

# Romania 2017



**Total: 67.77**

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## Political Freedom

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### **Free and Fair Elections : 8.93**

Environment in which elections are held in Romania is on a track of improvement, with last parliamentary elections, held in December 2016, considered largely as free and fair. Measures taken so as to reduce irregularities by improving monitoring of the voting procedures have led to progress in this regard. Positive impact on political pluralism in the country came with the introduction of new provisions on creating a political party, which lowered the mandatory number of members down to three. However, the electoral entrance threshold, i.e. required number of signatures to participate in elections, remains restrictive. Parties still need to collect 1% of signatures (around 183 000) in order to compete for the Parliament. Technocratic government remained stable until elections, although there were a lot of changes in its composition, with several ministers having had been dismissed or resigned. Dominant Social Democratic Party (PSD) won parliamentary elections with around 48% of votes and created a government soon afterwards, with Alliance of Liberals and Democrats as junior partners. However, that government didn't last long, since parliament voted no confidence to Prime Minister Sorin Grindeanu, in a motion filed by his own party PSD. Internal power struggle within the PSD led to the shift of the government at the end of June, with Mihai Tudose becoming the new Prime Minister.

### **Absence of Unconstitutional Veto Players : 8.33**

Generally, there are no unconstitutional veto players in Romania who are able to undermine decision making processes of the democratically elected government. Certain influence on the government decisions is exercised by Liviu Dragnea, PSD leader who is prohibited from taking office. That became apparent after shifting of government, in June 2017, only 6 months after PSD won elections. Romania decided to deal with a pervasive corruption among public officials and thus, led by National Anticorruption Directorate, has prosecuted numerous high ranking politicians throughout the year. A plan to decriminalize some corruption offenses led to the biggest anti-government protests since the fall of Communism, in February 2017. The proposal was there after withdrawn. However, initiatives by the government to bring this plan back into procedure are still present.

### **Freedom of Press : 6.2**

Freedom of the press is granted by the constitution in Romania, and to certain extent upheld in practice. Journalist independence and professionalism are often hindered by managerial or

economic pressure, which made them practicing self-censorship. Media moguls have big influence is shaping public opinion and their ties with political elites often led to partisan reporting, which remained the biggest problem on media scene in Romania. Anti-corruption activities in the country exposed how deep those connections have been, with many media owners having been prosecuted or sentenced. Journalists are from time to time a target of verbal violence by politicians and/or citizens. Romania is one of the rare countries in which insult is not punishable. Economic un-sustainability remains a big issue and poses a serious threat to media pluralism in the country.

## Rule of Law

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### **Independence of the Judiciary : 4.83**

Romania's judiciary has become more independent since the country became a full member of the EU in 2007, especially after 2013. But, in spite of the sophisticated election procedures meant to prevent direct political influence on courts, the latter is indirectly still very much present. Fierce political fighting is on over having the judiciary in one's sphere of influence, mainly in order to get away with past or future corruption or other misuse of power. Besides, corruption in judiciary itself is far from being eradicated. Following the new regulation as of March 2016 conditions in prisons have started slowly improving, yet in April 2017 the European Court of Human Rights warned Romania of non-compliance with European Convention on Human Rights. During summer 2017, the Government was drafting new measures to ease the pressure on detention facilities by more extensive use of electronic tagging, as enabled by the 2016 law.

### **Corruption : 4.8**

Romania was an EU's „sick man“, as regards rule of law, when it joined in 2007. Since then, Romania considerably improved, leaving behind a few other - including some „old“ - EU members. But in one aspect it remained at the bottom in the EU – the bribery rate is still the highest, 29%, according to the Global Corruption Barometer 2016. The National Anti-corruption Directorate (DNA) is receiving excellent marks from many, for its bold take on the mighty politicians and businessmen, while some argue that DNA itself could be more accountable. Both DNA and Prosecutor General are in the midst of the power struggle between political blocks, as personified by the centre-left Government and the centre-right President. Focus of the Romanian public shifted on corruption in October 2015, when a fire in a nightclub killed 64 visitors as a result of corrupt hence negligent safety inspections. Ever since, the public has been sensitive about the issue. In March 2017, when the Government proposed a new legislation, partially decriminalizing or easing penalties for certain acts of corruption, plus pardoning past offenders including an ex-PM, hundreds of thousands took to the streets to protest. They (together with the President) managed to block the changes. However parts of the political, business or administrative elite, as well as many civil servants in Romania are still corrupt, public opinion and civil society activism promise better times. Romania is sharing the place 57 (of 176), with Hungary and Jordan, in the Transparency International's Corruption Perceptions Index 2016.

### **Protection of Human Rights : 6.7**

Freedom of assembly, association or expression is fairly well respected in Romania, in contrast to the memories of the pre-1989 brutal treatment of dissidents. Alas, current relevant legislation has also - already – become obsolete, due to the law lacunae which enable enforcement officers to fine incommode anti-government protesters. Human trafficking, itself a serious problem because Romania is both a country of origin and of transit, is increasingly well dealt with, as it was pointed out in the Trafficking in Persons Report June 2017 by the US State Department. Better law enforcement and cooperation with NGOs led to more channels of trafficking cut and perpetrators caught and sentenced. However, “minimum standards for elimination” of trafficking are still not met. Especially important is focusing on victims, their protection, testifying and re-socialization. Other open questions of inclusion and tolerance are Romany and LGBT. Romany-phobia is deeply entrenched - discrimination in housing and education is all too slowly retreating. Very conservative attitude towards same-sex marriage, whereby there is no opportunity even for registration of unions, while those concluded abroad are not recognized, and a planned referendum to constitutionally ban them, are bringing Romania (and other similar EU members) at odds with EU’s principles of free movement and equal treatment of people. More than 2 million people signed a referendum request by conservative NGOs` regarding such a ban. As for equality of women, the legislation is to a high degree in line with EU standards, while there are opposing views on the level of implementation. While World Bank in 2014 praised Romania, World Economic Forum in 2015 considered it the worst EU member in the field. FNF found out that in spite of improvements such as increased number of women in high politics much more is to be done, starting with the issue of domestic violence (which is corroborated also by a ruling of the European Court of Human Rights as of May 2017).

## Economic Freedom

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### Security of Property Rights : 5.69

Property rights in Romania are relatively secure, but there are problems arising from judiciary system deficiencies that are undermining the situation. Out-of-court influences on judiciary are present, resulting in low level of judicial independence. Corruption in judiciary is also still present. Enforcement of property rights through judicial process could be lengthy, costly and difficult. Local courts often lack expertise in many specialized fields. Therefore, judgments in some instances could be very much dissimilar. Not all restitution claims have been fully addressed, thus increasing the uncertainty of property rights. Due to all those problems, mediation is slowly becoming more popular. Bucharest International Arbitration Court was established in late 2016. It was expected that the new civil procedure code would improve current court procedures, transferring some enforcement responsibilities from courts to bailiffs in order to make contract enforcement easier, but stronger positive evidence thereof is lacking. Non-EU foreign nationals face restrictions in agricultural land ownership, but they may either lease or obtain the ownership via setting up a company in Romania. Property rights might prove as ill-defined, as in the case of real estate property land ownership and the right to use the land, which are divided, resulting in uncertain or unclear property rights. Registering property is also a process that includes many procedures and is unnecessarily long. Although most urban land has clear titles, only a quarter of land in the entire country is registered in the cadastre, while the process of registration is envisaged to last for another couple of years.

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

### **7.64**

Size of government in Romania is modest, as compared to other European countries, with total public expenditures reaching 31.5% of GDP in 2016 – a significant decrease, due to policy measures to counteract the massive tax reforms. However, this led to a rising government deficit (expected to rise to 3.7% of GDP in 2017). Economic growth rates are robust, but expected to moderate down, while unemployment is at record low. One of the reasons has been in the government policy of increasing current spending at the expense of public investments. State owned enterprises in Romania are numerous and play a notable role in the economy, especially in the infrastructure and transportation sector. SOE corporate governance is weak, with low performance and profitability, relying on different government transfers and subsidies for needed investments, or in some cases even for day-to-day operations. Such situation is one of the reasons behind under-investment in public infrastructure. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs is expected. After strong revisions of tax rates that took place in 2015, general VAT rate was further lowered in 2016 by one percentage point, to 19% (the rate used to be as high as 24%). Preferential VAT rate remains 9%, or 5% for certain products. Both personal and corporate income tax rates are flat, set at 16%. On the other hand, special energy taxes imposed in 2013, that were envisaged to be scrapped in 2015, are still in place and likely to remain so until 2020. Labour tax wedge in Romania is high, approximately 42%, which is the highest in the SEE region. Social contributions cap equaling 5 gross wages was lifted in January 2017.

## **Regulation of Credit, Labour, and Business : 5.95**

Business regulation in Romania is mostly favourable towards business activities. However, as in other countries in the region, partial implementation of existing regulations can still be witnessed. Same goes for favouritism by government officials or open corruption. Regulation could also prove as unclear and prone to divergent conclusions, while government bureaucracy is not considered

as efficient. Starting a new business is relatively easy and inexpensive, with low minimum capital requirements, but these procedures have been made more burdensome with the new process of VAT application. However, obtaining a construction permit and getting electricity grid connection are very lengthy processes, with many procedures and high fees. Labour market regulations are mostly flexible, but the maximum work hours` regulation that stipulates a 5-day workweek is restrictive, disallowing longer hours in case of an increased workload. Firing regulations might impose difficulties, through retraining, reassignment or reemployment obligations of the employer towards the redundancy workers, albeit with low severance payments. The minimum to average wage ratio in Romania is much higher than in many neighbouring countries, reaching 50%. It was increased in 2017 for another 15%, over the previous increases. Although wages in the country did experience growth in recent years, this measure may not be in line with productivity growth, especially bearing in mind the number of self-employed in the agriculture sector, which may have negative impact on low wage workers` employability. Legislation on national collective bargaining agreement are still pending in the parliament.

## **Freedom to Trade Internationally : 8.7**

Freedom to trade internationally is mostly respected in Romania. The EU common trade policy has been implemented since EU accession in 2007. Therefore, tariffs are mostly low, with applied mean tariff rate of 5.3%. While manufactured goods are mostly tariff-free, imported agricultural products usually face higher tariffs. However, necessary product standardization and certification procedures pose a significant non-tariff burden, incurring higher import costs. Low public transportation infrastructure quality, most notably of the roads and railroads, serves as another impediment to free trade, resulting in high transportation costs and limiting trade volume. Recent curbing of public investments so as to increase current spending as well as low EU- funds absorption rate are limiting improvements in the area. Better management of SOEs in transportation sector, through at least partial privatization, could boost their performance. It is very hard and expensive to obtain work permits for foreign workers that are not EU nationals. The number of work permits allotted is set each year. Currently it is 5500. Romania is mostly oriented towards the EU common market. Its main trade partners are Germany and Italy, followed by other EU countries, with Turkey being the only non-EU country on the list of important ones. Danube transport corridor and the Black Sea serve as important trade hubs in the region, connecting east and west, especially for Ukraine and Russia.