afford the collateral payments related to the free medical services (prescribed drugs, out-of-pocket money, services that are not covered by the health insurance system); and
- *those persons living in isolated rural areas*. A survey carried in 2003 showed that 40% of the rural population faces serious impediments in accessing medical services because of prohibitive distances to the nearest health institution.

### 4.3 Work/life balance

The standard working week in Romania is 40 hours (39.4 hours effectively worked weekly in 2004, on average). There are substantial differences in working hours by gender, labour status and sector of the economy. On average, men work longer than women do, employers longer than employees and persons employed in services longer hours than those in agriculture.

Women who are unpaid family workers in agriculture recorded the shortest weekly working time (32.5 hours), while men employed in services registered the longest working time – 49.3 hours per week (NIS, 2005a). A more disaggregated analysis (Stănculescu & Berevoescu, 2003) shows that work time tends to depend on age and education. The following categories work the standard 40 hours per week: women in the 30-39 age group with high school or university qualifications, clerks or skilled workers and machine operators located in urban areas. Two groups work shorter hours (fewer than 30 hours per week), comprising mostly women:

- those over 60 years old, with primary education, living in rural areas, accounting for 27% of all those with short hours in 2001; and
- professionals and technicians, representing 38% of the total with short hours in 2001.

Men in the 18-20 age group or in their 50s tend to work 50 hours or more if they are

- poorly educated or with vocational training, perform agricultural or elementary occupations, mainly in rural areas (40% of those working long hours in 2001); or
- managers, employers and officials.

According to the same study, in 2001 working hours never varied for 45.3% of all employed persons; this is correlated with regular schedules, shift work and standard working hours. This trend is specific to women from urban areas, the medium and highly educated, and those doing formal work. In contrast, working hours vary on a daily basis for 14% of employed persons, mainly men who are either employers or daily workers in agriculture. For unskilled workers, particularly those in the informal sector, working hours vary randomly (“when we can find it” being a common response), which accounted for 7.2% of employment in 2001. Working hours for rural self-employed workers vary according to the season.

Women tend to be more concerned about reconciling work and family life, as they tend to be in charge of a multitude of domestic tasks and responsibilities for the family. Balancing childcare and work tends to be dealt with by rich and poor alike in a similar manner, particularly if individuals live in nuclear families. Childcare responsibilities mainly belong to mothers, who either have left the labour force or are working shorter hours. Fathers tend to be the breadwinners and consequently work longer hours, either formally or informally. Family and work arrangements are perceived as a source of tension and pressure, mainly in urban areas. Rural employment, particularly farming (for both women and men, and especially for the elderly), is the most successful way of integrating family and work (Table 13).

*Table 13. Employed persons having difficulties reconciling work and family life in the last three months (%)*

	Difficulty in doing household tasks					Difficulty in fulfilling family responsibilities				
	All	Urban	Rural	Women	Men	All	Urban	Rural	Women	Men
Never	49.0	40.1	59.4	50.8	47.1	56.3	46.6	67.7	56.3	56.3
Rarely	17.3	18.3	16.0	16.3	18.2	16.8	19.1	14.1	16.8	16.8
Sometimes	21.9	27.4	15.6	22.0	21.8	17.7	23.5	10.9	18.9	16.6
Often/always	11.9	14.3	9.0	10.8	12.9	9.2	10.8	7.3	8.1	10.3
Total (%)	100	100	100	100	100	100	100	100	100	100
N	962	519	443	472	490	958	519	439	471	487

Source: Stănculescu & Berevoescu (2003).

Despite the fact that most domestic tasks are performed by women, no significant gender differences exist in employment between men and women, with respect to the relationship between the household and work. Work *rarely* tends to hinder the accomplishment of various household tasks or the fulfilment of responsibilities towards others, for either men or women, employees on permanent contracts and those working normal hours with a regular schedule but additionally performing secondary income-generating activities. Work *sometimes* hampers the completion of household tasks in the case of nuclear families with children under age 15. Employed mothers from these households tend to work shorter hours, which leaves them enough time to complete household tasks. Fathers tend to work longer hours than do men with no family responsibilities. High school graduates, formal employees and informal skilled workers tend to consider work a permanent source of pressure (often/always). Most of them work on average 49 hours per week (in shifts) and often commute, which shortens the time available to their families.

#### 4.4 Housing and local environment

Almost 96% of Romanian households own their dwellings. While urban areas are dominated by collective housing (73% of urban households live in blocks of flats), with generally good access to major utilities (water, sewage, gas supply and central heating), rural areas tend to have preserved family housing (97% of rural households live in family houses), but with scarce access to utilities (NIS, 2006b). In both areas, a significant proportion of dwellings are small or very small (56% of urban and 37% of rural households have one to two rooms), a legacy of communist housing policy. Urban dwellings are significantly better endowed with utilities compared with houses in rural areas, but low-income households tend not to have access to public utilities; a quarter of urban block dwellers are cut off from the central heating system and have neither heating nor hot water. This is related to the failure of lower-income households to cover flat maintenance costs. Social housing is almost nonexistent and only a few shelters have arisen in large cities. Thus, most individuals losing their jobs and dwellings end up either in poor zones (described above) or on the street. In conclusion, the dwelling shortage and a lack of a coherent housing policy increase social inequality and create serious barriers for the territorial mobility of the labour force.

The post-1989 changes in the housing sector refer to the mass privatisation of dwellings to tenants (1990–91), the restitution of nationalised buildings (delayed and not yet concluded), the development of real estate and rental markets and the new legislative and institutional framework after 1995. The ageing and degradation of large residential areas and the increase of maintenance costs have pushed many to leave the collective living arrangements in cities in favour of individual housing (Pascariu & Stănculescu, 2003).

Since the beginning of the 1990s, housing subsidies have been cut continuously. During the first decade of the transition, housing construction was slow. New dwellings financed from private funds accounted for 79% of the total in 2005. Two-thirds of new dwellings were concentrated in rural areas, most of them built in a traditional manner by small farmers with no formally acquired knowledge and without modern construction materials.

Between the last two censuses (1992 and 2002), the housing stock grew from 7.66 to 8.11 million dwellings and from 18.85 to 20.0 million living rooms respectively. Combined with the population decline, this reduced the housing deficit. In 2005, the average number of persons per room was 1.07 (1.12 in urban and 1.01 in rural areas). The living floor space per person increased from 11.6 m<sup>2</sup> in 1992 to 14.2 m<sup>2</sup> in 2005. A considerable proportion of the population (12–13% since 2001) still lives in overcrowded households. In addition, about 36% of households, from both urban and rural areas, said in 2005 that they were living in inappropriate conditions owing to various problems, such as insufficient lighting, inadequate heating or

roofing, leaks and dampness. A large share of young couples cohabit with parents/relatives, partly because of the lack of housing opportunities and partly because of unemployment and insufficient income. In 2005, 46% of urban households and 32% of rural ones indicated that they were suffering from a crisis of space (NIS, 2006b). The situation is worsened by limited credit access for young persons and by the uncontrolled rental system, which, along with the slow pace of urban construction, has favoured the development of an informal housing market.

Although the situation has improved since 2001, 36% of the population complained in 2005 about environmental problems: 42% of urban and 29% of rural households complained about negative environmental factors affecting their neighbourhoods. Traffic noise is the main negative factor cited in urban neighbourhoods, alongside complaints about air pollution (Table 14).

*Table 14. Share of households affected by negative environmental factors (%)*

	2001			2005		
	Romania	Urban	Rural	Romania	Urban	Rural
Humidity	5.8	7.2	3.9	7.1	6.4	7.9
Cold	7.3	9.7	4.2	6.9	6.5	7.5
Noise owing to traffic	19.2	25.2	11.6	17.3	21.1	12.4
Noise owing to commercial activities	3.2	4.6	1.5	3.0	4.7	0.8
Industrial noise	2.2	3.3	0.9	1.3	1.5	1.1
Noise caused by crowds	13.7	19.0	6.8	9.3	12.8	4.7
Air pollution, nasty smells	16.6	23.2	8.3	10.6	14.1	6.0
Lack of privacy	3.4	2.4	4.7	3.0	1.8	4.6
<i>At least one of the above problems</i>	<i>44.6</i>	<i>58.0</i>	<i>27.5</i>	<i>36.3</i>	<i>41.9</i>	<i>29</i>

Source: NIS, Living Standard Survey (2002 and 2006).

## 5. Tax benefit systems and policy approaches

### 5.1 Institutional system of social protection

Romania's social protection system covers all social expenses except education: pensions (for the elderly, disabled persons and survivors), healthcare services, unemployment insurance, and family and child allowances. The overall system is supposed to be based on a balance between competition, partnership and solidarity (Vilnoiu & Abagiu, 2005), which implies that social protection measures, together with social assistance, must be combined with alternative actions aimed at favouring job creation, as well as with social solidarity initiatives.

The Ministry of Labour, Social Solidarity and Family is the main governmental institution in charge of elaborating and implementing policies in the field of labour, social protection and social solidarity. The institution also regulates and manages the social assistance sector and coordinates, through its territorial structures, the payment of social and family benefits. The National Pension House and other Social Insurance Rights, an autonomous 'national interest' public institution, manages the pension system.<sup>23</sup> The National Agency for Employment, another national public interest institution, manages the unemployment insurance system; it has

<sup>23</sup> An autonomous public institution of national interest has its own governing body, independent from government influence, and its own budget derived from contributory revenues.



organisational tasks in the administration of the unemployment fund and coordination and supervision of policies related to combating unemployment. The Labour Inspection institution (also autonomous) supervises the implementation of regulations in the area of labour relations and work health and safety. Other specialised institutions coordinate, together with the MLSSF, specific areas of the social protection sector (labour migration, child and family protection and coverage for disabled persons).

The Ministry of Health designs and coordinates national public health programmes and corresponding strategies in the field. The National House for Health Insurance, acting, since its creation in 1999, as an autonomous public institution of national interest, coordinates the functioning of the health insurance system, health policies and the financing of medical services; it also administers health insurance agencies at the county level and the health insurance fund.

The institutional structure of the social protection system is fragmented, with a consequent lack of clarity in the delineation of responsibilities, especially between the central and local levels. The connection between the central state budget and local budgets has not been precisely established and it is not always clear which services are paid from the central budget and which are paid from local ones. The state transfers funds to local authorities without specifying the services for which they are meant. Local governments establish their spending priorities, in which health and social assistance items are not always included. This has led to inter- and intraregional discrepancies in providing social services; hence, the minimum guaranteed income (MGI) was introduced in 1995, although its financial resources were far from meeting the actual need. The system was revised in 2001, becoming operational again in 2002.

Healthcare is insufficiently integrated into the system and thus health policies are weakly coordinated with other components of the social protection sector. An excessively high number of agencies under the MLSSF umbrella makes the financing of many programmes unclear, while an overlap of responsibilities is frequent. The Ministry of Health jointly administers the national health programmes with the National House for Health Insurance, with funds from the state budget and health insurance fund; this is another area of overlapping responsibilities.

The system of **unemployment benefits** was introduced in 1991, when the amount of corresponding benefits were set at 43% of the net average wage – above the minimum wage in the economy. The benefits gradually declined until 2000, when they reached 31% of the net average wage. Since 2002, unemployment benefits have been set for a total duration of 270 days (9 months); the beneficiary receives in the first 6 months 75% of the minimum gross wage and 50% for the remaining period. After the period for which they are entitled to unemployment benefits, those who are still without a job can receive support allowances for a period of 18 months maximum, up to 60% of the previously paid benefits. In the case of mass unemployment caused by restructuring, those laid off are entitled to severance payments. Their amount differs across sectors, activities and jobs; payment is made by monthly instalments within a pre-determined period (up to two years). At the end of the period, the recipient is entitled to unemployment benefits for a period of 9 months. The share of recipients of unemployment benefits of the total unemployed declined from 74% in 2000 to 40% in 2005, when 80% were entitled to 75% of the minimum wage, 19% to 50% of the minimum wage and 1% to severance payments.

In the **pensions sector**, Romania started the transition with a pay-as-you-go system inherited from communism, which was made up of a multitude of subsystems categorised by sector, profession and activity (ILO, 2004). The overall system was based on two pillars: social insurance and complementary funds. The contributions to these funds were entirely disbursed by employers.

Unemployment or social assistance components did not exist in the communist period – only pensions, illness, maternity and child allowances were included in communist social protection policy. The first reform measure undertaken in the social protection system took place in 1991, with the creation of the unemployment fund. Both employers and employees became mandatory contributors to the fund, while the self-employed were given the voluntary option to participate: 5% of gross wages in the case of employers, 1% of the same basis for employees and 5% of declared income for the self-employed. In addition to the provision of unemployment benefits for those who lost their jobs, the unemployment fund granted severance payments in the case of mass redundancies as a result of restructuring, privatisation and the closing down of state-owned companies.

In 1992, the self-employed were given the voluntary option to make retirement contributions to the complementary pension fund (CPF). In the same year, the state social insurance fund, previously included in the state budget, became the independent Social Insurance Budget (SIB). Prior to 1992, farmers had been covered under a mandatory special scheme; in that year, they were given the status of self-employed and their contributions therefore became voluntary. The farmers' fund covered sickness, maternity, invalidity, old age and survivors' benefits. The very weak participation on a voluntary basis of the self-employed in general, and farmers in particular, obliged the government to adopt a special tax on activities related to food production and processing. Despite this measure, the farmers' fund had started to record a deficit by 1995; in 1997, fund revenues were 52% funded by state subsidies, and the rest from the previously introduced food tax (46%) and contributions (2%). In 1998, the formerly separate fund for artists, clergy and handicraft cooperatives was integrated into the state social insurance system, while the CPF and farmers' fund were transferred to the state social insurance fund.

A weak mechanism for collecting contributions led to arrears and deficits. Consequently, in 1996, a legislative initiative hardened the payment conditions of contributions: the law allowed the freezing of accounts and sale of assets of companies recording arrears. In 1997, a new legal provision obliged all employers to submit monthly reports – to territorial branches of the Ministry of Labour – on aggregated contributions stemming from various budgets. During the first years of its implementation, this measure was rather inefficient, with evasion still very frequent. It was not before 2001 that the recording system became fully operational for the social insurance fund and 2002 for the unemployment and health insurance funds.

The communist **healthcare system** was based on free-of-charge medical services, excluding prescribed drugs, and was characterised by a high degree of territorial coverage. An insurance-based system was introduced in 1998, funded by a combination of employer and employee contributions to the health insurance fund and direct allocations from the state budget. The new system has generated serious problems of access to medical services for certain segments of the population. The institution of the family doctor does not satisfy the demand for services at the local level, while the patient list system has diminished the community component in health services. The coverage is very limited in rural areas and small towns because of the insufficient number of doctors.

Complementary to the social protection schemes, the **social assistance** system provides several types of allocations (for children, single-parent families and disabled persons), indemnities and in-kind transfers. The social assistance that was developed after 1990 to cope with crises was highly fragmented and ineffective and was reformed in 1995 by transferring financial responsibilities to local governments. This fiscal decentralisation generated further inequalities in the system (CASE, 2004), while the insufficiency of resources at the local level made the payment of social benefits highly sporadic. Insufficient and ineffective cooperation between central and local authorities, coupled with the lack of a computerised system, led to the failure of the social assistance system in 2000, when expenditures on social aid represented only 6% of

those corresponding to the first months after the introduction of the reform. As a result, in 2002 the MGI scheme replaced the former system. The MGI is partially funded by local budgets (income support, burial support and emergency relief) and partially by the central budget (child and school allowances, aid for wives of conscripts). The MGI system represents a net improvement in social assistance in terms of targeting efficiency: in 2003, 62% of the MGI funds were redistributed to the lowest-income quintile and 21% to the second quintile. Among all cash transfers, child allowances have the largest impact on poverty alleviation.

The private component of the social protection system is very limited. The introduction of fully capitalised pension funds is a very recent initiative. Family support for the elderly is relatively important, together with the very modest involvement of non-governmental organisations (NGOs). In the health system, private practice has developed in all medical areas, although access is limited to high-income groups of the population. Extensive use of informal payments for health services is a common practice inherited from communism. Prior to the 1997 reform, the NIS estimations showed that informal payments represented 29% of total health expenditures in 1996. According to a study undertaken by the Harvard School of Public Health, informal payments for buying health services represented 2.5% of 1999 household income. The World Bank estimates that informal payments accounted for 20% of 2002 health expenditures, although this figure includes healthcare purchased from private providers. In the area of social assistance, the private provision of services is mainly ensured by NGOs, although to a limited extent and focused on child protection.

## 5.2 Recent and planned institutional reforms in social protection

In 1998, the government adopted two major reforms with respect to social protection: a) the former separate fund for artists, clergy and handicraft cooperatives was integrated into the state social insurance system; and b) the CPF and the farmers' fund were transferred to the state social insurance fund, as separate chapters in the SIB. In 1999, the contribution rate to the CPF, which covered invalidity, survivors and a supplement for old-age pensions, was raised from 3% to 5% of the gross wage.

A new Law on Social Security was passed in 2000 (19/2000), effectively implemented from April 2001, which unified the state social insurance fund, the CPF and the farmers' fund. The National House for Pensions and other Social Insurance Rights was established, in charge of administering the newly adopted pension system. The organisation has territorial branches that collect contributions through the local treasury.

The law also introduced the contributory participation of workers, besides employers' contributions, and increased the retirement age from 55 to 60 for women and from 60 to 65 for men. The increase will take place gradually until 2014. Law 19/2000 stipulates the mandatory coverage of unemployed persons, individuals working on civil contracts, the self-employed and farmers. Civil servants are covered as a separate group; in 2003, because of increasing pressure from farmers, the government eliminated the mandatory contributions rule for this category, which became voluntary. Law 19/2000 also changed the calculation method of the pension to which a beneficiary is entitled, by introducing a points system. The previous mechanism had been based on wages earned during the best 5 consecutive years within the last 10 years before retirement. Subsequently, enormous discrepancies appeared between high and low pensions: at the time the new calculation method was introduced, the highest pension in Romania was 42 times higher than the average one, while the lowest pension represented only 0.015% of the average. A process of pension re-correlation was adopted in 2001, for a three-year period, aimed at reducing these differences. The re-correlation was less successful than expected and large variations persist. A new mechanism was initiated in 2004 to recalculate all the pensions granted before April 2001.

With the adoption of Law 19/2000, the amount to which a beneficiary is entitled is no longer correlated with the period of employment, but with the period of contribution. Yet, by imposing ceilings on the amount of contributions, higher wage earners are disadvantaged.

In 2004, Law 411 on the introduction of the second pillar was adopted (Law 19/2000 refers to the first pillar, the public mandatory one). The act regulates the privately administered system of pensions; it enters into force in 2006, while the collection of contributions will start on 1<sup>st</sup> January 2008. In the first year, 2% of the gross salary will be directed towards the private funds; every year an increase of 0.5 percentage points will be added, until reaching a final rate of 6% contributions to the second pillar. The contribution is compulsory for all new entrants in the system up to the age of 35, and voluntary for anyone aged between 35 and 45.

Law 294/2004 on occupational pensions, which came into force in 2005, introduced the third pillar in the system. Participation is voluntary and limited to those working in specific branches and activities and those whose earned income is higher than the ceilings imposed by the 2000 law. Contributions are made by both employers and employees and are tax deductible up to the ceiling fixed by the fiscal code.

The pension reform initiated in 2000, motivated by the unsustainability of the whole system, has been delayed, mainly by the opposition of labour unions. Although considered a positive step in raising the effectiveness of the pension system, the provisions of the new law do not resolve the systemic problems inherited from the previous schemes, more precisely

- the *inequities* accumulated up to 2001 in pension calculations. The three-year period of re-correlation reduced but did not eliminate the differences in pension levels. Full re-correlation will require a significant increase in pensions for a large number of retired persons, especially farmers, necessitating substantial financial efforts;
- the *low number of contributors*. While the total number of pensioners (survivors and disabled persons included) increased from 3.5 million to more than 6 million between 1999 and 2005, the number of contributors declined within the same period, from over 8 million to fewer than 4.5 million. The sustainability of the system is therefore seriously threatened. The number of pensioners increased because of the inclusion of 1.7 million retired farmers into the system, but also because of the countless number of anticipated retirements, which reduced the average pension age to 52-53 years when the reform was adopted in 2000. The number of disabled pensioners has also increased at an abnormally high rate, representing almost 14% of the total number of retired persons in 2005; it is believed that many of the new disabled pensioners obtained this status in a fraudulent way (Preda et al., 2004). By increasing the statutory retirement age and widening the contribution base to include the self-employed, the government only partially resolved the problem, given the projected slowdown in population growth and its steady ageing;
- the *low rate of pension coverage*. Less than half of the active population is currently insured; and
- *insufficient resources*. The collection rate<sup>24</sup> in the past was very low: 77% at the time the new law came into effect (April 2001). Although the situation has improved since the reform, high rates of contributions tend to induce employers to declare lower wages than those actually paid to their employees. The current deficit of the SIB is likely to increase in the future, since the government plans to reduce the contribution rates by 2 percentage points every year between 2006 and 2008.

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<sup>24</sup> The collection rate expresses the proportion of collected contributions out of the total contributions due. Because of the lack of fiscal discipline, some employers do not pay their social obligations or do not pay the contributions owed on time (resulting in arrears).

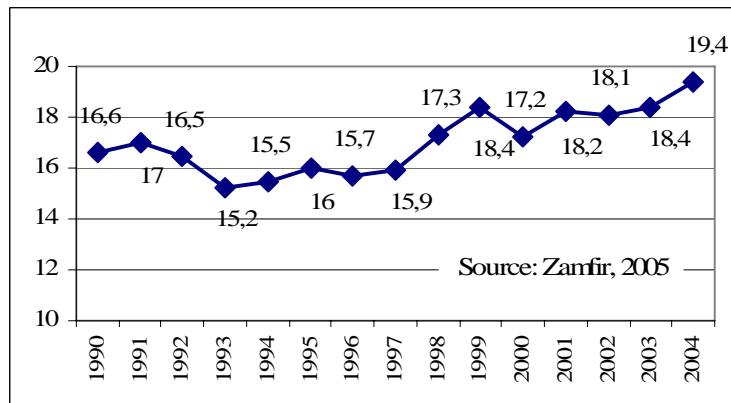
The healthcare system, after the introduction of insurance-based mechanisms, has generated serious problems of access to medical services for low-income categories of the population. The reform increased financial resources, but the current system in principal provides minimum, emergency and curative services, while the prevention component is insignificant. The supply of medical services has declined in rural areas and small towns, while the informal payment practice has limited the access of low-income groups to health services. The ratio between urban and rural areas in terms of the number of hospital beds/1,000 inhabitants is 8.5; the number of doctors per 1,000 persons is 5.8 times higher in urban than in rural areas; there are 7 times more pharmacists per 1,000 persons in urban localities than in rural ones. Kaufmann (2002) concludes that almost 40% of those on a low income are dissuaded from using medical services because of the bribery system. In 2002, the government initiated a programme aimed at developing medical services in those areas where coverage was lowest, together with a programme for introducing 'sanitary mediators' for the Roma population. The two initiatives will be taken over by local authorities in the near future. It is premature to evaluate the impact of the two measures; it is certain they will not resolve other deficiencies in the system, especially the generalised system of informal payments. The quality of service provision is still low, while its management and organisation fall far short of expectations.

In the field of social assistance, the most important reform was the adoption of the MGI. The mechanism is based on the social solidarity principle. It consists of granting to beneficiaries the difference between the standard level of minimum income set by law and the net disposable income of the person/family, under specific conditions. In 2002, when implementation of the MGI began, the benchmark minimum revenue was set at 36% of the minimum gross wage in the economy. The first evaluation of the programme was undertaken in 2004 and the conclusions were positive. The impact on severe poverty is high, even compared with similar programmes from other countries in the region. Deficiencies persist with respect to the criteria for evaluating the income of beneficiaries, which induce the discretionary allocation of benefits in some cases. Although focused on the poorest, the MGI is perceived as an instrument with limited coverage (Zamfir, 2005).

### **5.3 Public social expenditures**

Social expenditures – on social protection, education and health – as a percentage of GDP have increased during the transitional period (Figure 8), but remain among the lowest in Europe. The largest portion of these expenditures goes on social insurance; since the introduction of the MGI scheme the social assistance share has increased more significantly, but the resources allocated are still considered insufficient to meet the needs. The education sector has received more resources than the other components, with the government attempting to raise these expenditures to 5% of GDP in the coming years (in 2005 they represented around 4%). Following decentralisation of the sector, expenditures on social protection in 2005 represented almost one-third of the total expenditures of local budgets.

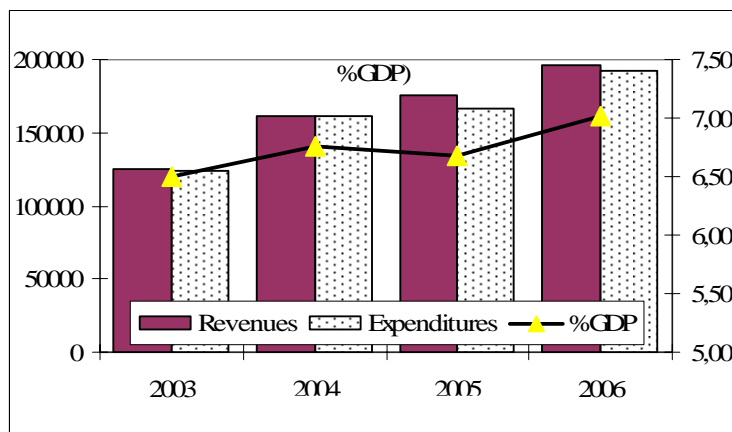
Figure 8. The evolution of public social expenditures



Source: Zamfir (2005).

The revenues and expenditures of social insurance budgets are presented in Figure 9, in billion Romanian leu (ROL) and as a percentage of GDP in the case of expenditures (planned figures for 2006). Some 99% of 2005 revenues came from social contributions: employers paid 58.45% of these contributions, with the remaining part made up from employees' contributions. State contributions accounted for 1.56% of total revenues. Out of total expenditures, 97.3% is allocated for social protection and social assistance, while pension spending represents 91.14%.

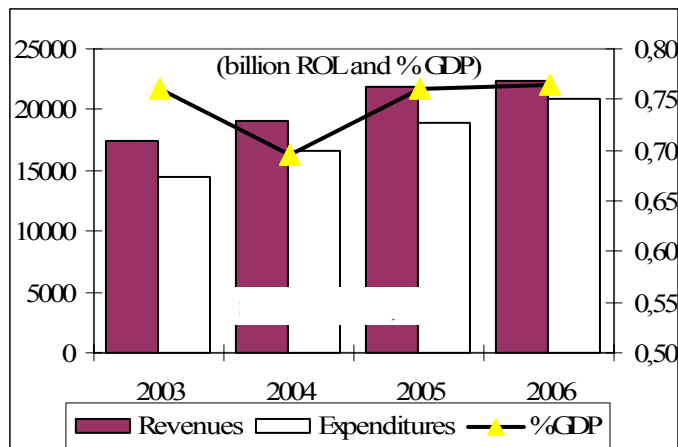
Figure 9. Social insurance budget (billion ROL and % of GDP for expenditures)



Source: MLSSF (2006).

The revenues and expenditures of the unemployment budget (in billion ROL and as a share of GDP for expenditures) are presented in Figure 10 (planned figures for 2006). Social contributions in 2005 represented 92.3% of total revenues, out of which 76.25% was paid by employers. Expenditures in 2005 directed at covering social assistance, pensions and allowances totalled 66.73%. In the same year, the unemployment budget allocated 19% of total expenditures for ALMPs (0.11% of GDP). The highest share of ALMP spending (27.5%) went on programmes aimed at offering temporary jobs to the unemployed.

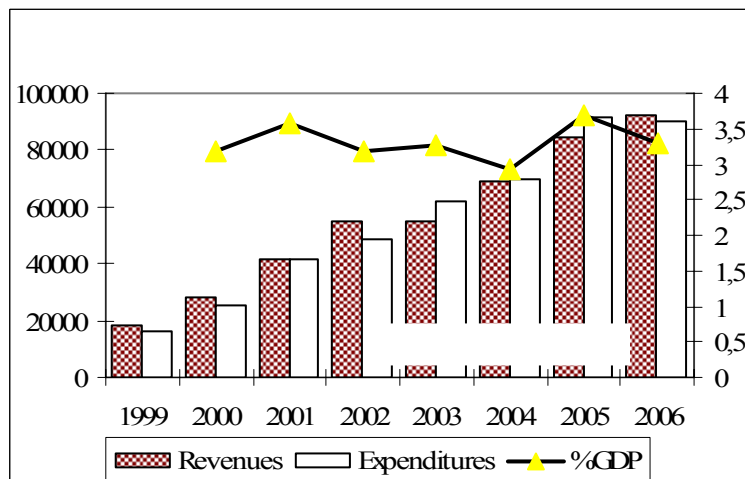
Figure 10. Unemployment budget (billion ROL and % of GDP for expenditures)



Source: MLSSF (2006).

In Figure 11 we present the evolution of revenues and expenditures in the health insurance budget (expenditures are also given as a share of GDP), with the planned figures for 2006. Contributions represent the main source of revenues (98.1% in 2006), out of which employers contribute 50%. Out of total planned expenditures, hospital services account for 55%, with the next most significant share being taken by prescribed drugs (27%). Primary healthcare receives only 6% of total expenditures.

Figure 11. Revenues and expenditures of the health insurance budget (billion ROL and % of GDP for expenditures)



Source: See the website <http://www.cnas.ro>.

The social insurance and unemployment budgets have recorded surpluses, while the 2005 health insurance deficit is not very high. Lower expenditures than collected revenues are in principal the consequence of an insufficient capacity to spend the available resources. The unemployment budget, for example, in 2005 spent ROL 229 million less than planned – especially in the ALMP field – because of inefficient coordination between the Ministry of Finance and the NAE. The former failed to provide the funds on time required for initiating the planned programmes, while the redistribution of resources within the budget is forbidden.

Underspensing appeared in areas where a surplus of resources was available because of a lower than predicted number of beneficiaries, while the effective funds spent on the programme for stimulating the employment of disadvantaged groups (the disabled, the Roma, etc.) were below the planned levels. Most affected was the programme for combating unemployment, on which NAE spent less than one-third of the planned resources. The NAE tried to dampen the effect of underfinancing of its programmes by setting as a top priority the allocation of available resources to those regions where the unemployment rate was above 10% or to those that have been affected most by mass unemployment owing to restructuring.

In conclusion, the main source of system inefficiency lies in the rigidity of cooperation between various institutions involved in collecting and financing social protection.

#### 5.4 Social protection provisions

Social contribution rates are fixed every year in the Law on the Social Security Budget (see Table 15 for the corresponding rates of various categories).<sup>25</sup> Irrespective of working conditions, employees contribute 9.5%, with the rest being covered by employers.

Table 15. The legal regime of social contributions

Contributor	Contributions	Regime	Calculation basis	Rates
Employer	Social insurance	Compulsory	Gross wage bill	Depending on working conditions
	Unemployment			3.5%
	Health insurance			7%
Self-employed	Social insurance	Voluntary	Taxable income	Depending on working conditions
	Unemployment	Voluntary		4.5%
	Health insurance	Compulsory		6.5%
Farmers	Social insurance	Voluntary	Taxable income	Normal working conditions
	Unemployment	Voluntary		4.5%
	Health insurance	Compulsory		6.5%

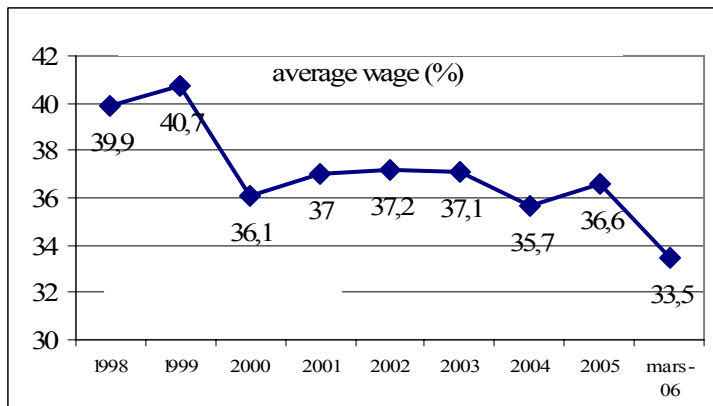
Source: See the website <http://www.mmssf.ro>.

The replacement rate, expressed by the ratio between the average pension and average wage, declined between 1999 and 2006 from 40% to 33.5% (Figure 12).

<sup>25</sup> For 2006, contributions are set at 30% for normal working conditions, 35% for 'arduous' conditions and 40% in the case of 'very arduous' activities. It follows that activities involving 'arduous' and 'very arduous' work imply high labour costs for employers.



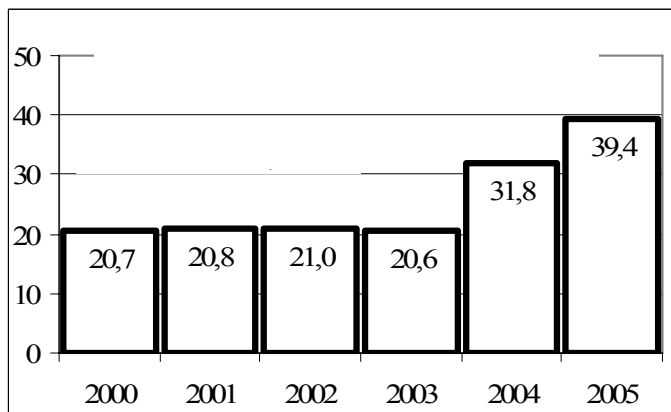
Figure 12. Ratio between the average pension and the average wage (%)



Source: MLSSF (2006).

The average wage in the economy recorded a higher growth rate than the average pension, especially after 2000. At the same time, the level of the average pension has been reduced by the inclusion of 1.7 million agricultural pensioners in 1996 (in 2005 their number declined to 1.5 million), whose average pension is far below the level for other categories of retired elderly persons. Although the difference between farmers and other categories in terms of average pension levels has diminished (Figure 13), in 2005 a person retired from agriculture still received, on average, only 40% of the pension received by other categories of pensioners.

Figure 13. Ratio between pension levels in agriculture and other sectors

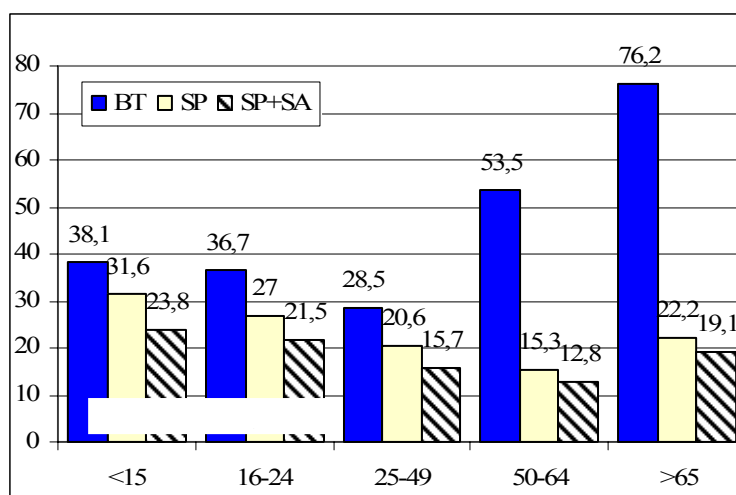


Source: MLSSF (2006).

The impact of social protection measures on reducing poverty is analysed differently for social protection and social assistance transfers. When considering the age structure (Figure 14), the greatest impact of social transfers appears in the case of the elderly: 76.2% of the population aged 65 and older lives in poverty if no benefits are provided. Nevertheless, this figure should be interpreted with caution, because it does not take into account the pension to which individuals are legally entitled. The amount of the pension is included in the social protection element (social protection without social assistance transfers); since the pension represents a legal right for retired persons, the real rate of poverty is in fact 22.2% for this category. To a significant extent, the same logic applies for the next age group (50-64 years old): retired persons make up a segment of this category, who therefore benefit from pension rights. When social assistance is added (social protection + social assistance), poverty decreases further,

reaching 19.1% for the age group above 65. It follows that those most affected by poverty are younger than 50, for which the impact of both social protection and social assistance transfers is lower than for older persons. Among all social transfers, child allowances have the highest impact on reducing poverty (Zamfir, 2005), by achieving the widest coverage of families in the poor quintiles.

Figure 14. Impact on poverty reduction (%)



Notes: BT = poverty rate before any type of social transfer; SP = poverty rate after transferring social protection benefits; and SP+SA = poverty rate after the transfer of social protection and social assistance benefits

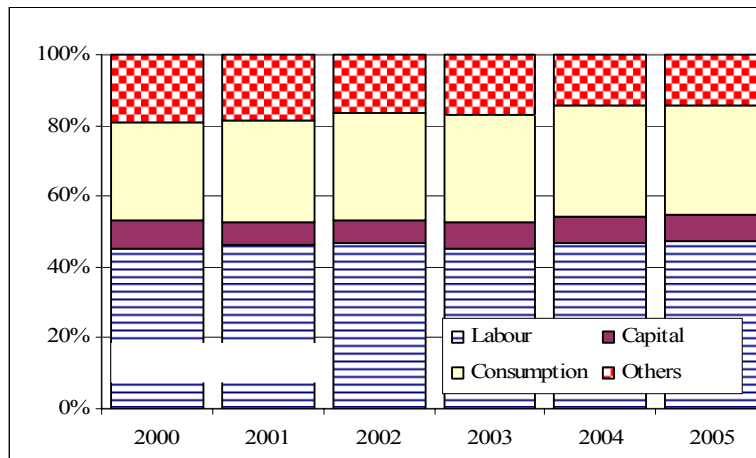
Source: MLSSF (2006).

## 5.5 Taxation

The highest share of budget revenues in Romania is represented by labour taxes: on average, over the period 2000–05, 46.3% of revenues came from taxing labour. Consumption is the second most important revenue item for the budget, with an average share of 30% during the same period (Figure 15). Capital was taxed by an average of 7.1% between 2000 and 2005. On average, social contributions accounted for 30.7% of total revenues of the consolidated budget for the period 2003–05. The share in GDP of social contributions increased from 9.6% in 2003 to 11% in 2005. Out of total contributions paid, employers disbursed 58% and employees 42%. In 2000 and 2001, the revenues collected from social contributions were 9% higher than total expenditures for social security. In 2004, the government spent 6% more on social security than the amount of revenues collected from contributions; in 2005, the revenue/expenditure ratio equalled 1.

The subsidies provided by the state budget to the SIB, unemployment budget and health insurance budget have been rather modest since 2003. Of the total revenues of the SIB in 2003, 5.5% were state subsidies; this share increased in 2004 (10.9%), but dropped to 1.55% in 2005 and is expected to reach less than 2% of total revenues in 2006. The drop in state support to the SIB is in reality owing to the change implemented in the allocation mechanism since 2004 – some of the previously transferred sums to the SIB are currently decentralised and the corresponding funds are given to the local authorities. The health insurance fund in 2006 received only 1.11% of its total revenues from various forms of subsidies, with state subsidies amounting to 0.4% of the total revenues of the health budget.

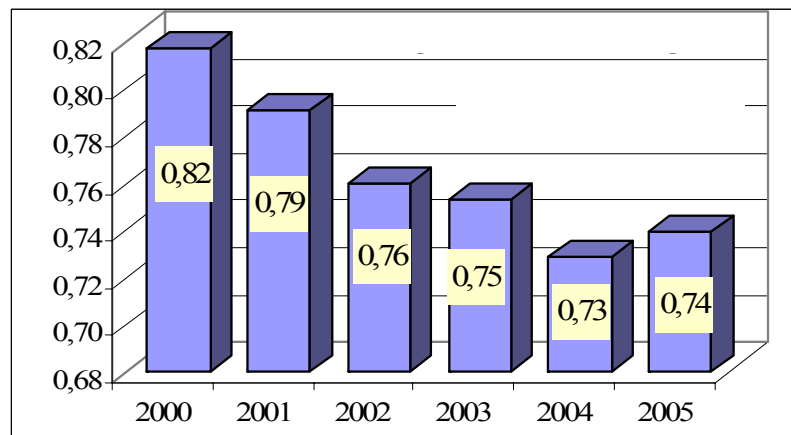
Figure 15. Structure of public revenues (%)



Source: MFP (2006).

There has been a slight decline in the tax wedge on labour costs for low earners, which moved from 43.1% in 2000 to 41.3% in 2004. The coverage rate has also declined significantly since 2000 (Figure 16).<sup>26</sup>

Figure 16. The coverage rate



Source: MLSSF (2006).

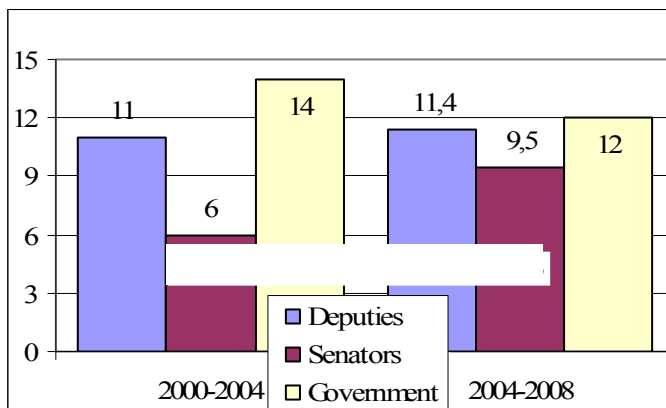
## 5.6 Gender equality and anti-discrimination

Legislation prohibits any act of gender discrimination, including sexual harassment, but few resources are available for women to deal with economic discrimination. In addition, social attitudes represent an important source of gender and racial discrimination. Major differences between men and women appear in political representation (Figure 17): in the current parliament, elected in 2004, only 11% of members are women. Among leaders and high-ranking civil servants, the proportion of women is almost 30%; but they are over-represented in the

<sup>26</sup> The coverage rate represents the ratio between the total number of employed persons paying social contributions and the total number of beneficiaries of social protection (the elderly, survivors and persons with disabilities).

overall public administration, where their share was 67% in 2005. Thus, the further down the hierarchy in the Romanian administration the higher the level of women's representation.

Figure 17. Women's political representation (%)



Source: See the websites <http://www.cdep.ro> and <http://www.senat.ro>.

The 2005 Human Development Report (UNDP, 2004) ranked Romania in 56<sup>th</sup> position among a group of 175 countries with respect to sexual discrimination. The report finds that women are underrepresented at the union level: women's membership accounts for 38%. Still, the UNDP's conclusions in this respect do not prove the existence of sexual discrimination. In fact, the proportion of unionised women is close to their share in total employment.

In 2004, the Romanian government published a second National Action Plan for equality between the genders for the period 2005–09 aimed at reducing discrimination. A large number of objectives and goals were enumerated in this document, but no concrete actions or quantifiable measures were proposed. Moreover, there is a clear overlapping of duties between the National Council for Combating Discrimination and the National Equal Opportunities Agency.

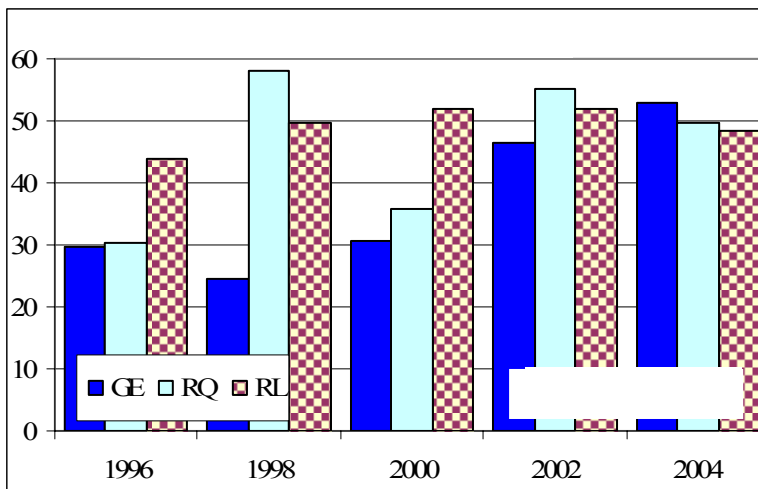
## 6. Governance structures

### 6.1 Governance efficiency

Various assessments of the quality of governance have been undertaken since 1990. The assessments stress the central feature of Romanian state institutions: the lack of capacity to design, adopt and implement public policies, irrespective of their nature. The 2006 Index of Economic Freedom (Heritage Foundation, 2006) ranks Romania 92<sup>nd</sup> with a general score of 3.19 – mostly not free – with a substantial amount of informal activity (score 4).<sup>27</sup> According to Kaufmann (2002) and Kaufmann et al. (2005), the progress made by Romania between 1996 and 2004 with respect to governance indicators was limited (Figure 18). There was an improvement in government effectiveness, but very little progress concerning the rule of law and regulatory quality.

<sup>27</sup> The evaluation is done on a scale ranging from 1 (excellent) to 5 (insufficient).

Figure 18. Governance indicators



Notes: GE = government effectiveness; RQ = regulatory quality; and RL = rule of law

Source: World Bank (2005a).

The European Commission (2005) concluded that some progress had been made since 2000 in modernising state institutions and improving governance, but weak points persist (European Commission, 2005). According to the Romanian Centre for Research in Public Administration (CRPA, 2005), the degree of politicisation of state institutions is still very high, while administrative capacity at the local level is insufficiently developed and consequently financial decentralisation is incomplete. The most recent Freedom House (2005) report concludes that some positive developments took place after the 2004 elections. But SIGMA (Support for Improvement in Governance and Management) considers these findings over-optimistic (SIGMA, 2005), since the current political elites, who grew up under a political regime characterised by ‘collective degeneration’ (Durandin, 2000) present the reforms as imposed from the West, not as national choices.

Weak governance in Romania can be attributed to poor institutional arrangements and a lack of political will and implementation skills. The policy-making process, highly politicised, is confined to drafting and passing legislation that is then changed frequently. The evaluation of social costs/benefits is very rare, leaving little room for feasibility assessments and feedback. There is very little public consultation and when it happens it takes place after the policies have been implemented, which creates confusion and mistrust in institutions. There is no functional institutional platform to aggregate sectoral policy measures. The inter-ministerial committees function erratically and no strategic framework for programming and budgeting exists. Sectoral agencies and lobby groups are resistant to introducing applicable procedures and the government agenda is mainly driven by emergency interventions and crisis resolution.

Central government agencies are remarkably numerous and unstable, and staffed by a civil service that tends to yield to political pressure from above. A highly politicised state administration continues the practice of hiring obedient staffers and clients, to the detriment of functionality and political neutrality. A system of secrecy and confidentiality also remains in the public administration (SIGMA, 2005); together with an excessive bureaucracy, this system fuels the lack of transparency and ambiguity.

Policy coordination is mostly based on conditionalities imposed by international institutions, which leaves the impression of Romania as a country driven from abroad. The role of the EU as a catalyst for better policy coordination has been uneven. The *National Development Plan for*

2007–2013 (RG, 2005b), a standard document elaborated in all candidate countries, provides the necessary framework for priority-setting at national, sub-national and sectoral levels. The policies are, however, prepared and implemented independently of the plan; instead of being a comprehensive national strategy where the EU intervenes with financial aid, the National Development Plan is merely an instrument for programming the EU's structural and cohesion funds. In a way, the overall technical assistance has been a strain on the capacity of the public sector. The insufficient strategic capacity of institutions has been almost fully taken up with the process of running EU projects; the government agenda seems, therefore, almost entirely confiscated by the task of dealing with foreign assistance, while the policy target is absorption of the aforementioned funds.

Corruption remains the most important problem of public administration. The National Council for Action against Corruption and Organised Crime, created in 1997, was abolished two years later because of its evident ineffectiveness. Despite the efforts of the post-2004 government to reduce it, corruption is still an issue of concern, spread over all levels of society (SIGMA, 2004). A generalised system of bribes affects all structures, public and private, at the central and local levels; this system most clearly has an impact on low-income groups, who spend about 12% of their household income on bribes, according to Kaufmann (2002). The author concluded that almost 40% of those on a low income are practically dissuaded from using medical services because of bribing. Moreover, the practice affects producers to the same extent, who are forced to make informal payments at virtually every occasion they have to deal with the state administration. The 2001–04 Anti-Corruption Strategy (RG, 2001) was evaluated by Freedom House in 2005 as just “an impressive arsenal of legal instruments” whose implementation remains modest. The second strategy (RG, 2005a), covering the period 2005–07, contains more declarative objectives than concrete measures. As the SIGMA (2004) report stressed, the only real response of the Romanian authorities to outside criticism regarding the insufficient progress made in dealing with corruption has been the multiplication of legislation and agencies supposed to reduce the phenomenon, but their effectiveness remains below expectations. Furthermore, the higher the number of legislative and institutional initiatives, the greater the level of corruption seems to become. The Corruption Perceptions Index published by Transparency International (2005) ranked Romania 69<sup>th</sup> among 200 countries surveyed in 2001, and in 85<sup>th</sup> position in 2005, behind all EU member states and other candidate countries. The most corrupt structures would appear to be the political ones – the Transparency International (2003) *Global Corruption Barometer* found that about 24% of Romanians believe that the highest degree of corruption exists within political parties. The Open Society Foundation (2004) survey arrived at a similar conclusion, with 58% of respondents stating that MPs were the most corrupt category of officials, followed by the police, doctors, judges, businesspersons, ministry officials, prosecutors, lawyers, mayors, local councillors and local civil servants. The current government has declared anti-corruption its top priority. Nevertheless, the SIGMA (2005) report points out that future success in combating the phenomenon is uncertain because the government approach of “frying a few big fish” will not eradicate corruption, which has deep roots in the social, political and organisational cultures, and is a symptom of entrenched problems of social understanding in the state and society. At the same time, focusing only on public administration is insufficient, since corruption affects the system of governance as a whole.

The inefficiency of state institutions is most evident in the relationship between the central and local levels. While legally local governments are not subordinated to the Ministry of the Interior and Territorial Administration (the central institution in charge of coordinating the decentralisation process) or to the Ministry of Finance (which allocates the funds from the state budget to local ones), a centralised administrative and financial structure has emerged and persists. Theoretically, the prefects, as state representatives at the territorial level, represent an

impartial institution of the central government whose role is to control the legality of locally elected officials. In reality, the prefects represent the political party in power at the central level and have close political links with local councils, which are also elected on the party list basis. Since local elections take place only a few months before national ones, in most cases the ruling party in central government (which nominates the prefects) also has a majority in the local councils. In general, the mayor is not elected on political criteria; if the mayor is politically independent or does not belong to the ruling party, then two groups of interests will emerge: the mayor, on the one hand, versus the prefect, the council and the deputy mayors (elected by the council), on the other. Conflict situations are therefore very common and sometimes lead to a virtual blockage of local activity, as has happened in Bucharest and Brasov counties. The main source of tensions, besides differences in political affiliations, is the unclear status of the mayor. The office of the mayor, as the executive of local government, is not defined as a public institution in terms of legal responsibility and authority. Moreover, the relationship between mayors and local communities is not legally specified; the only legal definition of the mayor is as the head of local government. Formally, the office of the mayor belongs to the council. The mayor has no apparatus of his/her own and has no power over the personnel with whom s/he works. In the case of political cohabitation, the council is able to take over all decision-making power from the mayor, as has happened in Brasov, where the council created a standing committee to which the most important executive functions of the mayor were transferred. In other cases, the councils pass certain of the mayor's functions, without his/her agreement, to deputy mayors. The paradox of these unworkable arrangements is that the mayor is legally responsible for the actions of the deputies, although s/he cannot control or discipline them.

The situation becomes even more complicated by the intervention of a third actor – the council secretary, a top local official appointed by the prefect. Secretaries report exclusively to the prefects and represent the main element of control and de facto subordination of local authorities to the central government. The secretaries can give clearance to mayoral decisions, but if the prefect considers these decisions illegal and consequently sues the mayor in court, the mayor can be suspended, while nothing happens to the secretary who improperly screened the decisions. Moreover, even if the prefect's action against the mayor is legally incorrect, the prefect is not accountable for it. Frequently, the prefects check not only the legality of mayors' decisions, but also their 'opportunity': the prefects can impose their veto whenever they consider these decisions 'inopportune', which represents a clear case of the political control of appointees over elected authorities.

The state wields another instrument of potential interference in local decision-making, through the territorial offices of line ministries, officially under the authority of the prefect. The heads of these offices, appointed by the prefect, can sue or fine mayors for their decisions, when these decisions are judged illegal. Even if their actions against the mayor prove in the end to be unjustified there is no mechanism for making them responsible for the abuse. Since the heads of line ministry offices, as top officials, are nominated on a political basis, they represent an efficient instrument of the ruling party to force mayors to abandon their political independence or affiliation in favour of the party in power.

The central government may also intervene directly in the local decision-making process in the case of so-called 'temporary crisis situations', by issuing emergency ordinances for resolving problems. Such ordinances are simply executive orders given to local governments and are not always justified by a crisis situation, as was the case when the government issued an ordinance setting ceilings for certain types of local expenditures, even if these expenditures were made from own resources. The government can equally intervene in the micro-management of local funds; limited local autonomy may therefore generate suboptimal decisions, which can in turn lead to crises when the government intervenes directly through emergency ordinances.

The crucial problem of central versus local delineation of responsibilities is the lack of well- and permanently defined responsibilities for local authorities. The annual Law on Public Finances contains a list of local responsibilities, which implies that they change every year, since the same law specifies that the list can be changed by each new budget law. Most of the functions transferred to local governments are in reality merely mandates that are passed down for execution without any decision-making power, as is the case for the sums allocated for education and social protection.

The most frequent inconsistencies between the central and local levels appear in the financial and budgetary field. The budgetary process is long, complex and de facto subordinates local to national budgeting, which has an adverse impact on local autonomy. This impact is more visible in the case of rural localities, which are at the mercy of county councils' decisions.

Apart from local taxes, local revenues are constituted on two principles: tax-sharing and 'territorial solidarity'. In the first case, central and local authorities share the amount of VAT and personal income tax collected in the jurisdiction of the corresponding local government. The second principle is meant to compensate for the disparities in local revenues by allocating an equalisation grant from the state budget – richer localities therefore get less money, while poor ones receive more. Theoretically, the two mechanisms should function on some technical criteria of allocation, but in reality, the rules are never enforced in a consistent way. There is no incentive for local authorities to raise the amount of revenues collected from their own sources; on the contrary, there have been cases when the Ministry of Finance has prohibited any increase in the rates of local taxes and the introduction of new ones.

The opacity of allocation criteria or the deliberate ignoring of them represents fertile ground for clientelist behaviour at local levels, which makes any clean and transparent distribution of funds difficult; thus, those individuals from local governments who do not belong to such groups rely on informal mechanisms to obtain the necessary resources. One of these mechanisms is the political migration of mayors towards parties winning elections.

Central government has the tendency to consider local authorities merely as agents for executing national policies, such as those on education and social protection. The most important problem in this respect is that the process for allocating funds has followed different rules in each of the 41 counties. Although a strict formula should apply for the funds' distribution at the county level, deviations from this standard are tolerated on a large scale and the usual practice is actually based on some unclear quantitative criteria. No local council knows the amount that will be allocated to the county, since the process relies on individual negotiations between the two levels; rural communes thus suffer the most from this erratic distribution. The budget becomes a major obstacle in any attempt by a local authority to manage its finances on a sound basis and consistent with its needs and priorities. The first important effect of this allocation mechanism is an increase in regional disparities. The lowest level of local government – rural communes – receives transfers from the county councils. Since their capacity to raise local taxes is very limited, the main source of revenue remains funds allocated from above. When this money comes from the state budget, it passes through the county council, which keeps for its own needs a corresponding part and then transfers to lower echelons whatever remains available. It follows that the only workable mechanism allowing a local authority to derive more resources is the use of personal influence and networking. The mechanism applies at both the county level, to obtain allocations that are more favourable from the centre, and the locality level, to obtain higher transfers from the county.

The most important social consequence of this situation relates to the allocation of social benefits to poor households. Social assistance is currently under the responsibility of local authorities (local councils), which provide monetary benefits to those in need, based on personal disposable income. Since the system of social assistance in Romania is based on the MGI, a



poor person must receive the difference between the MGI and his/her effective revenue. Quite naturally, less developed regions face a higher social assistance bill. Yet, these less affluent councils from underdeveloped regions are often unable to raise sufficient resources to cover the costs. Therefore, in reality the average benefit in more affluent counties is much higher than that provided in poor counties (Table 16).

*Table 16. Deviation of the average social benefit from the national average (2005)*

<b>County</b>	<b>Average benefit level: Deviation from national average (%)</b>
Caras-severin	67.6
Hunedoara	45.0
Arges	36.2
Covasna	33.0
Bucuresti	24.3
Botosani	-21.6
Bistrita	-24.1
Vaslui	-28.7
Mehedinti	-47.4
Calarasi	-59.7

*Note:* All the counties from the top group belong to the wealthiest regions, while those from the bottom group are situated in the poorest areas of the country.

*Source:* Calculations based on data from MLSSF (2005).

The situation became even more complicated by the creation of the eight development regions, which are not administrative units and their status is therefore ambiguous. The current debate is focused on whether to create EU-type regional development councils and give them administrative autonomy or to continue with the status quo. In the first case, the issue is whether to maintain the existing counties. The debate is generated by European Commission Regulation 1059/2003, which defines the eligibility criteria for EU structural funds. When considering the EU definition of the NUTS classification, based on the population size of the regions, the north-eastern and southern regions are not eligible for these funds because their populations are higher than the limit of 3 million. At the same time, there are counties whose population is above the limit of 0.8 million imposed by the NUTS III classification and they fall, therefore, under NUTS II (Cojanu, 2004). The real danger in this controversy is that, with the unclear goals, attributions and responsibilities of the regions, the government may create another tier, which would imply additional institutions and thus increase bureaucracy, and engender a more complicated system of relations between central and local authorities.

Following the European Commission's comprehensive report, the Ministry of Administration and Interior recently proposed a draft law aimed at increasing the efficiency of prefects' offices. The draft was later put aside and the best part of the proposed modifications to the prefect's statute was enforced through Emergency Ordinance 179/2005, which came into force in 2006, thus eluding the constitution, which stipulates that only parliament is empowered to issue legislation in the area of public administration. The ordinance came under heavy criticism for just pretending to achieve the de-politicisation of prefects: at the beginning of 2006 the same prefects, politically appointed in 2005, had opted out of parties and were certified as new, professional, depoliticised prefects, on the basis of their 'prior experience'. The attempt to reform the prefects' statute has left behind some issues yet to be clarified, including the organisational structure of the prefect as an institution, the authority that line ministries can delegate to the prefect and the responsibilities and inter-ministerial role of the newly created Council of Prefects.

## 6.2 Social partners and social dialogue

Romania has a long tradition of institutionalised social dialogue: the first unions were created in 1860 and the first Employers Confederation was established in 1907 (Ghebrea, 2005). The communist period was characterised by the forced enrolment of all workers in the Romanian General Association of Trade Unions; this structure was dissolved in 1990 and 12,118 union organisations emerged within the first four years of the transition, grouped into 62 sectoral federations and 15 national confederations. By 1992, these organisations had already concluded 62 sectoral collective agreements.

Currently, social dialogue has two major components: a tripartite one, involving the government, trade unions and employers, and a bipartite component, which involves just unions and employers. The most important bargaining issue between the parties involved in social dialogue is the wage level. Other issues are related to the level of average pensions, fringe benefits, working time, job protection and working conditions, and vocational training. Half of all Romanian companies are involved in collective bargaining, covering about 74% of employees and 40% of total employment.

The tripartite social dialogue started in 1993 through the establishment of a Secretariat for Social Dialogue, with the representation of all the unions and employers' associations. Nevertheless, until 2000, social dialogue was sporadic and generated mainly by crises and social pressure; trade unions and employers were not able to arrive at a common platform. The dialogue started to function effectively when the first Social Accord was signed by all the parties in 2001, followed by a second such document in 2002 and one concluded in 2004. The objectives of these accords are related to legislative initiatives in the social field and the elaboration of employment policies. Other similar agreements have concerned privatisation, the Labour and Tax Codes, the Minimum Wage Law and the Pensions Law.

There are 7 institutions at the national level, 8 at the regional level and 84 at the county level involved in tripartite dialogue, acting in the fields of education, training and employment promotion. The existing bodies are mostly used to discuss proposals from the ministries, employment agencies or inspectorates and do not appear to raise many issues themselves, which limits the value of their recommendations. Representatives of the social partners have complained several times that the government has taken decisions without consulting the other partners. Social partnership is initiated more by the government than by the social partners themselves. The agenda for dialogue tends to be driven by government and the input of social partners is often limited to providing an opinion on the policy proposals put forward by the government. The other partners have never really perceived the state as a neutral arbiter, but rather as an adversary. When the dialogue takes place between unions and employers, the parties tend to have the same conflicting attitude; combat and not collaboration is therefore the underlying rule of social dialogue.

The most important institution of the tripartite dialogue is the ESC, established in 1997 as a tripartite body with an advisory role in the process of elaborating economic and social policies and in mediating labour conflicts. Through several temporary or permanent specialised working committees, the ESC makes proposals in relation to restructuring and economic development, privatisation, labour relations, income policy, social protection and health, education and research. The council has 27 members, equally distributed among government, union confederations and employers' organisations. The president of the ESC is appointed for four years by parliament. Union representatives mainly come from confederations and do not have a strong sectoral affiliation.

At the sectoral level, the tripartite dialogue takes place through specialised Social Dialogue Commissions; these structures also exist at the county level, for territorial tripartite dialogue. In

the case of specific issues, ad-hoc commissions can be constituted on a tripartite basis (for example, the inter-ministerial commission for improving the business climate).

Bipartite dialogue in principal concerns collective labour contracts. In Romania, these contracts are concluded at national, sectoral and company levels (for enterprises employing more than 21 persons). Bipartite dialogue is very weak and as a rule, social partners try to lobby the government directly to promote their interests.

Labour relations in Romania are unstable, featuring a high turnover of managers at the enterprise level, while unions are highly fragmented, with several organisations in a single company representing the same occupational category. Romanian trade unions have been among the most militant throughout the entire transition period (EBRD, 2005b), with strikes having affected every sector of the economy. Unions have been more active in those sectors where the role of the state has been relatively more important (mining, metallurgy and railway transportation). After the initial strong unionisation at the beginning of the transition, unemployment, early retirement and the emergence of the private sector considerably cut membership size. Currently, unions cover some 24% of total employment and 44% of all employees. The survey by the National Institute for Opinion Polls and Marketing (INSOMAR, 2005) concluded that the level of confidence in trade unions has declined dramatically: 67% of respondents have very little or no trust in these organisations. This outcome is primarily the result of the increasing political involvement of certain confederations' leaders.

Private employers also started to organise themselves into employers' associations to defend and promote their interests, especially vis-à-vis the government. Thirteen such associations have been established, the most representative being the General Union of Romanian Industry 1903, which groups 7,567 companies with some 1.8 million employees in total. Generally, the social partners have had an antagonistic position towards the others: unions and employers are in constant disagreement, but together fight the government, as has been the case when some regulations have been modified without prior consultation with the social partners or have been against the restructuring of their companies.

### 6.3 Civil society organisations

Participation in civil life is relatively weak in Romania – only 3% of the population is involved in voluntary work, which is four times less than in EU-25 countries and two times less than the average in the NMS. Involvement in political activities is also low: 8% of the population in Romania compared with 16% in the EU-25 and 12% in the NMS. Nevertheless, Romanians seem to be relatively open to civil life, since 39% said they were “ready to help others” in comparison with only 20% in the EU-25 and 27% in the NMS (Eurofound, 2005). At the same time, Romania does not differ essentially from the other two groups of countries (EU and NMS) in terms of the trust individuals place in basic social structures (Table 17).

*Table 17. Public trust in basic social structures*

	Percentage of individuals with low levels of trust		
	...in the pension system	...in the social benefit system	...in other people
Romania	56	67	5.4
EU-25	54	45	5.6
NMS	49	62	4.8

*Source:* Eurofound (2005).

One of the reasons for this insufficiently developed civil life is the weak presence of NGOs; the sector consists of more than 30,000 NGOs, but less than 10% are active, out of which more than 90% function in urban areas. The lack of confidence in central and local authorities is another argument for raising civic participation – nearly 50% of Romanians are not satisfied with the services offered by the government, at either the central or local level.

A relatively low level of participation in civil institutions, compared with Western Europe, is not necessarily a negative point. Despite a low standard of living, family life provides Romanians with the highest level of satisfaction. In Western countries, associative participation is in fact a consequence in many ways of the individualisation of society and loneliness. The average number of persons living alone is much higher in the developed countries of Europe; the same is true for the number of divorces, as well as couples living without official or religious marriage. The individual, and not the family, is therefore a basic entity in Western societies. Moreover, intergenerational family ties tend to be less important in these countries compared with Romania – and probably other countries in the region – where three generations tend to live together. Consequently, Western Europeans tend to live much more on their own than Romanians, where the family represents the basic social nucleus. Such a situation is a key factor pushing people into a more active associative life, compensating for weaker familial ties. A second explanation for the more intense family life in Romania rather than the civil-associative one is related to religion. Romanians attend regular religious services to a higher extent than the EU average. The church is also an associative structure, with a social dimension, but the opinion polls mentioned above indicate that Romanians tend not to consider it a part of the social life of individuals.

## 7. Specific issues

Romania has certain particularities among the countries of the region and new EU member states. The most important are related to the situation of the Roma minority and the role of subsistence agriculture in the economy.

### 7.1 The Roma problem

Romania has the largest Roma population in Central and Eastern Europe, and one of the most diverse (Matei, 2002). The 2002 census recorded 535,250 Roma (2.5% of the total population) living in Romania, compared with 401,087 (1.8%) in the 1992 census. Yet Bárány (2002) estimates that in 1999 the real figure was 1.5 million,<sup>28</sup> representing 6.7% of the population. The Roma Education Fund (2005) concludes that between 1.5 and 2 million Roma live in the country; Romania would therefore have the largest Roma minority in Europe (UNDP, 2005), both in absolute terms and as a share of the total population.

During the communist regime, policies towards the Roma were largely assimilationist. The nomadic Roma were forced to start working in agricultural collective farms and heavy industry, while traditional Roma occupations were declared illegal (Ringold et al., 2005). Since 1989, very few Roma have been able to take advantage of the political changes. Falling living standards have disproportionately affected the Roma minority through the trends of rising unemployment, growing poverty and shrinking social assistance, as well as limited access to housing, education and healthcare. The poverty incidence for Roma individuals was more than threefold higher than for the non-Roma: with an average poverty rate of 24.4% in 2002, the

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<sup>28</sup> The estimation includes the self-identified Roma, but also individuals identified by the census-takers. The Romanian constitution specifies that the ethnic status of a person is that to which s/he declares they belong.

Roma rate was 75.1% (19% for the Hungarian minority). More than half of the Roma minority (52.2%) was affected by severe poverty, compared with the national average of 9.3%. The deterioration of Roma living conditions has been exacerbated by entrenched patterns of discrimination, prejudice and incidences of ethnic violence (OSI, 2001). Social marginalisation contributes to economic exclusion through limited economic opportunities: rural Roma communities frequently lack basic infrastructure and utilities, while in urban localities they are often ghettoised and located in distinct peripheries. This situation tends to translate into organised criminality and delinquency (Durnescu et al., 2002; CASPIS, 2005).

The income sources of the Roma community consist mainly of social assistance, with most ending up relying on child allowances (CASPIS, 2005) and low, irregular and informal incomes. The pattern of informal, unskilled and occasional activities seems to be a mechanism that reinforces the human capital deficit and entraps the family in poverty for generations. The wage income is low, since only 13% of Roma above the age of 15 were employed in 1998 (UNDP, 2005).

The Roma community has higher illiteracy levels and lower educational attainment than the total population: in 1998, only 69.6% of Roma pupils aged between 7 and 10 attended schools. The enrolment rate in primary school among Roma aged 7-15 is 76%, while among the majority living in the neighbourhoods of Roma it is 94% (UNDP, 2005). The share of the population aged 15 years and older with eight years of elementary school as the highest attained education level among Roma is 82%, in contrast to the 34% of most of the population living in close proximity to Roma (UNDP, 2005).

Both Roma and educational personnel cite poverty and economic constraints as significant obstacles to education, but also discriminative attitudes (Andreescu, 2004), since the relationship between Roma and non-Roma has been characterised by miscommunication and mistrust. In their official relations with state institutions, Roma tend to report facing indifference, hostility and intolerance (Ethnobarometer, 2004).

The UNDP study on the vulnerability profile of the Roma population concludes that the main issue of concern in Romania is related to the lack of personal and identity documents of a large number of the Roma, which would limit even further their access to basic social services such as education, healthcare and social protection. Table 18 summarises the main findings of the study for the Romanian case.

*Table 18. Discrepancies between the Roma population and the majority living in close proximity to Roma (2002)*

	<b>Roma population</b>	<b>Majority living in close proximity to Roma</b>
Share of population living on less than \$4.3/day (PPP) – income-based poverty rates (%)	69	22
Unemployment rate (%)		
15-24	46	33
25-54	25	8
>55	34	12
Share of pupils aged 12 and older who spent at least four years in school (%)	46	83
Square metres per household member	14	32

Source: UNDP (2005).

Over the last decade, the government, political parties and NGOs have made significant efforts towards improving the conditions of the Roma, but many of these efforts have been improvised and uncoordinated. About 150 NGOs are devoted to promoting Roma rights and interests, but the lack of resources limits their influence. The 2001 national strategy for improving the conditions of the Roma does not propose any measure to fight racial discrimination (King Baudouin Foundation, 2004). Specialised institutions have been created, at county level, to deal with Roma problems, but the EU Monitoring and Advocacy Programme (Nasture, 2005) monitoring report found that their resources were very limited and that cooperation with other local bodies was weak, since most local authorities do not consider the Roma problem a priority. A law was enacted in 2001 allowing for the use of minority languages in areas where minorities constitute at least 20% of the population, but this law is less effective in the case of the Roma minority. A Department of Inter-Ethnic Relations and a National Office for Roma was created within the Ministry of Public Information in 2001, as well as a National Agency for Roma, yet these institutions seem to be insufficiently effective in dealing with the problems faced by the Roma. Several Roma political parties have been constituted since 1989, but no Roma MPs entered parliament until 2000, as the new constitution grants to each recognised ethnic minority one representative in the Chamber of Deputies if the minority's political organisation cannot obtain 5% of the votes needed to elect a deputy. The 2005–15 National Action Plan for Roma Inclusion via Employment does not envisage legislative changes to the restrictions on the access of this community to employment. The law requires that job applicants have at least eight years of elementary education, which automatically excludes a large share of Roma. This legal provision also applies to trainee applicants; therefore, Roma are excluded even from the training programmes especially designed for them. In such conditions, all efforts are jeopardised and the perception of the government's commitment to improve the Roma's conditions is assessed as low (OSI, 2006).

## 7.2 Subsistence agriculture

After Poland, Romania is the second largest agricultural producer in Central and Eastern Europe (Negomireanu, 2004): about 62% of its total area of 23.8 million ha is agricultural (the EU average is 41%), of which 63% is arable land (Csaki & Kray, 2005). In contrast to the recently improved macroeconomic climate, the agricultural sector lags behind; indeed, Romania is now a net agricultural importer, with a large trade deficit in livestock products and prepared foodstuffs (IFAD, 2003).

An interesting study (Sandu, 2005a) offers a description of the rural structure of the country, by identifying six types of village (the share of each type is expressed in population terms):

- *traditional*, characterised by a relatively low level of education (14.7%);
- *modern*, with the population having a high level of education, (18.8%);
- *immigrant*, where a significant share of inhabitants originate from other localities (16.6%);
- *minority-ethnic*, with a large proportion of the Hungarian population (7%);
- *minority-religious*, where the proportion of religious minorities is higher than the country's average (29.2%); and
- *isolated*, with reduced access to main roads and situated a long distance from urban areas (13.7%).

Almost 70% of the rural population depends on agriculture,<sup>29</sup> a sector that contributes less than 13% to GDP. Individual agricultural farms account for 68% of the total number of exploitations,<sup>30</sup> and 60% of all agricultural land. The average size of an individual farm is 2.5 ha.<sup>31</sup> A large number of small family farms exploit narrow strips of land, without the possibility of obtaining significant production and the greatest proportion of the crops is meant for personal consumption: out of total household production, personal consumption represents up to 68% of wheat, 74% of corn, 69% of potatoes and 88% of poultry (Hurduzeu et al., 2004). Small landowners rarely have access to the equipment needed for intensive farming or to credit for the purchase of improved seed, fuel and fertiliser. These difficulties are compounded by low output prices, lack of market information and high transportation costs. These constraints contributed to the deterioration of the overall performance of the agricultural sector and consequently to the increase in personal consumption of individual farmers and to their high subsistence character. Poverty, especially rural poverty, was interlinked with subsistence farming (Mathijs & Noev, 2004) and it rose during the transition.

Subsistence farming is generally associated with low-marketed output, low productivity and poverty. At the same time, subsistence farming is often the only survival solution in the case of inefficient inputs, expensive or insufficient credit, risk and uncertainty (Balint & Wobst, 2005). Subsistence farming is not a new phenomenon in Central and Eastern European countries. Household plots played an important role in the pre-transition period. Its scale has increased over the transition, however, reflecting a response to economic and social adjustment (European Commission, 2005). Subsistence farming indicates rational responses to high levels of urban unemployment, low incomes and social security provisions (Kostov & Lingard, 2002) and the lack of non-agricultural alternatives for employment in rural areas (Chaplin et al., 2004). It can play an important role in absorbing labour where alternative sources of employment are scarce. Following the collapse of former state industries, many unemployed persons migrated from urban to rural areas (Voicu, 2006).

At the regional level, the level of economic development and the extent of subsistence agriculture are inversely correlated (Figure 19). Small farming is predominant in poor regions and the dependency on agriculture is the highest in the north-east (51%) – the least developed region.

Small farming for subsistence purposes may not be an easy strategy for the Roma population. Land restitution was undertaken in accordance with the ownership structure that existed before the establishment of socialist agricultural cooperatives. Since most Roma did not possess land prior to the communist regime, they were excluded from this process of restitution. In 2002, only 23.8% of Roma owned land. In many villages the local authorities allocated small plots (up to half a hectare) to Roma families, but the land received tends to be of lower quality and consequently unworkable.

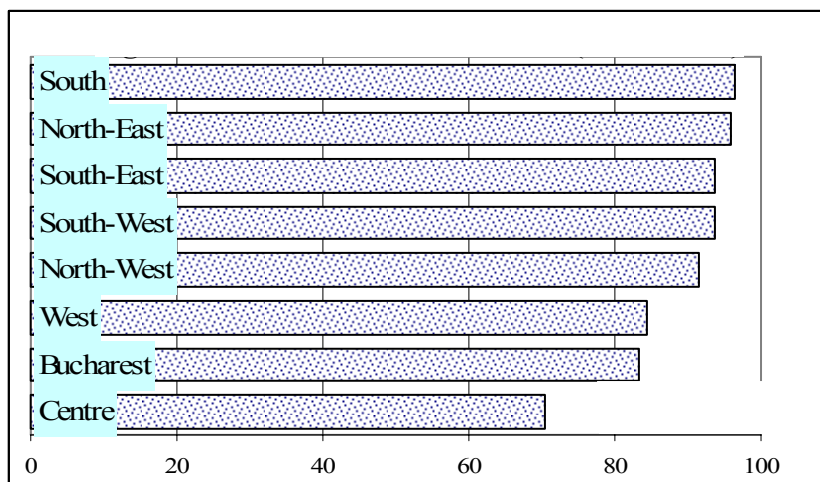
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<sup>29</sup> The figures on agricultural activity are sometimes confusing, depending on the methodology used for collecting and analysing the information (Voicu et al., 2005).

<sup>30</sup> According to Hurduzeu et al. (2005), the figure is 80%.

<sup>31</sup> Voicu et al. (2005) affirms that the size is actually less than 2 ha.

Figure 19. Share of small-size farms in 2005 (less than 5 ha)



Source: European Commission (2006).

## 8. Conclusions

After a decade of hesitant and sluggish reform, since 2000 Romania has accelerated the reform process in all areas. The European Commission's (2005) monitoring report concluded that Romania had satisfied the political criteria of integration, while in the economic field a functioning market economy is in place. Inflation has been brought down to single-digit rates; the economic recovery has resumed in the context of increased macroeconomic stability; significant progress has been made in the field of structural reforms; state institutions have changed and a major reform of the public administration has been initiated. Human rights, democracy and social equity are the main rules governing society, while the economy is functioning based on competition, private initiative and a stimulated business environment. The major transitional reforms appear irreversible and integration into EU structures will accentuate the permanent quality of these reforms.

Nevertheless, as an EU member state, Romania will be confronted with new challenges, especially in the economic domain. The country will enter the EU with an insufficiently competitive economy, characterised by the prevalence of low value-added activities and a labour force with a relatively low level of qualifications and adaptability. The Romanian economy will therefore be exposed to increased competition from EU companies, which may result, in the short to medium term, in a declining growth rate of domestically produced output.

The entrepreneurial culture in Romania is still weak. The SME sector, which should be the driving force in the economy, is relatively fragile and poorly capitalised. The country's technological endowment is highly deficient; technical progress has been modest over the whole period of transition and consequently, a major proportion of economic activities take place with outdated technologies. Overall, productivity is still very low compared with the averages of the EU and the NMS, owing to the high costs of production.

The physical infrastructure is insufficiently developed, obsolete and unevenly distributed over the whole territory, which poses serious access problems for almost 20% of localities. Environmental protection is an issue of serious concern and the policies adopted to date in this domain indicate a severe case of dilettantism in the management of environmental problems.



The most challenging issue for the future remains agriculture. Inefficient, highly labour-intensive and excessively fragmented, the sector needs deep reform and considerable financial investment. Technologically, agriculture is the least developed sector of the Romanian economy, lagging behind EU countries by several decades; small farming takes place with rudimentary tools and animal-based equipment. Even if the government were to offer favourable conditions for the acquisition of modern machinery, the small size of most individual exploitations might make the use of machinery too costly. For many years into the future, the most problematical aspect of the agricultural sector will be the size of the rural population, currently approaching 50% of the country's total population. Efficiency improvements will reduce labour intensity and hence free up a significant proportion of the current agricultural labour force. The stimulation of non-agricultural employment is therefore crucial for the success of agricultural reform measures.

The challenges in the social sector are mainly related to Romania's demographics. An ageing tendency in the population will burden the whole system of social protection, particularly the pension system. The low number of contributors will soon jeopardise the sustainability of the system, unless contributions from farmers become mandatory. That being stated, the income earned by the vast majority of farmers is so low that their potential contribution would be insignificant.

Regional disparities represent a major difficulty for government policy. The communist policy of regional specialisation and the creation of mono-industrial zones has been accompanied, during the transition, by a polarisation of economically dynamic activities in large urban areas with good access to infrastructure, while poorly developed, mostly agrarian areas have concentrations of the low-skilled unemployed, the retired and individuals for whom cities are too expensive given their low incomes. The gap between rural and urban areas has widened in many respects – in terms of educational levels, average skills and qualifications, employment opportunities and poverty.

State institutions and the judiciary system, although radically reformed, are still rigid, fragile and ineffective. Bureaucracy and corruption are the main plagues of the system, insufficiently and inefficiently tackled by successive transitional governments, despite an impressive number of legislative and institutional initiatives aimed at reducing these problems.

## Glossary of Abbreviations

ALMPs	Active labour market policies
CASPIS	Commission for Anti-Poverty and Promotion of Social Inclusion (Romania)
CPF	Complementary pension fund (Romania)
ESC	Economic and Social Council
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
ISCED	International Standard Classification of Education
MGI	Minimum guaranteed income (Romania)
MLSSF	(Romanian) Ministry of Labour, Social Solidarity and Family
NAE	National Agency for Employment (Romania)
NBR	National Bank of Romania
NGOs	Non-government organisations
NIS	National Institute of Statistics (of Romania)
NMS	New member states
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation of Economic Cooperation and Development
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
RG	Romanian government
ROL	Romanian leu
SIB	Social insurance budget (Romania)
SIGMA	Support for Improvement in Governance and Management
SMEs	Small and medium-sized enterprises
TIMSS	Third International Mathematics and Science Study
UN	United Nations
UNDP	United Nations Development Programme

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## Annex to BALKANDIDE Romania country report

### Romania - additional indicators

Annex 4.1	Economy, labour market
Annex 4.2	Demography
Annex 4.3	Living conditions
Annex 4.4	Tax-benefit general
Annex 4.5	Tax-benefit ESSPROS
Annex 4.6	Governance

## Annex 4.1: Economy, labour market

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>Inflation rate</b>	National Bank of Romania		%													
aggregate CPI			%						45.7	34.5	22.5	15.3	11.9	9.0	5.0	
Food items			%						43.7	35.7	18.3	14.7	9.5	6.1		
Non food items			%						44.0	33.1	25.5	16.1	13.2	11.3		
services CPI			%						53.9	35.4	26.8	14.8	14.7	10.5		
<b>Foreign Direct Investment</b>	National Bank of Romania		billion EURO						1,147	1,294	1,212	1,946	4,098	5,197		
<b>Productivity</b>	National Institute for Statistics		%													
Labour productivity per person employed (GDP in Purchasing Power Standards (PPS) per person employed relative to EU-25 (EU-25 = 100))	Eurostat								28.2	30.2	32.5	33.6	35.9	36.6 <sup>(f)</sup>	37.9 <sup>(f)</sup>	39.2 <sup>(f)</sup>
average nominal monthly wage, EUR	National Institute for Statistics		EURO						107.19	116.01	121.24	128.86	147.22	187.79		
nominal average wage growth, local currency (previous year = 100)	National Institute for Statistics	net nominal wage	%						100.0	141.2	125.5	127.7	123.3	114.0		
<b>Macroeconomic policies &amp; other indicators</b>																
general government revenues; % of GDP	Ministry of Finance								31.2	30.1	29.3	29.8	29.7	33.6	29.6	
general government expenditures; % of GDP	Ministry of Finance								35.2	33.3	32.2	32.1	30.9	34.6	32.2	
lending	National Bank of Romania		%						53.2	45.7	36.7	26.2	25.8	19.2		
deposits	National Bank of Romania		%						32.4	26.2	18.4	10.8	11.3	6.2		
average annual exchange rate - local currency per 1 euro			ROL/EURO						19,956	26,027	31,255	37,556	40,532	36,234		
<b>Balance of payments</b>	National Bank of Romania															
Goods exports			million EURO						10,366	11,385	13,876	15,614	18,935	22,255		
Services exports			million EURO						1,747	2,033	2,347	2,671	2,903	3,931		
Goods imports			million EURO						12,050	14,354	16,487	19,569	24,258	30,061		
Services imports			million EURO						1,993	2,148	2,338	2,609	3,116	4,365		
current account			million EURO						-1,355	-2,488	-1,623	-3,060	-5,099	-6,891		
worker remittances		net remittances	million EURO						89	108	130	92	86	747		
capital and financial account			million EURO						1,230	1,672	2,493	3,471	4,215	5,370		
direct investment in reporting country			million EURO						1,147	1,294	1,212	1,946	4,098	5,197		

## Annex 4 | Romania - other indicators

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>Labour market indicators</b>	all data apply to 15+ group if nothing else is said; 15+ means also 65+														
participation rate		%													
total								63.2	62.2	56.0	54.8	54.8	53.7	55.2	58.5
age 15-64								68.6	67.5	63.6	62.4	63.2	62.3	62.7	63.0
age 15-24								43.1	41.5	38.9	34.2	36.8	32.4		
age 24-55								83.0	81.6	78.6	78.0	78.3	78.4		
age 55-64								50.0	48.7	38.3	38.8	37.9	38.3		
employment rate		%													
total								58.8	58.1	51.3	51.0	51.2	51.5	51.7	
age 15-64								63.2	62.6	58.0	57.8	57.9	58.4	58.8	
age 15-24								35.1	34.3	30.5	27.9	29.1	25.4		
age 24-55								77.5	76.7	72.8	73.1	72.9	72.3		
age 55-64								49.5	48.2	37.7	38.1	36.9	37.4		
unemployment rate	average period	%													
total								7.1	6.6	8.4	7.0	8.0	6.0	6.3	7.6
age 15-64								18.6	17.5	21.7	18.5	21.0	21.8		
age 15-24															
age 24-55								1.0	1.1	1.7	1.7	2.8	2.4		
age 55-64															
participation rate		%													
male								65.1	64.3	57.8	57.9	56.8	55.9		
age 15-64								69.1	68.2	64.1	64.1	63.6	62.9		
age 15-24								39.5	38.3	34.6	32.6	32.8	29.4		
age 24-55								83.7	82.8	79.6	80.1	79.2	79.0		
age 55-64								56.0	54.3	43.1	43.5	43.1	44.1		
employment rate		%													
male								70.6	69.2	63.5	62.5	62.4	61.6		
age 15-64								75.4	73.9	70.7	69.6	70.2	69.5		
age 15-24								49.1	46.5	44.2	39.9	42.3	37.9		
age 24-55								90.0	88.6	86.4	85.8	85.7	86.1		
age 55-64								56.9	55.3	44.2	44.6	44.9	45.8		
unemployment rate		%													
male															
age 15-64								7.7	7.1	8.9	7.5	9.0	9.3		
age 15-24								19.6	17.6	21.7	18.3	22.4	22.5		
age 24-55															
age 55-64								1.6	1.7	2.6	2.5	4.0	3.7		
participation rate		%													
female								52.8	52.4	45.2	44.6	44.5	42.8		
age 15-64								57.5	57.1	52.0	51.5	52.1	50.7		
age 15-24								30.5	30.0	26.2	22.9	25.1	21.2		
age 24-55								71.2	70.6	66.0	66.0	66.6	65.7		
age 55-64								43.8	42.9	33.0	33.3	31.4	31.6		
employment rate		%													
female								56.4	55.7	49.0	47.6	47.8	46.3		
age 15-64								61.9	61.1	56.7	55.3	56.2	55.1		
age 15-24								36.8	36.3	33.4	28.2	31.0	26.7		
age 24-55								76.0	74.8	70.9	70.1	70.9	70.7		
age 55-64								43.9	43.1	33.2	33.6	31.9	31.8		

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
unemployment rate			%													
female									6.4	5.9	7.7	6.4	6.9	7.9		
age 15-64									17.2	17.4	21.7	18.7	18.9	20.8		
age 15-24																
age 24-55																
age 55-64									0.4	0.4	0.5	0.9	1.4	0.6		
participation rate (by educational categories)	Ministry of Labour, Solidarity and Family		%													
<b>TOTAL</b>																
<b>15 - 64</b>																
Primary									58.96	49.76	44.55	45.17	44.24			
Secondary									67.48	63.92	63.15	63.42	62.58			
Post-secondary									74.53	72.87	73.60	73.95	75.22			
Tertiary									85.88	85.71	85.39	88.40	88.85			
Without studies									50.25	37.37	33.08	34.03	33.22			
<b>15-24</b>																
Primary									29.96	31.03	21.00	23.92	21.73			
Secondary									41.95	39.30	35.34	36.62	33.10			
Post-secondary									82.79	83.57	81.63	80.40	79.02			
Tertiary									82.72	87.93	80.03	81.46	84.69			
Without studies									41.99	27.12	27.88	27.42	26.41			
<b>25-64</b>																
Primary									66.45	54.86	53.08	92.22	51.86			
Secondary									76.57	72.28	72.17	109.10	72.18			
Post-secondary									73.97	72.18	73.11	128.94	75.00			
Tertiary									86.04	85.60	85.66	163.44	89.06			
Without studies									53.41	41.31	35.43	56.84	36.28			
employment rate (by educational categories)																
Primary												100				
Secondary	National Institute for Statistics	% of total										10.4				
Post-secondary			%									4.3				
Tertiary			%									30.5				
Without studies			%									24.7				
secondary			%									21.2				
primary or without studies			%									8.9				
unemployment rate (by educational categories)	Ministry of Labour, Solidarity and Family	% of total unemployed														
primary, secondary			%									63.8	83.3			
high school			%									29.1	12.9			
university			%									7.1	3.8			
Rural unemployment rate	Ministry of Labour, Solidarity and Family		%						3.5	3.1	2.8	5.4	4.3	6.2		
number of unemployed in Labour Force Survey registered	Ministry of Labour, Solidarity and Family		1000 persons						821	750	845	692	607	568		
No of unempl. Receiving support allowances			1000 persons						1,067	867	955	690	680	650		
No of unempl receiving compensatory payments			persons						391,932	286,214	122,943	1,595	6,000			
No of unempl not receiving unemployment benefits			persons						52,914	5,063	7,021	1,571	1,742			
			persons						255,220	219,242	416,935	361,306	330,738			

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>Active Labour Market Policies</b>	Ministry of Labour, Solidarity and Family															
number of unemployed taking part in ALMPs			persons						87,018	93,786	99,664	140,256				
expenditures on ALMPs			million ROL						210,269	1,115,179	1,562,854	3,014,981	2,867,959			
Passive/Active expenditures ratio									36.7	6.7	5.7	3.5	4.4			
<b>Regional labour market</b>	Ministry of Labour, Solidarity and Family															
Participation rate by regions			%													
North-East									68.8	67.6	59.5	58.4	59.8	58.6		
South-East									61.3	59.0	54.6	53.7	53.2	51.4		
South-Muntenia									65.1	63.7	57.0	55.5	55.5	54.0		
South-West Oltenia									70.0	70.1	59.9	58.9	57.6	56.8		
West									60.8	58.6	53.4	52.3	52.7	51.2		
North-West									63.1	63.5	55.7	54.1	52.4	51.8		
Centre									58.1	57.2	53.4	51.8	51.0	50.6		
Bucharest-Ilfov									55.2	52.4	52.4	51.8	54.0	52.6		
max									70.0	70.1	59.9	58.9	59.8	58.6		
min									55.2	52.4	52.4	51.8	51.0	50.6		
standard deviation									5.06	5.81	2.84	2.82	2.94	2.90		
Employment rate by regions																
North-East									64.2	63.7	54.9	54.8	56.1	54.8		
South-East									56.1	54.4	48.9	49.2	48.0	46.7		
South-Muntenia									60.2	59.4	51.4	51.2	50.2	48.0		
South-West Oltenia									66.1	66.3	55.8	55.3	53.3	52.4		
West									56.8	55.4	49.6	49.2	48.5	47.3		
North-West									58.6	59.3	51.5	50.9	49.0	48.0		
Centre									53.9	53.5	48.9	48.1	46.2	45.3		
Bucharest - Ilfov									51.4	48.8	49.0	47.4	49.5	48.4		
max									64.2	63.7	55.8	55.3	56.1	54.8		
min									51.4	48.8	48.9	47.4	46.2	45.3		
standard deviation									4.98	5.71	2.75	2.94	3.16	3.15		
Urban Employment rate by regions																
North-East									49.6	47.8	44.8	45.4				
South-East									46.6	46.1	45.3	46.1				
South-Muntenia									51.6	51.7	48.4	48.6				
South-West Oltenia									50.4	51.8	47.2	47.2				
West									49.2	48.9	48.0	47.4				
North-West									50.7	50.3	48.1	48.3				
Centre									50.2	50.4	48.0	48.6				
Bucharest-Ilfov									50.7	47.4	48.5	48.0				
max									50.7	51.8	48.5	48.6				
min									46.6	46.1	44.8	45.4				
standard deviation									1.51	2.09	1.44	1.18				
unemployment rate by regions, NUTS 2			%													
North-East									6.8	5.9	7.6	6.3	6.2	6.5		
South-East									8.6	7.8	10.4	8.2	9.8	9.1		
South-Muntenia									7.5	6.7	9.8	7.7	9.5	11.2		
South-West Oltenia									5.6	5.5	6.8	6.0	7.5	7.8		
West									6.6	5.6	7.1	5.9	8.0	7.7		
North-West									7.2	6.6	7.6	6.0	6.5	7.4		
Centre									7.3	6.5	8.4	7.1	9.6	10.4		
Bucharest-Ilfov									7.0	8.4	8.8	8.6	7.5	7.9		
max									8.6	8.4	10.4	8.6	9.8	11.2		
min									7.0	5.5	7.1	6.0	6.2	6.5		
standard deviation									0.85	1.03	1.29	1.08	1.41	1.60		

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
Urban unemployment, by regions									13.3	12.4	12.7	10.7				
North-East									14.2	12.8	13.4	10.8				
South-East									12.1	9.6	13.5	10.9				
South-Muntenia									12.8	13.0	12.5	11.1				
South-West Oltenia									9.9	8.0	8.5	6.8				
West									10.8	10.4	10.5	8.2				
North-West									10.3	8.8	10.9	9.1				
Centre									7.2	8.8	8.5	8.5				
Bucharest-Ilfov									14.2	12.8	13.5	11.1				
max									7.2	8.0	8.5	6.8				
min									2.25	2.00	2.04	1.59				
standard deviation																
<b>Self-employment</b>	Ministry of Labour, Solidarity and Family		% total employment													
rate of self-employment including agriculture									43.9	44.3	38.3	37.5	34.1	34.2		
rate of self-employment outside agriculture											4.1	3.9	4.6	5.0		
<b>Legislative and regulatory framework</b>																
Transparency International corruption index	<a href="http://www.transparency.org/policy_and_research/surveys_indices/cpi">http://www.transparency.org/policy_and_research/surveys_indices/cpi</a>					3.4	3.0	3.3	2.9	2.8	2.6	2.8	2.9	3.0		
WB Control of Corruption from Governance Indicators	<a href="http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186">http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186</a>		percentile rank		51.3		44.3		39.8		45.4		49.3			
<b>Privatisation and private sector development</b>																
EBRD index of small-scale privatisation	EBRD, Transition Report 2005							3.7	3.7	3.7	3.7	3.7	3.7	3.7		3.7
EBRD index of large-scale privatisation								2.7	3	3.3	3.3	3.3	3.7	3.7		3.7
EBRD index of enterprise reform								2	2	2	2	2	2	2		2.3
EBRD index of competition policy								2.3	2.3	2.3	2.3	2.3	2.3	2.3		2.3
Doing Business', Dealing with licenses - time	<a href="http://www.doingbusiness.org/ExploreEconomies">http://www.doingbusiness.org/ExploreEconomies</a>		days													291
Doing Business', Starting a business - duration			days										27	11		
Doing Business', Starting a business - no. Of procedures			no. of procedures										6	5		
WB Regulatory Quality from Governance Indicators	<a href="http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186">http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186</a>		percentile rank		30.4		58.2		35.8		55.1		49.8			
WB Government Effectiveness from Governance Indicators	<a href="http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186">http://info.worldbank.org/governance/kkz/2004/country_report.asp?countryid=186</a>		percentile rank		29.6		24.6		30.6		46.3		52.9			
<b>Structure of the economy</b>																
Value added by sector (% of total value added in the economy)																
Industry (excluding construction)	National Institute for Statistics, 2006, Evolutia sectorului privat din Romania	2004-semifinal data Data for 1988-2004 calculated according to the SEC 95 methodology.	%			30.9	26.3	24.8	27.3	27.7	28.1	25.0	25.1			
Services			%		38.4	44.4	46.4	46.3	44.5	45.3	46.4	45.2				
Agriculture			%		18.0	14.4	13.3	11.1	13.3	11.4	11.6	12.8				
			%		5.2	5.1	5.0	4.9	5.3	5.8	5.8	6.0				

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
Value added by sector - annual growth rates	<a href="http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004">http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004</a>		%						2.2	6.7	5.1	4.9	8.2			
Industry		Excluding construction	%						5.9	4.4	5.1	4.4	6.2			
Services		Including agriculture, fishing and forestry	%						5.5	3.6	7.1	5.3	6.1			
Agriculture			%						-18.1	28.0	-6.7	5.0	22.2			
			%						6.3	11.1	7.6	7.0	9.0			
Employment by sector (% of total employment in the economy)	National Institute for Statistics, Social Trends 2005					100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Industry		Excluding construction	%			26.3	25.4	23.9	22.4	22.2	25.0	25.2	26.0			
Services		Including agriculture, fishing and forestry	%			30.5	30.6	30.7	31.0	31.5	34.1	34.5	37.2			
Agriculture			%			39.0	40.0	41.8	42.8	42.3	36.4	35.7	31.6			
Construction			%			4.2	4.0	3.7	3.7	4.0	4.5	4.6	5.2			
Private sector share in total employment	National Institute for Statistics, Social Trends, 2005	Private sector includes "private", "cooperatives" and "others"	%			53.1	56.9	62.1	67.1	70.4	69.9	72.1	73.9			
Business investment % of GDP	Eurostat			:	:	:	:	:	:	18.3	18.3	:	:			
SME in gross value added	<a href="http://www.animmc.ro/files/imm/situatie_sector_imm.pdf">http://www.animmc.ro/files/imm/situatie_sector_imm.pdf</a>	ANIMMC - National Agency for SMEs							58.2	57.4	56.9					
<b>Financial sector</b>																
EBRD index of banking reform	EBRD, Transition Report 2005							2.7	2.7	2.7	2.7	2.7	3	3		
EBRD index of reform of non-banking financial institutions	EBRD, Transition Report 2006 National Bank of Romania from Country Economic Memorandum, World Bank, June 2004							2	2	2	2	2	2	2		
Interest rate spread (GCR)		Since February 1st, 2002: official discount rate; for 2002: eop.		12.1	17.7	12.1	18.6	20.5	20.8	18.7	16.5					
<b>Education</b>																
Gross enrolment rates at various stages of formal education	National Institute for Statistics, 2004, Women and Men: Work and Life Partnership	Years refer to school years														
in primary education																
total				93.3	94.4	95.0	97.0	96.8	97.2	97.0	97.9	100.3				
male				93.8	95.0	95.7	97.5	97.3	97.8	97.7	98.6	101.1				
female				92.7	93.7	94.3	96.4	96.2	96.6	96.3	97.2	99.5				
in secondary education		Excluding profesional/vocational education														
total				50.3	51.9	51.9	51.5	52.6	53.2	55.4	54.9	54.6				
male				43.7	45.7	45.8	45.3	46.5	47.2	49.3	48.4	48.5				
female				57.3	58.4	58.2	57.8	58.9	59.5	61.8	61.8	60.9				
in tertiary education		Does not include post-secondary school														
total				18.0	18.4	18.3	20.6	23.1	27.7	31.2	35.3	37.9				
male				17.5	17.9	17.8	19.7	21.8	25.2	28.0	31.4	33.5				
female				18.5	18.9	18.8	21.5	24.5	30.2	34.6	39.3	42.6				



## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>Employment by sector (thousands persons)</b>	National Institute for Statistics, Social Trends 2005															
Total employment						11,050.0	10,844.9	10,775.6	10,763.8	10,696.9	9,234.2	9,222.5	9,157.6			
Agriculture, forestry						4,302.2	4,334.5	4,491.6	4,598.7	4,523.1	3,356.8	3,285.7	2,892.8			
Fishing						8.8	7.6	7.6	7.9	3.7	4.7	6.6	Insignificant			
Mining and quarrying						225.4	201.9	186.3	163.2	150.0	144.2	138.2	134.5			
Manufacturing						2,443.6	2,313.7	2,164.8	2,053.8	2,024.8	1,971.7	1,999.1	2,051.3			
Electricity, gas and water supply						234.4	235.0	223.5	195.8	198.9	194.8	187.1	191.8			
Construction						467.6	433.5	397.0	403.4	430.0	412.8	425.9	478.5			
Trade						882.6	925.9	926.3	928.4	951.9	859.3	861.3	943.4			
Hotels and restaurants						161.4	142.1	123.9	122.8	130.9	112.0	119.4	147.9			
Transport, storage and communications						558.9	529.4	499.8	511.4	519.4	457.6	461.3	454.1			
Financial intermediation						90.2	81.8	87.0	92.6	75.9	75.5	82.9	86.2			
Real estate, renting and business activities						167.6	153.9	141.1	132.3	124.1	135.2	149.9	231.5			
Public administration and defense						500.3	504.6	532.7	563.1	581.4	548.8	529.9	538.2			
Education						435.6	428.1	423.2	415.0	409.3	410.8	406.0	402.7			
Health and social work						358.5	335.4	340.5	345.8	350.6	350.4	350.3	361.7			
Other activities						212.9	217.5	230.3	229.6	222.9	199.6	218.9	239.6			
<b>Private sector share in total employment</b>	National Institute for Statistics, Social Trends 2005															
Total employment (thou.)						11,050.0	10,844.9	10,775.6	10,763.8	10,696.9	9,234.2	9,222.5	9,157.6			
Private sector employment (thou.)		Private sector includes "privat", "cooperatives" and "others"				5,868.6	6,174.1	6,693.7	7,217.6	7,535.0	6,450.1	6,650.3	6,763.4			
Share of the private sector in total employment						53.1	56.9	62.1	67.1	70.4	69.9	72.1	73.9			
<b>Share of private sector by sector (%)</b>	UNDP, National Human Development Report 2005	2002 Census data														
Total employment											69.9					
Agriculture, forestry											98.6					
Fishing											70.5					
Mining and quarrying											17.7					
Manufacturing											80.5					
Electricity, gas and water supply											16.0					
Construction											80.9					
Trade											91.4					
Hotels and restaurants											85.3					
Transport, storage and communications											49.9					
Financial intermediation											52.8					
Real estate, renting and business activities											71.6					
Public administration and defense											0.0					
Education											4.0					
Health and social work											18.2					
Other activities											66.7					
<b>Number of SME employees by sector</b>	ANIMMC (National Agency for SMEs), in the National Development Plan 2007-2013															
Agriculture, forestry and fishing										72,037	78,689	78,562	77,781			
Construction										199,811	208,848	230,191	250,895			
Industry										655,992	715,629	755,409	799,563			
Services										1,194,777	939,799	1,070,794	1,221,486			

## Annex 4 | Romania - other indicators

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>Number of active enterprises in industry, construction, trade and other services by sector and by size</b>	National Institute for Statistics, www.insse.ro, Regional statistics	* Includes only units (active in education, health and social work) registered as commercial societies													
Total		number				323,790		313,508	317,555	322,188	359,399				
Mining and quarrying						1,484		547	550	604	754				
Manufacturing						39,904		42,581	43,839	47,582	52,521				
Electricity, gas and water supply						437		480	465	532	727				
Construction						11,004		12,464	14,796	17,057	21,352				
Trade and repair						224,287		205,185	195,640	181,388	184,301				
Hotels and restaurants						10,265		10,040	10,568	13,678	15,715				
Transport, storage and communications															
Real estate, renting and business activities						12,823		13,304	16,175	18,648	22,177				
Education*						13,655		18,327	24,347	30,941	46,571				
Health and social work*						597		566	643	779	952				
Other services						3,793		3,569	4,069	4,441	5,541				
Other services						6,521		6,445	6,463	6,538	8,788				
Total MICRO (0-9 employees)						289,035		273,836	275,410	278,879	310,733				
Mining and quarrying						141		174	192	226	385				
Manufacturing						28,368		29,038	29,536	32,428	36,330				
Electricity, gas and water supply						38		66	72	78	169				
Construction						6,888		8,087	10,087	12,180	16,037				
Trade and repair						211,573		190,964	180,892	167,035	167,512				
Hotels and restaurants						8,958		8,612	9,080	11,958	13,802				
Transport, storage and communications															
Real estate, renting and business activities						10,839		11,133	13,797	16,133	19,275				
Education*						12,078		16,058	21,609	28,088	43,137				
Health and social work*						528		507	575	715	861				
Other services						3,717		3,477	3,920	4,285	5,330				
Other services						5,907		5,720	5,650	5,753	7,895				
Total SMALL (10-49 employees)						25,009		29,516	31,573	32,281	37,015				
Mining and quarrying						138		144	148	167	192				
Manufacturing						7,378		8,833	9,230	9,755	10,533				
Electricity, gas and water supply						47		71	81	92	156				
Construction						2,567		2,898	3,189	3,389	3,724				
Trade and repair						11,189		12,766	13,315	12,895	15,188				
Hotels and restaurants						1,068		1,183	1,237	1,440	1,658				
Transport, storage and communications															
Real estate, renting and business activities						1,082		1,357	1,584	1,724	2,075				
Education*						1,054		1,664	2,036	2,080	2,589				
Health and social work*						65		56	62	59	83				
Other services						69		87	135	139	187				
Other services						352		457	556	541	630				
Total MEDIUM (50-249 employees)						6,911		7,725	8,166	8,656	9,323				
Mining and quarrying						80		99	82	93	93				
Manufacturing						2,674		3,420	3,782	4,140	4,383				
Electricity, gas and water supply						147		147	143	161	203				
Construction						1,249		1,242	1,286	1,282	1,409				
Trade and repair						1,369		1,350	1,329	1,347	1,504				
Hotels and restaurants						209		223	226	262	238				
Transport, storage and communications															
Real estate, renting and business activities						547		507	487	482	511				
Education*						414		500	588	657	729				
Health and social work*						4		3	6	4	8				
Other services						7		4	13	17	24				
Other services						211		230	224	211	221				

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
Total LARGE (250 employees and over)							2,835		2,431	2,406	2,372	2,328				
Mining and quarrying							145		130	128	118	84				
Manufacturing							1,484		1,290	1,291	1,259	1,275				
Electricity, gas and water supply							205		196	169	201	199				
Construction							300		237	234	206	182				
Trade and repair							156		105	104	111	97				
Hotels and restaurants							30		22	25	18	17				
Transport, storage and communications																
Real estate, renting and business activities							109		105	114	116	116				
Education*							-		-	-	1	-				
Health and social work*							-		1	1	-	-				
Other services							51		38	33	33	42				
<b>Domestic credit and loans (including consumer loans and mortgages) as share of GDP</b>	EBRD, Transition Report 2005															
Domestic credit to private sector (in per cent of GDP)								8.1	7.2	7.7	8.3	9.5	10.0			
Domestic credit to households (in per cent of GDP), including mortgages								:	:	:	:	3.9	4.9			
Total credit as % of GDP	Table 22, p. 41							18.8					15.3			
<b>Concentration indexes (% of total)</b>	Study CEROPE, 2002, based on National Bank data.	At 31st December														
Share of the 5 largest banks																
Assets								61.44	65.46	66.63						
Deposits								61.25	67.50	68.51						
Loans								57.60	59.11	58.04						
<b>Gross enrollment rate, by education level and gender (%)</b>	National Institute for Statistics, 2004, Women and Men: Work and Life Partnership	Years refer to school years														
TOTAL				64.0	64.7	65.1	66.3	67.3	68.9	70.6	72.9	74.2				
Pre-school				58.4	60.4	62.8	64.2	65.2	66.1	67.5	71.0	71.8				
Primary school and gymnasium				93.3	94.4	95.0	97.0	96.8	97.2	97.0	97.9	100.3				
High school				50.3	51.9	51.9	51.5	52.6	53.2	55.4	54.9	54.6				
Professional / vocational school				18.3	17.2	16.7	16.3	16.8	18.5	19.7	20.0	20.1				
Post secondary school				2.9	3.8	4.4	4.9	4.8	4.3	3.9	3.7	3.3				
Tertiary school				18.0	18.4	18.3	20.6	23.1	27.7	31.2	35.3	37.9				
MALE				63.4	64.3	64.5	65.4	66.3	67.7	69.2	71.2	72.5				
Pre-school				57.7	59.8	62.1	63.4	64.1	65.1	66.5	70.1	71.1				
Primary school and gymnasium				93.8	95.0	95.7	97.5	97.3	97.8	97.7	98.6	101.1				
High school				43.7	45.7	45.8	45.3	46.5	47.2	49.3	48.4	48.5				
Professional / vocational school				23.6	22.4	21.7	21.2	21.6	23.3	24.1	24.6	24.5				
Post secondary school				2.8	3.2	3.2	3.4	3.4	3.1	2.9	2.7	2.5				
Tertiary school				17.5	17.9	17.8	19.7	21.8	25.2	28.0	31.4	33.5				
FEMALE				64.4	65.2	65.7	67.2	68.3	70.2	72.1	74.6	75.9				
Pre-school				59.1	60.9	63.5	65.1	66.4	67.1	68.6	71.9	72.6				
Primary school and gymnasium				92.7	93.7	94.3	96.4	96.2	96.6	96.3	97.2	99.5				
High school				57.3	58.4	58.2	57.8	58.9	59.5	61.8	61.8	60.9				
Professional / vocational school				12.7	11.7	11.6	11.2	11.9	13.6	15.1	15.3	15.5				
Post secondary school				3.0	4.5	5.6	6.4	6.3	5.4	5.0	4.7	4.2				
Tertiary school				18.5	18.9	18.8	21.5	24.5	30.2	34.6	39.3	42.6				



## Annex 4.2: Demography

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2015	2020	2050
<b>Population structure by age and gender</b>																	
	Government of Romania and European Commission, Joint Inclusion Memorandum on Social Inclusion, 2005																
total		1000 persons	22,681.0	22,607.6	22,545.9	22,502.8	22,458.0	22,435.2	22,408.4	21,794.8	21,733.6	21,673.3					
female		% in total	51.0	51.0	51.0	51.1	51.1	51.1	51.1	51.2	51.2	51.2					
male		% in total	49.0	49.0	49.0	48.9	48.9	48.9	48.9	48.8	48.8	48.8					
	National Institute for Statistics, Social Trends, 2005																
<15		% in total			19.4	19.1	18.8	18.3	17.8	17.3	16.7	16.1					
15-24		% in total			16.8	16.7	16.4	16.1	15.7	15.6	15.6	15.6					
25-44		% in total			28.5	28.6	28.9	29.1	29.4	29.1	29.2	29.5					
45-64		% in total			22.6	22.8	23.0	23.2	23.4	23.9	24.1	24.3					
over 65		% in total			12.4	12.8	13.0	13.3	13.6	14.1	14.4	14.5					
	National Institute for Statistics, 2004, Woman and Men: Work and Life Partnership																
<b>Fertility</b>																	
average age of mothers at first birth			22.7	22.9	23.1	23.3	23.5	23.7	23.9	24.2	24.3						
<b>Life expectancy</b>																	
total, at 60	UN Demographic Yearbook	years				17.8	18.3			18.2							
female at 60	Eurostat	years		18.8	19.1		19.4	19.7	19.9	19.8	20						
male at 60	Eurostat	years		15.4	15.6		16	16.4	16.4	16.1	16.3						
<b>Migration</b>																	
total immigration	National Institute for Statistics, Statistical Yearbook UNDP, National Human Development Report 2005, based on National Institute for Statistics data	number	4458	2053	6600	11907	10078	11024	10350								
total emigration		1000 persons		21.5	19.9	17.5	12.6	14.8	9.9	8.2	10.7	13.1					
immigration by education																	
ISCED 0-2		%	27.9	30.7	25.8	14.6	25.1	23.2	17.9								
ISCED 3-4		%	42.0	44.4	47.1	53.1	41.4	46.0	42.1								
ISCED 5-7		%	19.0	15.8	19.9	22.7	23.3	22.5	31.6								
	<a href="http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004">http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004</a>																
emigration by education																	
ISCED 0-2	Primary and gymnasium	%	23.8	24.4	23.0	18.1	21.0	16.2	15.1	18.3	16.5	17.4					
	Professional/ vocational, Highschool and postsecondary	%	43.6	43.5	41.8	34.3	30.9	37.2	35.8	45.7	47.9	50.5					
ISCED 3-4	University	%	16.4	17.6	17.5	16.6	19.5	22.9	27.1	26.8	25.8	26.7					
ISCED 5-7																	
<b>Family structure and changes</b>																	
average family size	2002 Census	persons								2.92							
single households	2002 Census	number								1384422							
single-parent households	2002 Census	number								856564							
couples with no children	2002 Census	number								2108885							
<b>Projections</b>																	
projected total population	Eurostat	million											21.7	21.3	20.9	20.3	17.1

Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2015	2020	2050
<b>Ethnic minorities</b>																		
ethnic structure of the population; % of total population	2002 Census	Nationality was registered according to ethnic self-identification.	% of total population															
Romanian			% of total population								89.5							
Hungarian			% of total population								6.6							
Roma/Gypsy			% of total population								2.5							
German			% of total population								0.3							
Others			% of total population								1.2							
	<a href="http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004">http://www.mie.ro/Pdr/Romana/mdp_mie_ro/dezvoltare/pnd2004</a> and for 1995-1998, National Institute for Statistics, Statistical Yearbook																	
<b>Emigration by education</b>																		
Total number of emigrants			number	25675	21526	19945	17536	12594	14753	9921	8154	10673	13082					
Primary and gymnasium			number	6107	5251	4579	3167	2645	2389	1496	1495	1761	2282					
Professional /vocational			number	2681	2043	1748	1135	570	749	608	290	171	198					
Highschool and postsecondary			number	8518	7317	6582	4875	3316	4740	2940	3435	4941	6407					
Tertiary			number	4218	3784	3497	2913	2450	3384	2688	2187	2753	3491					
Other situations			number	4151	3131	3539	5446	3613	3491	2189	747	1047	704					
ISCED 0-2			%	23.8	24.4	23.0	18.1	21.0	16.2	15.1	18.3	16.5	17.4					
ISCED 3-4			%	43.6	43.5	41.8	34.3	30.9	37.2	35.8	45.7	47.9	50.5					
ISCED 5-7			%	16.4	17.6	17.5	16.6	19.5	22.9	27.1	26.8	25.8	26.7					
<b>Immigration by education</b>																		
Total number of emigrants	National Institute for Statistics, Statistical Yearbook		number	4458	2053	6600	11907	10078	11024	10350								
Primary and gymnasium	National Institute for Statistics, Statistical Yearbook		number	1243	631	1704	1740	2529	2559	1857								
Professional /vocational	National Institute for Statistics, Statistical Yearbook		number	546	294	904	1379	698	1279	1091								
Highschool and postsecondary	National Institute for Statistics, Statistical Yearbook		number	1328	618	2205	4946	3477	3791	3269								
Tertiary	National Institute for Statistics, Statistical Yearbook		number	849	324	1316	2704	2344	2479	3267								
Other situations	National Institute for Statistics, Statistical Yearbook		number	492	186	471	1138	1030	916	866								
ISCED 0-2			%	27.9	30.7	25.8	14.6	25.1	23.2	17.9								
ISCED 3-4			%	42.0	44.4	47.1	53.1	41.4	46.0	42.1								
ISCED 5-7			%	19.0	15.8	19.9	22.7	23.3	22.5	31.6								
<b>United Nations Medium Fertility Projection</b>	United Nations, Department of Economic and Social Affairs, Population Division: World Population Prospects																	
projected total population	DEMOBASE extract. 2006.		thousands number of children per woman											21286.583	20871.305	20396.061	16757.443	
projected fertility																		
projected total dependency ratio			%											1.267	1.323	1.396	1.802	
projected old-age dependency ratio			%											41.90	42.60	45.09	72.68	
			%											20.93	22.03	24.77	49.57	

Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2015	2020	2050
<b>Internal migration</b>																		
Total internal migration between NUTS2 regions for the year 2000																		
							<b>Out the region (at 1000 inh.)</b>	<b>In the region (at 1000 inh.)</b>										
			<b>Region population</b>					<b>Net migration between regions</b>										
		<b>Out</b>	<b>In</b>															
NORTH-EAST		11156	9927	3823492			2918	2596										
SOUTH-EAST		8504	7970	2934319			2898	2716										
SOUTH		8450	11222	3465468			2438	3238										
SOUTH-WEST		5900	5673	2399831			2459	2364										
WEST		6958	8858	2041129			3409	4340										
NORTH-WEST		5418	4296	2844042			1905	1511										
CENTRE		7308	7349	2642242			2766	2781										
BUCHAREST		10633	9032	2284682			4654	3953										
TOTAL		64327	64327	22435205			2867											

Source: Own calculations based on National Institute for Statistics data on migration between counties.

Note: Does not include internal migration between counties of the same region

Internal migration flows (permanent residence changing, urban and rural)	National Institute for Statistics, 2004, Statistical yearbook	( % of total population)											
Total		12.8	13.0	13.4	12.3	12.3	10.9	12.7	14.7	15.3	17.1		
From rural to urban		5.9	5.0	5.6	4.9	4.7	3.9	5.7	6.2	6.6			
From urban to urban		6.1	6.5	6.1	5.9	6.0	4.7	6.4	7.2	7.8			
From rural to rural		7.8	7.0	7.6	6.4	5.9	5.5	5.6	6.8	6.3			
From urban to rural		5.8	6.7	7.9	7.7	8.3	8.1	7.8	9.5	9.8			





## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Persons with low educational attainment</b>														
Children aged 7-14 years who are not enrolled	UNDP, National Human Development Report 2005		%		13.0	12.1	10.5	11.0	7.7	11.2	10.8	10.7		
Proportion of the illiterate adult population	UNDP, National Human Development Report 2006		%		3.0	3.0	3.0	3.0	3.0	2.8	2.6	2.7		
Adult female illiterate rate	UNDP, National Human Development Report 2007		%		4.6	4.6	4.4	4.4	4.5	4.0	3.7	3.7		
Roma children 7-18 years who are not enrolled	Zamfir and Preda (coord.), Roma in Romania, 2002, based on ICCV Roma National Survey 1998		%				46.6							
<b>Illiterate adult population by ethnic groups</b>														
Total population	2002 Census		%								2.6			
Romanian ethnics			%								2.1			
Hungarian ethnics			%								1.4			
Roma ethnics			%								25.6			
<b>Proportion of employed persons who have difficulties reconciling work and family life several times a week (% in 2003)</b>														
Too tired to do household jobs	EQLS 2003, European Foundation for the Improving of Living and Working Conditions, Quality of Life in Europe, 2005											36		
Difficulties in fulfilling family responsibilities												17		
Difficulties in concentrating at work												3		
Difficulties fulfilling family responsibilities several times a week: ratio of working parents with children less than four years to all other employed persons													1.7	
<b>Percentage of households affected by negative environmental factors</b>														
	Romania	2001												
		Urban	Rural	Romania	2005									
				Urban	Rural									
Humidity	5.8	7.2		3.9 7.1	6.4					5.8				7.1
Cold	7.3	9.7		4.2 6.9	6.5					7.3				6.9
Noise due to traffic	19.2	25.2		11.6 17.3	21.1					12.4				17.3
Noise due to commercial activities	3.2	4.6		1.5 3	4.7					0.8				3
Industrial noise	2.2	3.3		0.9 1.3	1.5					1.1				1.3
Noise caused by crowd	13.7	19		6.8 9.3	12.8					4.7				9.3
Air pollution, nasty smell	16.6	23.2		8.3 10.6	14.1					6				10.6
Lack of intimacy	3.4	2.4		4.7 3	1.8					4.6				3
At least one of the above problems	44.6	58		27.5 36.3	41.9					29				36.3
Source: National Institute for Statistics, Living Conditions Analysis (ACOV), 2002 and 2006														

Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Complains about environmental problems</b>	EQLS (European Quality of Life Survey), 2003		%											
Noise												19		
Air Pollution												26		
Lack of gree space												17		
Water Quality												22		
At least two problems												26		

## Annex 4.4: Tax-benefit general

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Exchange rate</b>		average annual exchange rate of national currency to euro							19,956	26,027	31,255	37,556	40,532	36,234	
<b>Social protection provisions</b>		Ministry of Labour, Solidarity and Family													
old-age									4,359	4,544	4,664	4,703	4,611	4,625	
		number of beneficiaries, total	1000												
		number of beneficiaries, female	1000												
		number of beneficiaries, male													
		coverage													
		average benefit in local currency	ROL												
Social insurance									911,321	1,305,121	1,634,945	1,870,402	2,321,110	2,840,000	
Social insurance in agriculture									188,383	271,651	343,816	384,893	737,770	1,120,000	
		average benefit in euro		43	39	45	49	48	49	65	78	65	78	78	
		average benefit as percentage of average net wage		39.9	40.7	36.1	37.0	37.2	37.1	35.7	36.6	35.7	36.6	36.6	
disability															
		number of beneficiaries, total	1000						657.0	701.7	745.8	785.3	842.9		
		average benefit in local currency	ROL						1,088,926	1,370,920	1,530,886	1,841,957	2,220,000		
		average benefit in euro							41.84	43.86	40.76	45.44	61.27		
		average benefit as percentage of average net wage	%						36.06	36.18	31.63	30.87	32.63		
survivors															
		number of beneficiaries, total	1000						646.9	649.7	649.7	641.8	622.8		
		average benefit in local currency	ROL						610,112	784,119	921,826	1,130,482	1,390,000		
		average benefit in euro							23.44	25.09	24.55	27.89	38.36		
		average benefit as percentage of average net wage	%						20.21	20.69	19.05	18.94	20.43		
family and children															
		number of beneficiaries, total							2,139,138	3,019,424	3,789,202	4,839,648	5,967,286	6,804,414	
State allowances for children from MMSF funds			1000										1,545		
Allowances for newly born children													185		
Support allowances for mono-parental families													209		
Complementary family allowances													668		
Allowance for children in family placement													48.26		
		average benefit in local currency													
State allowances for children from MMSF funds			ROL/month										217,214		
Allowances for newly born children													116,489		
Support allowances for mono-parental families													487,040		
Complementary family allowances													354,295		
Allowance for children in family placement													710,710		
		average benefit in euro	EURO												
State allowances for children from MMSF funds													5.36		
Allowances for newly born children													2.87		
Support allowances for mono-parental families													12.02		
Complementary family allowances													8.74		
Allowance for children in family placement													17.53		
unemployment															
		number of beneficiaries, total	1000						1,067	867	955	690	680		
		number of beneficiaries, female	1000						497	406	424	297	253		
		number of beneficiaries, male	1000						570	461	530	393	427		
		average benefit in local currency	ROL						680,484	966,720	1,311,807	1,714,512			
		average benefit in euro	EURO						34	37	42	46			
		average benefit as percentage of average net wage	%						31.8	32.0	34.6	35.4			

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Public social expenditure</b>	Ministry of Finance														
consolidated general government expenditure in local currency			billion ROL						283,100	389,321	488,413	610,879	737,338	857,962	
consolidated general government expenditure as percentage of GDP			%						35.22	33.34	32.24	32.1	30.88	34.55	
<b>Taxation</b>	Ministry of Finance, Ministry of Labour, Solidarity and Family														
taxes on labour as percentage of total tax revenues									45.24	46.15	47.03	45.37	46.8	47.34	
taxes on capital as percentage of total tax revenues									8.08	6.31	6.23	7.04	7.58	7.64	
taxes on consumption as percentage of total tax revenues									27.52	28.69	30.41	30.31	31.07	30.73	
tax wedge on labour cost for low earners (relative tax burden for an employed person with low earnings)	Eurostat				42.7	42.9	45.1	48.2	43.1	43.5	42.3	41.7	41.3		
rate of contribution revenues to total expenses in social security funds									1.09	1.09	1.00	1.00	0.94	0.99	
proportion of revenues of social security funds by source	Ministry of Labour, Solidarity and Family	proportion in total revenues													
employer's contributions			%											59.20	68.64
contributions by protected persons			%											26.80	28.80
transfers from government			%											7.05	1.80
other revenues			%											6.95	0.76
<b>Gender equality and anti-discrimination</b>															
rate of female members of the highest decision making body of the top 50 publicly quoted companies			%										11.5		
Proportion of women in public administration		This is the proportion of public servants having less than 1 year with the institution. This is the only figure that exists for Romania	%									64.5	65.7	66.7	
Proportion of junior public servants			%									3.23	5.57		
<b>State budget</b>			billion ROL						148,209	179,206	252,447	321,954	365,995		
Revenues									120,342	148,209	179,206	252,447	321,954	365,995	
Expenditures									149,168	184,012	226,824	281,451	340,735	387,824	
Balance									-28,826	-35,803	-47,618	-29,004	-18,781	-21,829	
<b>Local budgets</b>			billion ROL												
Revenues									33,445	71,196	93,228	130,781	158,989	194,287	
Expenditures									33,217	70,675	92,628	128,527	155,139	187,537	
Balance									228	521	600	2,254	3,850	6,750	
<b>Social Security budget</b>		2006 - planned	billion ROL												
Revenues									76,233	97,245	125,545	125,283	161,719	172,106	196,377
Expenditures									83,438	107,203	161,671	123,776	161,491	165,895	191,806
Balance									-7,205	-9,958	-36,126	1,507	228	6,211	4,571
<b>Unemployment Fund</b>		2006 - planned	billion ROL												
Revenues									13,692	18,000	17,429	17,429	19,035	21,751	22,321
Expenditures									9,239	11,198	14,459	14,459	16,583	18,904	20,891
Balance									4,453	6,802	2,970	2,970	2,452	2,847	1,430

## Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Health Social Insurance Fund</b>		2006 - planned													
Revenues			billion ROL						28,456	41,734	54,801	55,127	68,774	84,744	91,985
Expenditures									25,535	41,734	48,349	62,283	70,014	91,574	90,107
Balance									2,921	0	6,452	-7,156	-1,240	-6,830	1,878
<b>External loans to ministries</b>			billion ROL												
Revenues															
Expenditures										-2,409	-2,925	-3,640	-3,866	-2,875	
Balance										-2,409	-2,925	-3,640	-3,866	-2,875	
<b>Exchange rate losses/gains</b>			billion ROL												
Revenues															
Expenditures										-1,742	-3,145	-2,951	-3,080	-2,910	
Balance										1,742	3,145	2,951	3,080	2,910	
<b>National company for motorways and roads</b>			billion ROL												
Revenues										1,007	1,357	1,595	2,431		
Expenditures										1,659	2,781	3,261	3,732		
Balance										-653	-1,424	-1,666	-1,300		
<b>Consolidated General Budget</b>			billion ROL												
Revenues										351,741	448,911	566,928	708,263	834,699	
Expenditures										389,321	488,413	610,879	737,338	857,962	
Balance										-37,580	-39,502	-43,951	-29,075	-23,263	

**Annex 4.5: Tax-benefit ESSPROS**

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Aggregate social expenditure in local currency, ESSPROSS classification</b>															
Expenditures on	MMSF														
sickness/health care			BILLION ROL						25,535	41,734	48,349	62,283	70,014	91,574	90,107
disability			BILLION ROL						8,798	11,786	13,943	17,732	25,370		
old age			BILLION ROL						61,139	76,423	86,120	111,036	110,800		
survivors			BILLION ROL						5,032	6,470	7,550	9,120	11,560		
family			BILLION ROL						420	432	471	489	490	482	
unemployment			BILLION ROL						9,239	11,198	14,459	14,459	16,583	18,904	20,891

## Annex 4.6: Governance

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Government effectiveness</b>														
World Bank Governance Matters indices on														
	government effectiveness	World Bank	percentile rank (0-100)		29.6		24.6		30.6		46.3		52.9	
	regulatory quality	World Bank	percentile rank (0-100)		30.4		58.2		35.8		55.1		49.8	
	rule of law	World Bank	percentile rank (0-100)		44.0		49.7		51.9		52.0		48.3	
<b>Social protection performance in old-age pensions</b>														
	covered wage bill/wage bill		% GDP	21.3	20.3	17.7	18.0	15.2	15.3	15.9	16.4			
<b>Administrative barriers to firm entry/exit</b>														
		<a href="http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=158">http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=158</a>												
	number of procedures of starting a business													5
	duration of starting a business in days													11
	cost of starting a business as % of per capita GNI													5.3
	time required for closing a business in years													4.6
	cost of closing a business as % of estate													9
	recovery rate													17.5
<b>Civil society organizations</b>														
		1999 European Values Survey and 2000-2005 Public Opinion Barometer, Open Society Foundation, www.osf.ro	% of population 18 years and over											
	membership in an organization (Percent of people who declare that belong to at least one association)							9.6	9.2	12	13	11	8.5	
<b>Percentage of households according to the frequency of contacts with neighbours</b>														
		National Institute for Statistics, Living Conditions Analysis (ACOV), 2006	Urban											
	Daily			67.4			82.6							75.1
	At least once a week			40.5			17							23.7
	At least once a month			2.1			0.4							1.2
	Occasional or never			0			0							0

Annex 4 | Romania - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Percentage of persons 7 years or more by the frequency of meeting friends</b>	National Institute for Statistics, Living Conditions Analysis (ACOV), 2006													
Percentage of persons 7 years or more that have friends in total persons 7 years or more														84.2
Out of which, meeting friends:														
Daily														51.3
At least once a week														34.2
At least once a month														10.5
Few times a year														3.4
Very rarely or never														0.6
<b>Religious service attendance</b>	European Social Survey 2002, European Quality of Life Survey 2003		% total population									23		
<b>Population structure by religion</b>														
Orthodox			% total population									86.8		
Romano-Catholic												5.0		
		Other: means other religions (muslim, budhist, etc). Reformed means protestant and neo-protestant												
Reformed												3.5		
Greek Catholic												1.0		
Other												3.7		



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FPB	Federal Planning Bureau, Brussels, Belgium
IE-BAS	Institute of Economics, Bulgarian Academy of Sciences, Sofia, Bulgaria
IER	Institute for Economic Research, Bratislava, Slovakia
IER	Institute for Economic Research, Ljubljana, Slovenia
IHS	Institute for Advanced Studies, Vienna, Austria
ISAE	Istituto di Studi e Analisi Economica, Rome, Italy
NIER	National Institute of Economic Research, Stockholm, Sweden
NIESR	National Institute of Economic and Social Research, London, UK
NOBE	Niezalezny Osrodek Bana Ekonomicznych, Lodz, Poland
PRAXIS	Center for Policy Studies, Tallinn, Estonia
RCEP	Romanian Centre for Economic Policies, Bucharest, Romania
SSB	Research Department, Statistics Norway, Oslo, Norway
SFI	Danish National Institute of Social Research, Copenhagen, Denmark
TÁRKI	Social Research Centre Inc., Budapest, Hungary

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