

THE REFORM OF THE STATE IN ROMANIA (2009-2011)

Emil BOC

Emil BOC

Prime Minister of Romania

Associate Professor, Department of Political Sciences, Faculty
of Political, Administrative and Communication Sciences,
Babeş-Bolyai University, Cluj-Napoca, Romania

Tel.: 0040-264-431.505

E-mail: boc@polito.ubbcluj.ro

Abstract

The article focuses on the topic of the reform process in Romania from 2009 and until 2011 and highlights specific measures implemented in different areas such as public finances, education, and the legal system. The global economic crisis is seen as an opportunity, despite its negative economic and social consequences, because it has generated the profound reform of the Romanian state. Structural reforms have been initiated during these years which are believed to positively impact the development of the country in the following years or even decades.

Keywords: reform, budgetary deficit, economic recovery, Romania, reform measures, economic impact, economic crisis.

1. Introduction

Romania joined the European Union on the 1st of January 2007, but has a long way to go before reaching convergence with the developed countries in the EU.

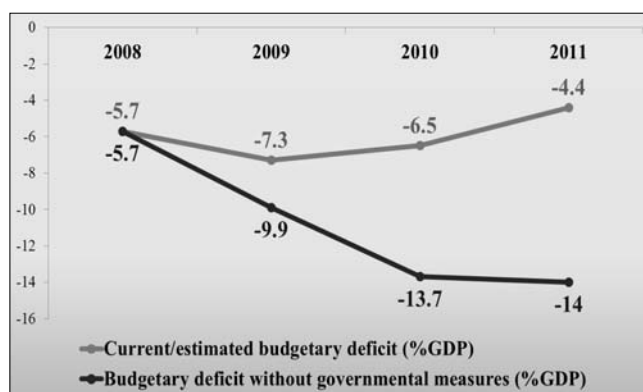
At the beginning of 2009, Romania had to face three major simultaneous challenges: the economic crisis, the excessive budgetary deficit and an unreformed state dominated by populist policies.

It becomes more and more obvious that we are facing the most severe economic crisis in the past 60 years. In Romania, the effects of the economic crisis were visible six months after its outbreak in the U.S. and in Europe. The same delay will likely apply for Romania's exit from the crisis (please keep in mind the distinction between crisis and recession), which will probably happen between four and six months after the end of the economic crisis in Europe and America.

In 2008 Romania's budgetary deficit was 5.7% (calculated according to the European methodology) in a year with the highest economic growth (7.3%). This unfavorable situation caused the European Commission to open the excessive-deficit procedure against Romania. The first two years of Romania's EU membership brought a high volume of foreign direct investments. This substantial advantage of Romania was not capitalized upon properly. In those two years after the EU accession, Romania promoted an economic growth model based on consumption and credit, instead of investments and job creation.

The situation of the country was also worsened by the populist policies of the previous Government in 2008, which increased wage benefits, social assistance and pension entitlement benefits far beyond the economic potential of the country. In 2008, seven bills granting wage increases were adopted and the pension point increased, during the same year, from 581.3 lei to 697.5 lei!

Continuing such populist policies, in the context of a worsening economic crisis, would have led Romania into economic collapse. The budgetary deficit would have reached very high levels (-14%) and it would have been impossible to finance it in times of economic crisis (see Figure 1 below).



Source: Government of Romania, calculations based on unpublished internal documents

Figure 1: Budgetary deficit with and without governmental measures

2. Macro-economic measures adopted by the Government

To prevent an imminent economic collapse of the country, two types of measures were adopted: (A) measures to reduce the budgetary deficit, and (B) measures to boost economic recovery.

A. The measures to reduce the budgetary deficit aimed, on the one hand, at reducing public expenditure and at increasing public revenues, on the other hand. The most important measures to diminish public expenditure and to render it more efficient were the following:

i. A 25% reduction in public sector wages and a 15% reduction in unemployment benefits and children's allowances. This measure was triggered by the salary and pension increases in 2008, which had not been economically sustainable. The 25% pay cut entered into force on the 1st of July 2010, and as of 1st of January 2011 the reduced salaries were increased by 15%.

ii. A reduction in the number of occupied positions in the public sector by 173,623. The public sector staff reduction was achieved by the introduction of standard limits on the number of staff in the public administration, by eliminating vacant positions and by allowing only 15% of subsequent vacancies in the public sector to be filled.

iii. The freezing of pensions in 2010 and 2011. It is worth mentioning that a minimum social pension of 350 lei was introduced in 2009. This measure, which increased the revenues of over one million pensioners, was established in order to protect the most vulnerable citizens from the ruthless effects of the economic crisis.

iv. The dissolution, merger and reorganization of 141 governmental agencies. The measure was triggered by their unjustified multiplication in the previous years. This had been the result of the need to meet the demands of interest groups, close to the political establishment.

v. The closure of 67 public hospitals in order to improve the quality of medical services and to channel financial resources to the remaining more efficient hospitals.

vi. The prohibition of receiving both a pension and a salary in the public sector, for pensioners with pensions higher than the average gross salary.

vii. Elimination of meal and gift vouchers provided to public sector employees.

viii. A 50% reduction in the expenditure ceilings for fuel consumption in public institutions and a 20% reduction in the goods and services expenditure in the second semester of 2010.

Simultaneously, measures meant to increase public revenues were adopted:

i. The increase of the standard VAT rate from 19% to 24%. This measure was adopted under exceptional circumstances following the decision of the Romanian Constitutional Court to reject the proposal to reduce pensions by 15%. The Government had rejected the IMF proposal to increase the flat tax from 16% to 20% and the VAT from 19% to 24%; in exchange, it had asked the Parliament for a vote of confidence regarding the reduction of wages and pensions. The government proposal to reduce structural deficits by cutting wages and pension expenses would have allowed a faster

exit from the economic recession and would not have affected the entire population of the country (as was the case with the VAT increase), allowing positive growth prospects for the business environment as well. But the decision of the Constitutional Court forced the Government to increase the VAT, in order to keep the budgetary deficit and the financing of the budgetary deficit under control. However, the flat tax of 16% was not increased.

ii. The extension of the obligation to pay a health insurance contribution of 5.5% to include beneficiaries of pensions higher than 740 lei per month. The measure was necessary in order to raise the number of contributors to the health insurance system, taking into account the fact that over 10 million citizens were exempted from paying health insurance contributions. Pensioners with pensions below 740 lei per month continue to be exempted from paying health insurance contributions.

iii. The increase of social insurance contributions by 3.3 percentage points. In fact, through this measure, social insurance contribution rates returned to the previous levels from January 2008, which had been reduced during the electoral campaign in the autumn of 2008, for political reasons, without an analysis of the economic impact of such a decision.

iv. The increase of the tax payable by individuals who own several buildings and of the tax on transportation vehicles whose cylinder capacity exceeds 2000 cm³, as an additional measure of luxury taxation in Romania.

v. The increase of the excise duties levied on some alcoholic beverages, cigarettes, gas and diesel.

vi. The broadening of the tax base by taxing income from interest rates, meal and gift vouchers and other forms of personal income.

vii. The reduction of tax evasion by imposing strict measures to combat it.

B. Measures meant to boost economic recovery. The main objective of measures aimed at the reduction of the budgetary deficit was to keep public expenditure under control and to ensure financial resources, despite the difficult conditions of recession and economic crisis. This was necessary in part in order to boost economic recovery, to save and create jobs and to support the business environment, which had been strongly affected by the economic crisis.

The most important measures to boost economic recovery were the following:

i. Strong support for public investments. This measure was necessary, taking into account the significant reduction of the private investments in the economy. The budgetary allocation for public investments increased from 32.6 billion lei in 2008 to 36.06 billion lei in 2011. Of the European Union Member States, Romania has, together with Poland, the largest percentage of GDP allocation for investments (gross capital formation). Without a consistent reduction of social assistance expenditure and state administrative costs, the strong support of the public investments would not have been possible. The recent adoption of the Public-Private Partnership Law will open new investment opportunities at local and national level.

ii. Supporting private investments through state guarantees. State guarantees are an effective and pragmatic instrument for supporting investments in times of economic recession, of financial liquidity crisis and credit tightening by banks. Through the Guarantee and Counter Guarantee Fund, SMEs have benefited from guarantees worth over 1.3 billion Euros¹, which created and/or saved over 239,000 jobs between January 2009 and August 2011.

iii. Supporting private investments through state aid. Granting state aid, as financial leverage to support investments, was aimed at retaining investors already doing business in Romania and at attracting others in order to create new jobs. The amount of state aid is directly linked to the value invested and to the number of new jobs created².

iv. Support for companies which maintain jobs, hire unemployed persons and generate new jobs. The economic crisis led the government to urgently promote policies aimed at supporting companies and the business environment, in order to save jobs. In this respect, the most important measures were the following:

- Exemption from paying social insurance contributions for companies that hire unemployed persons. The employers who create new jobs and hire persons officially registered as redundant people for at least three months are exempted from paying social insurance contributions for these persons for a period of six months after the commencement of employment. To benefit from this program the employer must retain the eligible new employees for 12 months.
- Regulating technical unemployment. This measure stipulates an exemption from the payment of social insurance contributions for the employer and the employee, for a period of up to three months, whereas the employee still receives 75% of the salary corresponding to his position. To be more specific, 548,999 employees and 13,459 companies benefitted from this measure until the 31st of December 2010. The measure contributed to the decrease in the number of unemployed persons during the economic recession and was applied throughout 2009 and 2010.
- Granting subsidies to companies which hire young people, unemployed or vulnerable people.

v. Sectoral programs to support economic activity and the business environment. The most important programs promoted by the Government are the following:

- *“Prima Casă” (“First Home”) Program*. This program is aimed at the acquisition and construction of dwellings, through loans guaranteed by the state. The program has a double purpose: support for the revitalization of the construction sector and support for families who do not own a home or own dwellings up to 50 square meters, to buy a house with guarantee from the state. In fact, the

1 On the basis of these state guarantees, SMEs received 2.75 bn. Euros worth in loans.

2 Between 2009 and September 2011, 20 major investment projects worth approx. 1.2 billion Euros were supported. They created 6,301 new jobs. The approved state aid amounted to 312 million Euros.

money these persons used to pay for their rent can now be used to purchase a new home, by paying instalments to the bank. By September 2011, 45,270 governmental guarantees were granted, amounting to 1.83 billion Euros. Starting with May 2011, the guarantee began to be shared equally (50% - 50%) between the state and the participating banks, thus enabling an increase of the number of beneficiaries.

- *The “Rabla” (“Scrap Car”) Program.* The objective of this program is to stimulate the renewal of the national automobile park, as well as to support economic activity and to improve the state of the environment by destroying old and polluting cars. Until September 2011, 268,298 old vehicles were handed in, whereas 75,492 new cars were bought, among which 28,036 were made in Romania.
- *“Start” Program.* Small enterprises, active for less than 2 years, benefit from a non-reimbursable financial allocation amounting to a maximum of 70% of the eligible costs of an investment project, but no more than 100,000 lei per beneficiary.
- *Program for Young Entrepreneurs.* This program provides young people, who are setting up a business for the first time, with non-reimbursable funds up to 10,000 Euros and with state guarantees up to 80% of the loans necessary to implement their business plan, but no more than 80,000 Euros. Furthermore, the new employer is exempted from the payment of social insurance contributions for a maximum of 4 employees, but is required to hire at least two persons.
- *“Mihail Kogălniceanu” Program for Small and Medium-Sized Enterprises.* The direct purpose of this program is to support companies’ efforts to obtain loans, taking into consideration the stricter conditions currently required by the banking sector. The state offers guarantees for a maximum of 80% of the loan, without exceeding 100,000 lei, and an interest rate subsidy of a maximum of 70% of the interest rate, without exceeding 6.5% per year.
- *State guarantees for the beneficiaries of projects financed through European funds.* The program offers direct support to beneficiaries of European funds in priority areas of the Romanian economy, by ensuring the possibility of the co-financing thereof, through state guarantees of the corresponding loans. The loans obtained for this purpose are not taken into consideration when calculating the maximum debt ceiling of local governments.
- *Program for increasing the energy efficiency in residential buildings through bank loans guaranteed by the Government.* The purpose of the program is to support the owners of apartments to rehabilitate their buildings in order to reduce their heating expenses. Consequently, the economic activity as a whole was supported, as well as the decrease of the conventional fuel consumption and CO₂ emissions.

vi. Measures to support companies in difficulty. The economic crisis forced the Government to adopt several measures to support companies facing difficulties due

to the negative effects of the economic crisis. These are measures that might not be justified under normal economic conditions. The main measures adopted were the following:

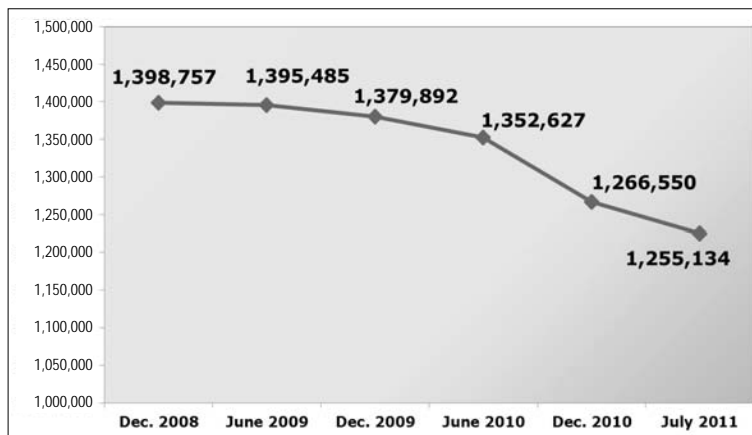
- *Rescheduling the payment of the fiscal obligations.* The rescheduling of payments is a fiscal facility granted to taxpayers who are temporarily under financial strain and implies payment of fiscal obligations in monthly installments, according to the period of time decided by the tax authorities. The installments approved are to be paid on the established date for each installment. The rescheduling of payments is granted for a period of maximum five years.
- *Cancellation or reduction of penalties for delayed payments.* This measure represents a fiscal facility granted to taxpayers and involves:
 - The cancellation of penalties for delayed payments and of 50% of the penalties increases resulting from the delays (the penalty quota) for fiscal obligations due on the 31st of August 2011, if the taxpayer pays all fiscal obligations, as well as the corresponding interest rates, by the 31st of December 2011; and
 - A 50% reduction in penalties, as well as in the penalty increases resulting from the delays (the penalty quota) for fiscal obligations due on the 31st of August 2011, if the taxpayers pay all fiscal obligations, as well as the corresponding interest rates, by the 30th of June 2011.
- *Regulation of automatic compensation.* Automatic compensation implies the cancellation of state tax receivables, on the one hand, and of the taxpayer's tax receivables, on the other hand, under legal conditions, if both sides are simultaneously creditor and debtor, and if the tax receivables are certain, liquid and due.
- *Reordering the payment of fiscal obligations.* This measure consists in first fulfilling the principal fiscal obligations, in the order in which they were incurred, and in tackling the secondary fiscal obligations subsequently, in the order in which they were incurred. The measure helps firms be relieved from the spiral of debts by first paying the main fiscal obligations.
- *Extension of fiscal debts categories included in the tax attestation certificate.* The measure consists in the possibility to include in the tax attestation certificate the active fiscal debts that are certain, liquid and due, which the taxpayers have to receive from the state. The application of this measure allows companies which have debts to the state budget, but which also have to receive payments from the state budget, to take part in public tenders.

3. Sectoral reforms adopted by the Government

Despite the major difficulties and hardships it generates, the economic crisis has also been an opportunity for carrying out structural reforms in the Romanian society. On the sectoral level, the government promoted the following reforms.

3.1. The reform of the state apparatus and of the governmental agencies

The state apparatus, at local and national level, increased at an uncontrolled pace during 2005-2008, reaching in December 2008 a record number of 1,398,757 state employees. In order to diminish the number of state employees, standard staff limits have been imposed in the public administration, doubled by a restrictive policy for hiring new staff in the public sector (only one position for 7 vacant positions is to be filled). These measures led to a reduction in the number of state employees by 143,623 persons between 2009 and July 2011 (as shown in Figure 2 below).



Source: Government of Romania, calculations based on unpublished internal documents

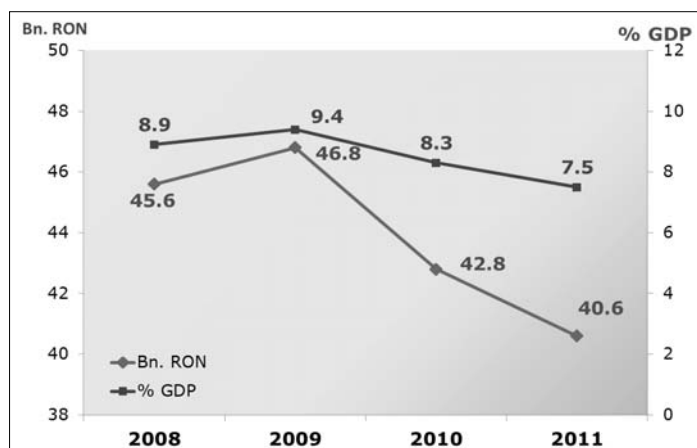
Figure 2: The number of public employees, 2008-2011

During the same period of time, 141 governmental agencies were dissolved, merged or reorganized.

3.2. Reform of the public sector employees' wages

The purpose of this reform is to create a unitary payment system in the public sector, while eliminating the luxurious wages in the public sector and adapting the wage level to the importance, responsibility and complexity of the activity and to the corresponding necessary qualification. The law leads to the ratio of 1:15 between the minimum and maximum wage in the public sector staff, similar to what happens in other European countries. The wage hierarchy is based on the complexity and on the importance of the work carried out by the public sector staff.

The reform of the wages for the public sector employees, together with standard staff limits in the public administration, led to a considerable decrease in personnel expenditure. The share of staff expenditure in GDP decreased from 9.4% in 2009 to 7.5% in 2011 and is expected to reach 7.2% in 2012. In nominal terms, staff expenditure decreased from 46.8 billion lei in 2009 to 40.6 billion lei in 2011 (see Figure 3 below).



Note: *includes social security contributions worth 1.6 bn. lei, for the military and for policemen

Source: Government of Romania, calculations based on unpublished internal documents

Figure 3: Evolution of personnel expenditure

The relative increase of staff expenditure in 2009 was caused by the wage increases implemented that year, as a consequence of the wage increase decision adopted in the 2008 election year. The year 2009 witnessed a moderation in wage increases, whereas starting with 2010 a significant adjustment of public expenditure was carried out.

3.3. The reform of the public pension system

Ensuring the sustainability of the public pension system in the medium and long run, given the growing deficit of the pension fund, represents the key objective of the reform in this area. For the first time, the contributive principle was imposed as a general rule in the public pension system and the special pension laws (“luxurious pensions”) were abolished. All special pensions were recalculated based on the contributive principle.

The retirement age will gradually increase and will reach 65 years for men and 63 years for women in 2030³. The protection of pensioners with the lowest income was implemented by granting a minimum pension of 350 lei.

The interdiction of receiving both a pension and a salary in the public sector for persons with pensions higher than the average gross salary, the reduction of the number of early retirements, the mandatory contributive principle, the adoption of more severe criteria for disability pensions and the adoption of new legal norms for adjusting and increasing pensions, stopped the accelerated increase rate of the pension fund structural deficit.

Without the reform of the public pension system, the structural deficit, i.e. the amount of money to be transferred from the state budget for the payment of pensions, would have reached approximately 5 billion Euros instead of 3.5 billion Euros, at

³ At present, the retirement age is 59 years for women and 64 years for men.

present. In future years, the pension fund deficit will gradually decrease in order to ensure its sustainability.

3.4. Labor Legislation Reform

The Labor Code was amended, as it no longer satisfied the current needs of the Romanian society, having a strong socialist and trade unionist mark. The adopted Labor Code amendments pursued four objectives:

i. An adjustment of labor relations to the labor market dynamics in the new context of the economic crisis. More flexible conditions have been established in the case of concluding fixed-term employment contracts.

ii. The prevalence of the performance criterion, over the social imperative, in labor contracts and relations. Specifically, the employer's right to establish individual performance objectives and the criteria for assessing their achievement have been institutionalized. In case of collective dismissals, the performance criterion comes first, the criteria related to social situation of employees being subsidiary.

iii. Tougher sanctions for illegal work. Together with increased flexibility of the hiring procedures more severe sanctions have been imposed for those who use the work force without concluding legal labor contracts. The sanctions imply even going to jail in the case of hiring over 5 employees without legal employment contracts.

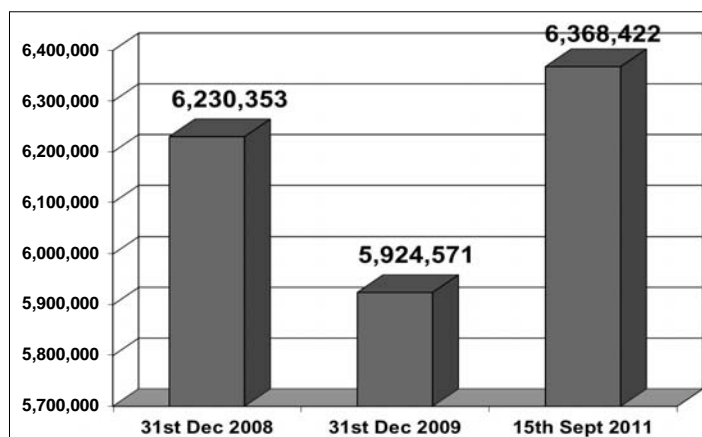
iv. Harmonization of labor legislation with EU directives. As the first major change in labor legislation after Romania's EU accession, the labor legislation was adjusted according to the European directives in this field⁴.

The immediate results of the implementation of labor legislation reform were apparent. In just four months after the new legislation went into force (May-September 2011), the number of recorded employment contracts increased by 1,052,331 (out of which 763,698 were active labor contracts; 288,633 labor contracts have ended at the same time). Moreover, even during the economic crisis, the number of active labor contracts exceeded the number from 2008, the year with the highest economic growth in Romania (see Figure 4 below).

3.5. Social Dialogue Reform

The Social Dialogue Reform is a complementary reform to that carried out in labor legislation, and both were adopted in the context of tense relations between the government and trade unions. The new social dialogue legislation reformed the organization of trade unions and employers unions and abolished national labor contracts, keeping, according to the European practice, only those at the branch (sectoral) and unit levels.

⁴ There has been a transposition in the national legislation of the Directive 2008/104/EC provisions, regarding the temporary work agent.



Source: Government of Romania, calculations based on unpublished internal documents

Figure 4: The number of employment contracts 2008-2011

3.6. Education System Reform

The National Education Law was adopted to substantially reform the Romanian education system. The adoption of the reforming legislation was preceded by a diagnosis of the Romanian educational system and by the signed approval of all parliamentary political parties of the National Education Pact proposed by the President of Romania. Reform measures proposed by the National Pact for Education, although initially accepted by all political parties, were supported, in their legislative implementation phase, only by the governmental coalition, and not by the opposition, because these measures were deemed too harsh.

The Romanian educational system reform targets the following changes:

- The establishment of an educational system based on competencies and not on the assimilation of information. The new curriculum, as well as the new textbooks, is centered on the eight key competencies recognized at the level of the European Union.
- Defining categories of universities, university classification and ranking study programs.
- Introducing financing per pupil according to the principle that the funding “follows” the pupil.
- Ensuring a high degree of decentralization in the pre-university education system.
- Redefining the doctoral studies by establishing the scientific doctoral studies and the professional doctoral studies.
- Modernization of university management.
- Reorganization of the pupil evaluation system and establishment of educational portfolios.
- Financing that is based on a competition process and that encourages academic excellence.

- Fostering lifelong learning.
- Providing equal education opportunities for disadvantaged groups.
- The introduction of the “School after school” program.

Obtaining the results aimed at by the educational system reform depends on the implementation of subsequent secondary legislation and on the political will to support these measures.

3.7. The reform of the healthcare system

Between 2004 and 2009, the amounts allotted to the health care system have grown exponentially, without improving quality of healthcare services. At the same time, for political and electoral reasons, the number of persons exempted from paying health insurance contributions had increased. The centralized management of the hospitals had a negative impact on the quality of management in hospitals. Based on these major deficiencies of the healthcare system, the following structural reform measures have been imposed:

i. Restructuring and decentralization of hospitals, by increasing the involvement of local authorities in the management of the hospitals. Out of a total of 435 public hospitals, under the Ministry of Health, 370 were transferred to the local public administration. Also, 67 public hospitals were closed in order to improve the quality of health care services and to channel the financial resources into efficient hospitals.

ii. Increasing the number of those who pay health insurance contributions, in particular by requiring all pensioners with pensions over 740 lei/month to pay 5.5% as a health insurance contribution. The number of health insurance payers increased from 8.5 million to approximately 10 million people.

iii. Introducing co-payment mechanism for health care services, but at the same time protecting the vulnerable or low income social groups.

iv. Introducing new mechanisms to control drugs costs by imposing the clawback tax, but also by implementing the integrated informatics system. Complementary measures to the health system reform are under preparation:

- Introduction of the national health card;
- Introduction of the electronic prescription;
- Introduction of electronic files for patients; and
- Establishment of the health care service minimum package.

In fact, this last measure will clearly establish the health care services package that the insured person can benefit from, within the contribution limit of 5.5% which he/she pays, the remaining of the health care services being covered by other insurance forms, public or private.

3.8. Social Assistance Reform

The main objective of this reform is the restructuring of the generous social programs that exceeded the possibilities of the concrete economic realities, and re-channelling of the social programs towards the truly vulnerable social categories. In

the past 20 years, the social programs have been “planned programs for obtaining political advantages for those who were governing”. The existing social assistance programs by now encouraged people not to work and kept the citizens in a deep dependence on the state. The reforms undertaken diminish the cost of social benefits and re-channels them directly to those social categories of individuals that are truly in need. The most important measures in this respect are:

- Reconsideration of the guaranteed minimum income scheme and imposing a correct assessment scale for those who are subject to guaranteed minimum income.
- Reconsideration of subsidies for covering the heating expenses by eliminating the generalized heating subsidy and by targeting the grants exactly for paying the heating bills.
- Carrying out the decentralization process of social services.
- Rethinking the child allowance and the parental allowance.
- Resizing the social protection measures for people with special needs and for their families.

3.9. Legal System Reform

The adoption of the four new Legal Codes (the Civil Code, the Criminal Code, the Civil Procedure Code, and the Criminal Procedure Code) creates the specific institutional framework for:

- Shortening the duration of trials and other judicial trials;
- Reducing the judiciary costs;
- Simplifying court proceedings;
- Improving the justice system, by increasing the degree of accountability and specialization of judges and prosecutors;
- A more judicious sharing of material competence, unification of judicial practice and an increase in the predictability of the justice system.

Elimination of the possibility of suspending judicial trials when raising a plea of unconstitutionality before the courts contributed substantially to the shortening of the duration of trials. It also accelerated the courts’ deliberation in corruption trials, where the plea of unconstitutionality was most frequently invoked.

3.10. The reform of the fiscal framework

The main objective of this reform is to provide the fiscal framework in order to gradually reduce the budgetary deficit below 3% by 2012 and to simplify and reduce the fiscal administrative burden. From this point of view, the Law no. 69/2010 on fiscal-budgetary responsibility sets the principles, the objectives and the priorities of the multiannual budgetary and fiscal policy. It introduces expenditure ceilings; it reduces the number of budget adjustments; it eliminates the risk of populist decisions around election campaigns; and it sets up the Fiscal Council.

Before analyzing the impact of the reform measures that were adopted, some clarifications regarding the method of advancing reforms is in order. All these reforms were put forth in a hostile political and social environment. Unlike other European governments taking austerity measures, the Romanian government had no political support from the opposition for any measure of budgetary austerity and of structural reform of the state. The Parliament brought no less than 9 impeachment actions against the government between 2009 and 2010.

The majority of reform and budgetary austerity measures (the education reform, the pension reform, the judicial reform, the labor law reform, the reform of social dialogue, and the measures for wage and pension cuts) were promoted by the government by invoking a special procedure which allows the government to act as the legislative authority. According to this Constitutional procedure, the Government goes before the Parliament and claim responsibility on a draft law. If there is no impeachment or the impeachment is filed but rejected within three days, the project is considered adopted by the Parliament and the government continues its activity. If the filed impeachment is adopted through the vote of the majority of deputies and senators, then the draft law is considered rejected and the government is **removed!** Practically, the Government risks its existence in order to promote the draft law. The use of this procedure for promoting the laws of the state reform was determined mainly by the difficulty of a normal parliamentary procedure for adopting extremely unpopular measures, in the context of a limited parliamentary majority.

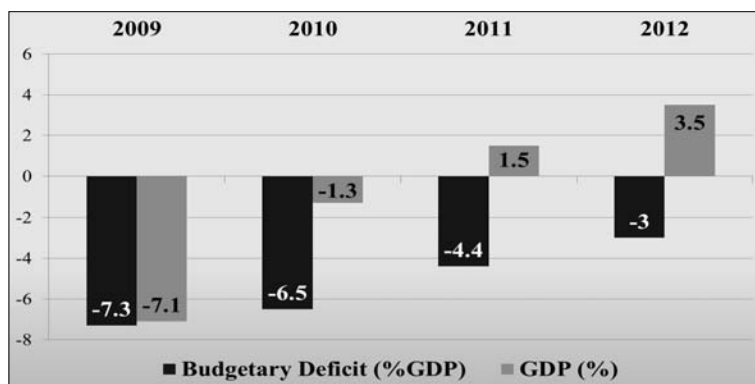
4. The economic impact of the adopted reform measures

i. Romania came out from the economic recession, as the first step towards exiting the economic crisis. In other words Romania has had three consecutive quarters of economic growth (the 4th quarter in 2010 and the first two quarters in 2011). Technically, an economy comes out of the recession when there are two consecutive quarters of economic growth. Even if the growth was modest, the reversal from negative to positive of the economic trend is important.

ii. The budgetary deficit is within financeable boundaries and follows a downward trend to 3% of the GDP by 2012, according to the Romania's commitments with EU, IMF and the World Bank (see Figure 5 below).

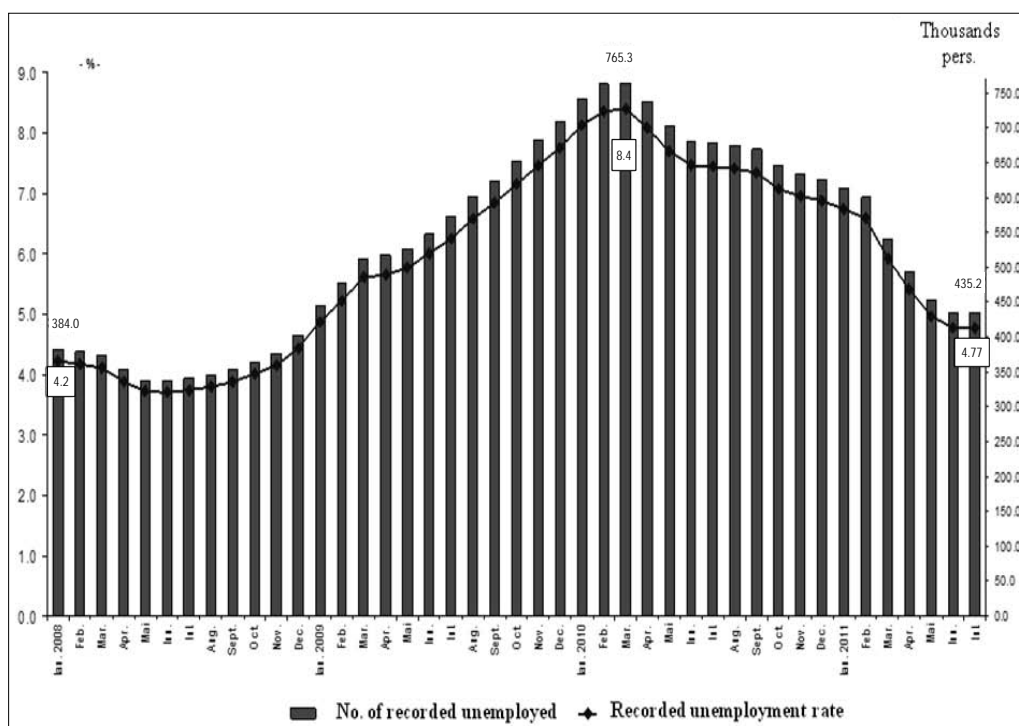
iii. Romania ended the economic model based on consumption and lending, and moved to a growth model focused on investment and jobs. In 2011, Romania maintains the highest allotment for investments as a percentage of GDP, of all EU Member States. The value of the financial resources allocated for investments increased from 33.8 billion lei in 2010 to 36.06 billion lei in 2011, and 43 billion lei are projected as investments expenditures in 2012.

iv. The unemployment rate continues its downward trend after reaching its peak in March 2010. Overall, in Romania unemployment rate was 2 percentage points below the average of EU countries throughout this period (see Figure 6 below).



Source: Government of Romania, calculations based on unpublished internal documents

Figure 5: GDP growth and budgetary deficit in 2009-2012



Source: Government of Romania, calculations based on unpublished internal documents

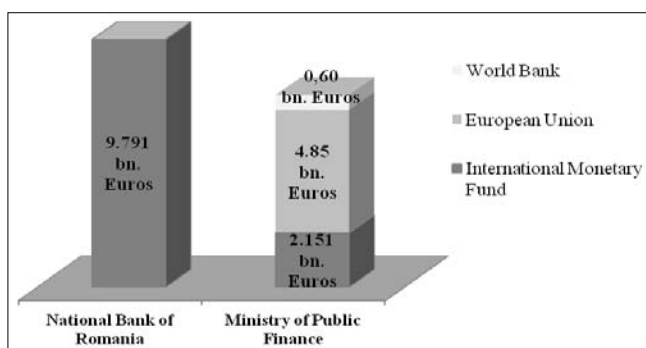
Figure 6: The unemployment rate 2008-2011

v. Romania's public debt as percentage of GDP is one of the lowest in the European Union (only Bulgaria, Estonia and Luxembourg have a lower public debt than Romania). Romania's public debt reached 31.5% of GDP in June 2011. Given the relatively low GDP of Romania, without the austerity measures taken in the 201-2011 period, the public debt would have increased dramatically, toward the maximum of 60% of GDP allowed through the Maastricht Treaty.

vi. Inflation continues its downward trend, and in 2010 the exports recorded their highest level since 1989.

vii. According to the Fitch Agency, Romania came back to the “investment grade” category in July 2011, after losing it in 2008. This was the year of maximum growth, which was also the year when excessive deficit policies began.

During all this period Romania has been part of an international agreement with the IMF, the European Commission and the World Bank. In April 2011 Romania has successfully concluded the first agreement with the international bodies and started the second agreement, this time precautionary, without funding, but with the possibility of accessing the funds in case of worsening of the international economic conditions. The financial resources from the first agreement with the international bodies have been directed to the National Bank of Romania (those from the International Monetary Fund) and to the Romanian Government (those of the European Commission and World Bank). Exceptionally, half of that IMF installment was directed to the Government. The financial resources from the International Monetary Fund granted to the National Bank have contributed to maintaining a balanced and relatively stable Euro-Leu rate of exchange. Financial resources from the European Commission and World Bank were used by the government to finance the budgetary deficit (see Figure 7 below).



Note: There is another 1 bn. Euros from EBRD and EIB for investment projects in the private sector (with no implications for the state)

Source: Government of Romania, calculations based on unpublished internal documents

Figure 7: Total amounts received from international organizations

As seen from Figure 7, the Government Treasury received 7.6 bn. Euros according to the stand-by agreement with the IMF, the European Commission and the World Bank. Total amounts drawn up to present: 17.4 bn. Euros, out of which 11,942 bn. Euros from the IMF.

5. Conclusions

The economic crisis has been a tough lesson for politicians and for the past habitual manner of doing politics. More and more, the economic crisis has evolved into a crisis of state budgetary deficits and sovereign debts. The economic crisis has

revealed the failure of the populist policies that buy people's votes with public financial resources wrapped in generous social programs without financial sustainability for the medium and long term. The communist system collapsed in 1989 because it was built on neglecting the fundamental freedoms – life, liberty, property – and also upon the pledge of an elusive prosperity without support in the economy. Unfortunately, the capitalist system learned little from the fall of the communist regimes. Instead of underlying a healthy economic growth, the capitalist system chose to enter the spiral of the generous social programs that exceed the concrete economic possibilities. All that stood between that point and today's budgetary deficits and sovereign debts crisis was... a lapse of 20 years. The populist political logic of the struggle for votes and power cannot defeat the rough and glacial economic logic.

The politicians are the first who must change. They must leave populism behind, along with the practice of buying votes with rash policies and against public financial resources. Politics must be reinvented, bringing in realism and public policy with financial support in the medium and long term. Truth instead of populist promises; realistic and firm political leaders instead of populist, disengaged leaders: this is the challenge. But are the voters prepared to make the difference? We know what will happen if they are not prepared.