

# PRIORITIES FOR ROMANIA

**2019 EDITION**

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- **We declare Romania is our responsibility; a sustainable, prosperous and inclusive country, with a value based society.**
- **We are committed to drive progress through education, innovation, entrepreneurship, infrastructure and good governance.**
- **We stand united for freedom, integrity, trust and the rule of law.**

Dear readers,

On behalf of the AmCham Romania members, I am pleased to invite you to the fifth edition of the **Priorities for Romania**, the document that outlines our business community's vision for Romania's future and which includes a series of recommendations for the President of Romania to be elected.



**Priorities for Romania** is part of AmCham Romania's systematic endeavours aimed at focusing and the electoral public debates on strategic themes for the Romanian economy and society at large. In our view, the periods ending and commencing electoral cycles are the right moments for reflection, configuration, and positioning of the political groups and their representatives to define the mandates they bring in front of the voters when asking for their vote of trust.

The priorities identified in this edition are both reflecting the emergency and complexity of the present and future challenges and opportunities that Romania has, without aiming for an exhaustive approach.

AmCham Romania has undertaken the motto '*Prosperity for Romania*', and it has identified a number of interrelated strategic priorities for the implementation of this motto, required for the development of an inclusive economy and society, with strong democratic institutions, a competitive, sustainable private sector and engaged, healthy, educated citizens who live in wellbeing and safety.

The key components of such a matrix include measures to promote entrepreneurship, investments and proper governance, based on structural reforms and modern economic and fiscal and budget policies, which should support a digital society, sustainable development and attracting of intellectual capital.

Chronic challenges such as the lack of an integrated systemic vision and internal and external strategic policies; accumulated economic gaps compared to the EU average; degradation of administrative capacity and good governance can only be addressed by calibrating and undertaking a **Multi-generation Country Project**, a modern direction for development, and a number of competitive priorities that would take into account national values and the country's long-term strategic interests, as well as by undertaking a prominent, credibly articulated role in the Euro-Atlantic and the regional structures.

I would like to thank my colleagues in the Board of Directors, the project team and the members of the AmCham Committees & Task Forces for their contributions to the current edition, and we hope that **Priorities for Romania** will provide a platform for constructive dialogue on relevant matters for the evolution of the Romanian society and economy.

Sincerely,

Ionuț Simion – President, American Chamber of Commerce in Romania

Priorities for Romania comes along the line of systematic endeavors initiated by the American Chamber of Commerce in Romania (**AmCham Romania**), which intend to guide, encourage and raise into public debate several topics that are of strategic importance for the Romanian economy and the society.

In our view, the periods ending and commencing electoral cycles are the right moments for reflection, configuration, and positioning of the political groups and their representatives to define the mandates they bring in front of the voters when asking for their vote of trust.

### **DOCUMENT CONTEXT**

The priorities, recommendations, and range of topics presented in this issue are meant for the parties and political groups, as well as for their candidates who are going to run for the Romanian Presidency and in the Parliament elections. These topics define the key lines of AmCham Romania's vision of the next electoral cycle, but also our long-term vision, as they are included under the **Country Project**. The document aims to be equally an invitation for the political groups and their candidates to engage in constructive, argument-based dialogue, and an expression of the desire to see a substantive political debate in the near future, supported by coherent proposals and programs of the participants, and formulating pertinent solutions to the real issues challenging the Romanian society nowadays. We consider that the process of selecting candidates deserves focus. Values such as integrity, professionalism, visionary engagement and accountability are, in our view, the key to the process of selection and the success of future mandates. Furthermore, the quality of the programs and ideas set forth by the

candidates are an indicator of the capacity to formulate the much-needed solutions to the urgent problems that the society is facing.

In formulating this document, we took into account the main symptoms presented by the Romanian economy; the opportunities for, as well as the limitations to the potential for economic growth; the transfer of economic growth into wellbeing and better quality of life for the citizens, and the sustainability of such developments. These are expressed through the cross-cutting topics identified throughout the document, as well as through the specific proposals suggested in each chapter.

From an economic point of view, a multi-generation country project such as **Project Romania** requires a solid foundation to build on. In our view, urgent issues such as the sustainability of public finance and the management of macro-economic policies must be addressed urgently. The misuse of the fiscal policy through pro-cyclic approaches, the unsustainable encouragement for consumption, the permissive control over the quality of public expense are issues that require severe corrections.

### **LIMITATIONS FOR ECONOMIC GROWTH AND SOCIETY DEVELOPMENT**

If the 2016 issue of Priorities for Romania identified the key pillars on which we could build the long-term development of Romania, in this issue we will tackle cross-cutting problems which, in our opinion, pose severe limitations to

economic growth and the development of the society. It looks like such issues are perennial in Romania and, overall, they speak of areas where we didn't succeed in implementing satisfying solutions. The cross-cutting issues identified in this report relate, without limitation to:

- ✧ Strengthening the state of law and the rule of law;
- ✧ Development of physical and social infrastructures;
- ✧ Modernizing the administrative capacity and implementing priority projects for development;
- ✧ Sustainable financing of the economy and attracting capital flows;
- ✧ Human capital within the context of demographic development, increased performance of the education and healthcare systems;
- ✧ Development of a digital society;
- ✧ Sustainable development and protection of natural assets.

## TWO DECADES OF ECONOMIC EVOLUTION

After the “lost decade” (the period of 1990-2000) in the process of real convergence, the economy of Romania has taken a sustained ascending trend at the beginning of the 2000'. Thus, from 2001 through 2018, the economy of Romania was the best-performing economy within the European Union (the fastest economic growth and the fastest work productivity growth)<sup>1</sup>. In terms of purchase power parity, the GDP per capita has grown from 25.8% of the European Union average in the year 2000 to 64.1% of the European Union average in 2018 (European Commission estimates of May 2019). The

ascending trend of the post-recession economic cycle (period of 2014-2018) once more places the economy of Romania among the best-performing economies in the European Union in terms of economic and work productivity growth. However, all these positive evolutions have been marked by two episodes of forced economic growth beyond the potential (2005 – 2008, respectively 2015 – 2019). The definition of economic populism, according to Rudiger Dornbusch and Sebastian Edwards, as being economic growth at any costs, uncorrelated with the increasing inflation and deficits, seems to continue to be true for Romania. As long as governments will only pursue economic growth no matter what and will ignore macroeconomic balances, Romania will continue to have „boom and bust” cycles. The country's average economic growth between 2000 – 2018 was 4.1%/year, which is close to the potential growth level and similar to the Baltic states growth level.

A favorable set of factors has supported the real economic convergence process over the past two decades. The low level of economic development at the beginning of the period (the year 2000) provided a high potential for economic growth. The low level of wage costs, the low level of capital available to the workforce and the high level of domestic demand offered foreign investors significant prospects for long-term profit. The European Union accession process enhanced the capitalization of this high potential for economic growth. The measures implemented within the EU accession process to consolidate institutions, the legal framework and the mechanisms of the market economy reduced the economic risks, generated significant entries of direct foreign capital, and supported investments in the economy. The liberalization of commercial

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<sup>1</sup> The economy of Ireland is excluded from the assessment due to its particularities (high number of foreign companies that capitalize on the favourable tax regime)

flows and flows of capital within the EU accession process supported deeper integration of the Romanian economy with the global economy. Furthermore, Romania, as well as other countries in Central and Eastern Europe, has benefited from the process of globalization of capital and commercial flows (directly, but also indirectly to a great extent, though much more developed partner countries in the European Union which invested in Romania).

The technological progress (increased efficiency of combining the workforce with capital) seen over the past two decades was remarkable, and it was the key supporting factor for the fast-paced growth of work productivity and available revenues.

## **EXTERNAL AND INTERNAL CHANGES**

The very good economic performance of the past two decades materialized within the context of favorable external developments (good performance of the global economy before the 2008 recession, extremely light monetary policies implemented by the big central banks after 2008). However, the political, social and economic context in the European Union and globally has changed significantly in the past few years. Thus, the opportuneness and the principles of the economic and financial globalization process of the past two decades are now questioned, as are some of the principles of operation of the European Union. The manifestation of disaggregation forces is ever more visible in the global economy and generating social and political consensus has become difficult. The parameters of the external economic environment are growing unpredictable, and they are taking a trend that is unfavorable to economic growth. The slow-down of economic growth at the global level and deepening inequality of incomes and wealth within economies generate

major challenges for the continuation of macroeconomic and social policies.

Furthermore, phenomena that manifest at domestic levels can substantially limit the process of economic growth in the future period. Human capital is degrading: the population is decreasing in numbers and aging; a significant part of the population is not included in the workforce; access to new production technologies remains restricted for a significant part of the population; the advantage of a cheap workforce is diminishing. The level of endowment with capital of the economy is rather low, with one conclusive example to this being the small size and the very poor quality of the transport infrastructure. The capacity to innovate and the level of investment in research and development are very low. Related to the fast-paced economic growth over the past few years, its sustainability is questioned, since macroeconomic imbalances (public budget deficit and current account deficit) have deepened (which reminds of the macroeconomic developments seen before 2018).

The level of economic development of Romania, which remains low, suggests that the high potential for long-term economic growth of approximately 3.5 – 4% per year continues to be there. It is important to understand that once Romania became a mid-level income country (with a GDP/capita above USD 10,000) it can no longer aim for 5-6 % annual growth rates like emerging economies.

Within the context of the previously mentioned external and internal constraints, however, we deem that capitalizing on this high potential for economic growth can only happen by implementing a coherent strategy for Romania's long-term economic development.

## **A. CONSOLIDATION OF THE RULE OF LAW THROUGH MODERN INSTITUTIONAL STRUCTURES**

**Through the experience of the 25 years dedicated to promoting an ethical, prosperous, transparent economic environment, AmCham Romania militates for:**

- 1.** The balance of powers within the state; independence of the judiciary; increased capacity for proper governance, and fighting corruption and misuse of power;
- 2.** A modern, high-performing, ethical state based on the rule of law, through respect for the institutional roles, transparency, accountability, and substantial, correct enforcement of the law;
- 3.** Materialization of Romania's economic and political potential, as a strategic vector for regional stability, security and prosperity within the Euro-Atlantic area, supported by fair opportunities for wellbeing and development for all citizens and the future generations.

A democratic Romania can only develop by calibrating and continuously strengthening a modern state based on the rule of law, which relies on an integrated, balanced, high-performing institutional system, through substantive structural reforms that have long-term impact and entail:

- ✧ the structural reset and the modernization of systemic institutional mechanisms by establishing efficient tools for democratic control to guarantee balance and separation of powers within the state; ensuring independence, ethical conduct and integrity to protect the general interest, and observing the limits of institutional roles;

- ✧ ensuring an independent, efficient judiciary, within the limits of the constitutional framework, including by developing tools for balancing and checking and by continuing to fight against corruption, within the parameters of the rule of law, with no biased interference, politicization, and clustering;
- ✧ modernizing the laws concerning the organizing and operating of the key institutions of the rule of law, by establishing and strengthening verification mechanisms and accountability instruments, including real, efficient parliament and civil control; delineating legal and operational competence; establishing the limits of action and the guarantees concerning observance of the rule of law and of the fundamental rights and freedoms; introducing regulations and standards concerning ethics and integrity, performance and control of risks;
- ✧ rethinking the balance of forces between control, proper governance to serve the citizens, and strategic creativity, which is now imbalanced in favor of force and control institutions;
- ✧ reducing bureaucracy, simplifying legislation, and digitalizing the public sector;
- ✧ adopting laws that stimulate integrated development of fields of strategic relevance; homogeneous implementation of proper governance rules and increasing of the institutional executive capacity, especially in terms of transparency and predictability, and the quality of public services at all stages and levels;
- ✧ transparent public debate on any proposals to revise the Constitution, the Criminal and Criminal Procedure Codes of Law, based on modern policies and good practice and standards in the field;
- ✧ joining the structure and standards of the OECD.

#### **ROMANIA NEEDS:**

- ⊛ **A modern, flexible legislative system made to serve the interest of the citizens and the society through consistent, equal enforcement of and compliance with the law;**
- ⊛ **Efficient, transparent institutions, with high-performing digital public services and competent, incorruptible professionals in the public administration;**
- ⊛ **To increase the proactive role of its citizens in a society that is free and guided by universal and national values and should achieve this goal through promoting responsible civic and political involvement and the encouragement of the exercise of fundamental rights and freedoms by all citizens alike.**

#### **Anti-corruption and bureaucracy reduction measures**

Constant implementation of transparency and efficiency rules will, in time, result in simpler operation both in the legislative field and - especially - in the executive and governance field. The executive structures will be able to operate much more efficiently, in a manner that is adapted to the optimum resources needed for implementing and monitoring the undertaken economic policies and strategies, while the society at large will be able to comply and actively contribute to achieving the national strategies and goals and the commitments undertaken under the strategic partnerships.

Modernization of the Romanian state and, implicitly, of the legislative system will need to consider efficiently preventing and reducing chronic negative phenomena such as systemic corruption, massive tax evasion, dysfunctions of the structures of the internal affairs, intelligence

and national security structures, lack of transparency and efficiency in public procurement, overwhelming bureaucracy.

The act of legislating, in its widest sense, must be based on a proactive, balanced attitude of co-operation between the integrated institutions of the state and the citizens/taxpayers. Such goal may only be achieved by stimulating voluntary compliance and ensuring a transparent framework for the implementation of a system of clear, simple and fair laws. The Romanian legislation continues to lack a clear definition of penalties for non-compliance, and in the rare cases when such penalties are provided, they are so low that practically invite law breaches.

Corruption remains a serious, direct threat to the national security, and a major obstacle blocking the development of Romania, by seizing and wasting critical resources to the detriment of strategic national projects. Unfair distortion of the economic environment and degradation of the people's standards of living dramatically harms the country's interests and those of honest taxpayers and strategic partners. What is needed is a set of stronger measures to ensure consistent, impartial enforcement of the law; structural resetting of certain key systemic nodes to strengthen the rule of law and the balance of powers within the state; elimination of institutional distortions and of the deviation of some institutional instruments and mechanisms from their legal and constitutional purpose and mandate; removal of the interference into the political, economic, judicial and media spheres; unblocking of arbitrary operation and investigation filters; solving of the big corruption, organized crime and tax evasion cases that have been ignored in time and dismantling of the perpetuated causal patterns, with no misuse and while avoiding all kinds of inadequate influences,

with a focus on inquiries conducted within the framework of the law. Concomitantly, in order to effectively and promptly recover the prejudice, substantial action needs to be implemented to enable efficient prevention and repair, including development of voluntary compliance mechanisms such as digitalizing ANAF and improving tax payment mechanisms, which will, in the short term, contribute to increasing the amounts collected by the state budget, and in the medium and long term to reducing corruption.

### **A modern, competitive and stimulating legal framework**

The endorsement and coherent implementation of strategic legislative measures in fields of critical relevance for the functioning of the Romanian state, such as healthcare, education, infrastructure, preservation and good management of natural assets, the rule of law must be undertaken through substantive consultations that would enable coagulation of a national consensus. Such dialogue will have to be a true debate, meant to embed the ideas of the civil society, in which the initiators would express the strategic vision and estimate the impactful consequences and the inherent factors of limitation.

Endorsement of modern legislation will have a positive impact on stimulating sustainable economic growth in the strategic fields that Romania will choose to focus on, and which will be the differentiating factors in terms of competitiveness, such as IT, digital economy, processing farming, bio and innovative agriculture, infrastructure, automotive industries, logistics and professional services, tourism. Endorsing these measures will have to bring about a competitive advantage compared to other countries; however, simplicity, clarity,

stability and predictability of such measures should not be ignored, to maintain an actual interest of investors in the medium/long term.

Creating a legal framework to stimulate and develop entrepreneurship and protect property of all kinds in Romania is necessary. Continuous, wider scale development of the legal framework of entrepreneurship must be supported by efforts towards creating a truly appealing market for institutional and financial investors, by adapting the legal measures concerning the development of financial markets in Romania to the realities of the globalized financial market.

Bearing in mind the intensive technological development of the past few years, one key aspect is to bring the legal framework in line with the development of an integrated digital society, by balancing the availability of information, new technologies and cyber-security with protection of the data of citizens and businesses. Moreover, to support a competitive entrepreneurial ecosystem of the Romanian market to match the international market, Romania must, at an internal level, secure adequate conditions and a fair competitive environment, aimed at encouraging and supporting Romanian technology-based businesses, to facilitate their access to international markets.

### **B. ALIGNING ROMANIA TO GLOBAL TRENDS**

**The global reality and specialty macro-economic analysis indicate extremely powerful vectors, such as significant geopolitical changes, massive urbanization with a focus on smart cities, impact of demographics, the technological tsunami projecting on extended interconnectivity, but also critical challenges, such as climate change, the extended risk of terrorism, a**

**profound resource and refugee crisis and the change of economic power centers, all of these generating effects at the structural level of systems.**

Romania is part of this changing matrix, and it cannot overlook the overall effects or the accelerated prospects that are taking shape, concerning both the evolution of the European Union and the international systemic challenges.

#### **Priorities for 2019-2024**

Romania is even more exposed to these, as the delay accumulated over the past 30 years has become chronic. The priorities are many, and the budget constraints for the period of 2020-2030 are big. Whether it is about highways, the development of energy or cyber security projects, reactors 3 and 4, rehabilitation of irrigation systems or preventing floods, modernizing harbors, airports and railways, spa resorts, the ELI nuclear physics research mega-project, health and education - all these, plus the regional and the local projects, require a comprehensive exercise of systemically sustainable strategic projections; extended administration and management capabilities from public authorities and institutions; specialized, dedicated resources; the capacity to propose economically viable, bankable projects; efficiency, and transparency.

More than a decade has passed since Romania joined the European Union; within this time, there has been no other nationally integrated project to take shape in the country, leaving the country exposed to erosion factors in multiple spheres. The main cause of this status quo is the refusal of a major part of the Romanian society to accept rules and constraints that are fundamental for the functioning of some mechanisms such as Schengen or the Eurozone.

#### **Capitalizing on internal and external opportunities for the common good**

Romania is facing a domestic and international context full of comprehensive challenges and amplified risks, which it must face responsibly for the future of next generations, by capitalizing on opportunities for the good of all, acting credibly and contributing to the strengthening of the Euro-Atlantic formula, especially in what concerns the economic and the security components.

Macroeconomic growth is an advantage; however, the complexity lies in the sphere of economic competitiveness and prosperous development, and the sustainability of such growth becomes crucial, especially in relation with the obvious discrepancy indicated by low standards of living and poor-quality public services and infrastructure.

The global and the European context within which the new range of national leaders will play is defined by major uncertainties and change. At a European level, Romania has completed a mandate at the lead of the European Council, defined by major events such as the Brexit negotiations, the future European budget, as well as the European Parliament elections. At an international level, complex topics such as the commercial tension between the United States and China and their impact on the global economic growth; the Iranian file and the developments of conflicts in various area, alongside the issues brought about by the global warming raise a significant challenge for the governance and the regional and global institutions. Within this context, the next elections in the United States, as well as the new formula of European leaders are factors that will leave a mark on how global developments will influence regional trends and decisions in the Member States. In the contemporary governance system, the management of interdependences is already

a key factor when it comes to formulating national policies. This is the very message that must be internalized and translated into informed decisions at national level. The new team of leaders in Bucharest must be able to perform in this comprehensive context, defined by variable geometries and uncertainty.

### **C. MACROECONOMIC VIEW**

**AmCham Romania shares the view that, to support a fast, sustainable pace of growth of the potential of the economy and a process of true convergence, the long-term economic development strategy should consider the following seven key aspects:**

- ★ Quickly carrying out the key investments in infrastructure;
- ★ Sustaining capital investments and technological progress;
- ★ Developing the human capital and financial education;
- ★ Better integration of the Romanian economy into the global added-value chains;
- ★ Attracting “healthy” foreign capital flows;
- ★ Implementing cautious macroeconomic policies;
- ★ Reducing economic, social and opportunity inequalities.

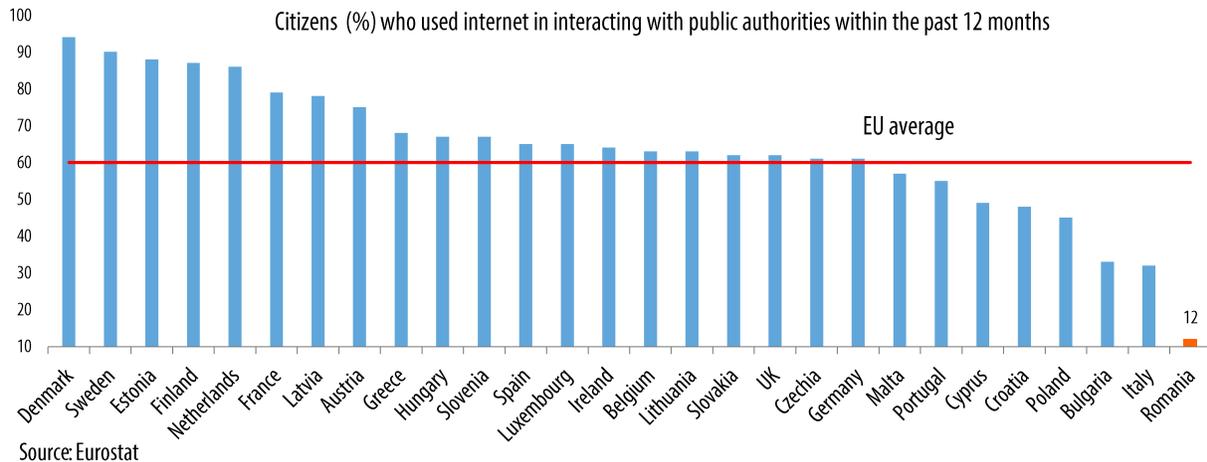
#### **Quickly carrying out the key investments in infrastructure**

★ The state continues to hold the leading responsibility for ensuring the critical infrastructures, which the private sector lacks the capacity to provide. To this end, the state must benefit of adequate budgetary resources of which spending must be efficient and subject to public monitoring. Given the current state of Romania’s

development, sterile discussions regarding a minimal state should be dropped and the focus should be on the state’s manner of spending the generous budgetary resourced entrusted by the taxpayers.

★ The poor development of transport infrastructure (road, railway and water transport) limits economic growth. We deem that developing the transport infrastructure (especially completing the highway network) should be the main priority of the economic development strategy. An extended system of highways would enable businesses to access additional, attractively priced economic resources, thus capitalizing on the economic potential of those economic areas of the country that are least developed at this moment. Increasing investments in the infrastructure will increase work productivity in the economy overall and lowering transport costs and time will improve the competitiveness of exporting businesses.

★ Investments in the IT infrastructure and the digitalization of the public system will improve the efficiency of collecting public revenues and that of public spending and will make tax paying operations easier for businesses and individuals. Digitalization lowers the operating costs of the public administration and improves the allocation of public financial resources in the economy. The effects of the digitalization of public services are also felt by citizens (users/beneficiaries) and civil servants, and the frequency and quality of the citizen-civil servant interaction improves as well. Another effect is fewer administrative obstacles in the process of setting up and operating a business, which would result in a friendlier business environment (as it would stimulate private initiatives and investments) (**graphic 1, page 10**).



★ The need to invest in environment-friendly energy capacities becomes more and more urgent within the context of the regulations passed in the European Union.

### Supporting capital investments and technological progress

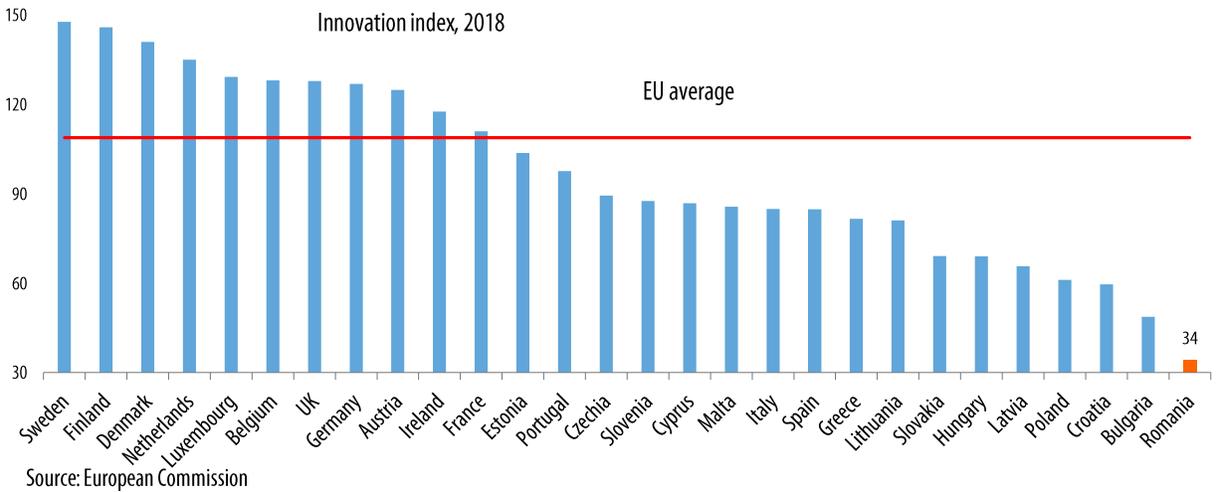
★ The developments in the global economy (automation of production processes; assertion of the digital economy, and initiation of the fourth industrial revolution) requires greater efforts of the state to support research and development activities to enable the economy to remain in a relevant area of the global production frontier (value-added activities).

★ Research and development processes require significant financial resources. With limited public resources being allocated for research and development, these must be prioritized to maximize the benefit of the spending. Furthermore, the state may provide incentives for private companies that carry out research and development activities.

★ Exporting companies are a key link in disseminating technological progress into the economy (especially businesses that are engaged in global value-added chains as partners or subsidiaries of external companies). Thus, the state may stimulate technological progress by supporting companies to participate in global production flows. At the same time, a recalibration of the economic growth model, from consumption based to export based economic growth would allow Romania to access the advantages of integrating in pan-European production chains, such as the Visegrad Group.

★ Supporting direct foreign investments by promoting a friendly business environment increases the capital stocks and promotes technological progress. Direct foreign investments can be used as an instrument to integrate less developed economic regions of the country into the global economic circuit.

★ Stimulating entrepreneurship and Romanian capital supports innovation and improves the flexibility of the economy (**graphic 2, page 11**).



### Developing the human capital and financial education

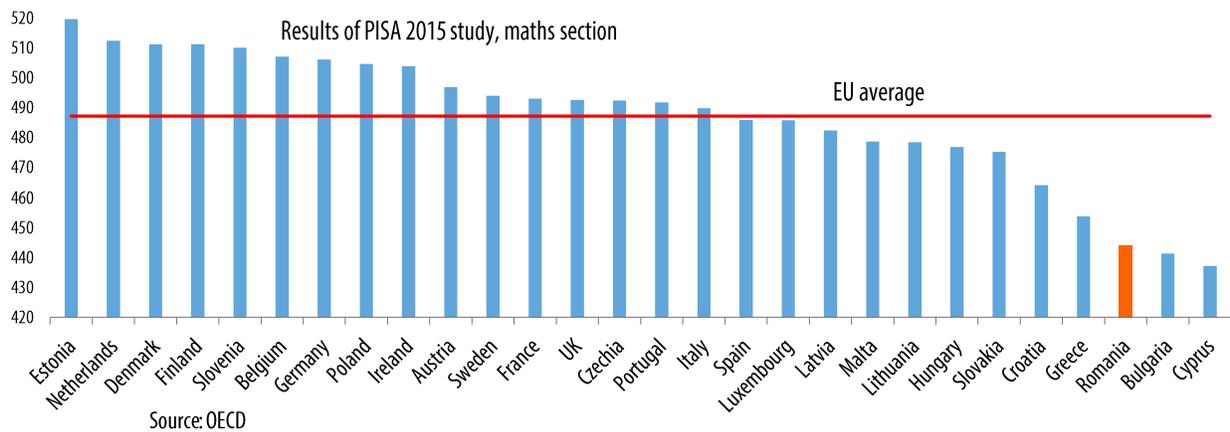
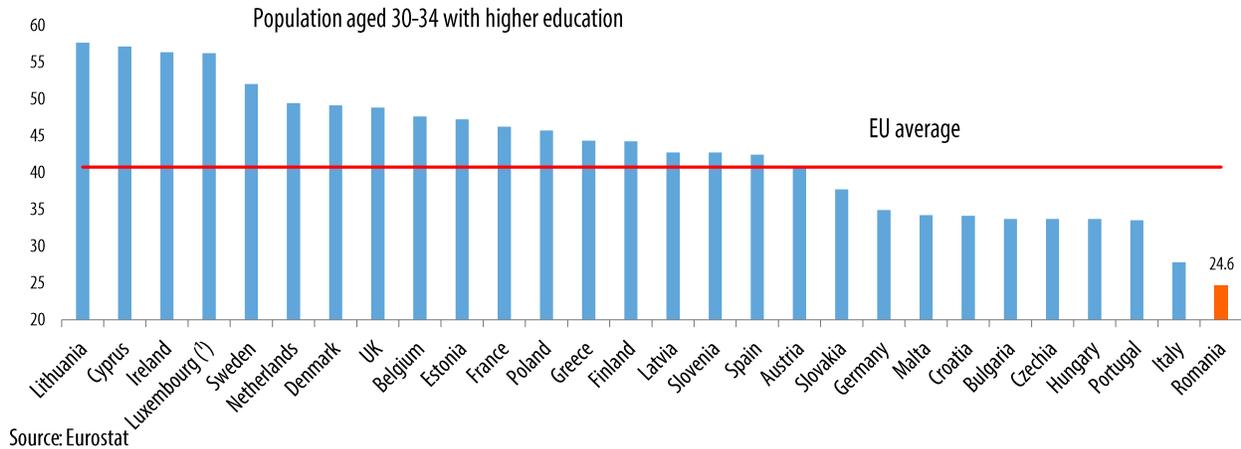
✦ Human capital becomes essential in a knowledge-based economy, where the skills that are relevant for production processes tend to become obsolete at an ever-faster pace (**graphic 3, page 12**).

✦ School curricula need to be aligned to the current and the future economic and social requirements to generate relevant skills, especially in terms of digital skills. As the digital transformation is expected to affect 600,000 jobs in Romania within the next ten years<sup>2</sup>, digital skills need to be repositioned in the school curricula, from the primary cycle up to university, so that people entering the job market in the future can adapt to the digital change; such measure will

actively contribute to reducing the costs with their skilling/re-skilling or specialization, either paid by the state through its agencies or directly by employers. More urgent than the modernization of the curricula, the more pressing problem of ensuring the children’s fundamental right of access to education must be addressed, especially for children in rural areas for whom access to schools is limited by transportation.

✦ Implementing national financial education programs to help citizens deal with the ever more complex financial and technological environment. Helping people become familiar with basic financial concepts and services from young ages (through the school curriculum) should be considered, along with dedicated programs for adults to help them keep up with financial and technological progress (**graphic 4, page 12**).

<sup>2</sup> PwC Report: In the next 10 years, 600.000 Romanian jobs will be affected by digital transformation; July 2, 2019 (www.pwc.ro, Press Releases)



- ★ Capital (infrastructure) investments must be carried out and direct foreign investments stimulated with an aim to increase activity rates and employment rates.

- ★ Stimulating companies to offer youth training schemes and employee development and improvement programs.

- ★ Increasing the efficiency of healthcare spending to increase the amount and the quality of healthcare services for the population.

- ★ Stimulate birth rate growth to combat the negative effects of the population ageing process.

### Better integration of the Romanian economy into the global added-value chains

- ★ Compared to other countries in Central and Eastern Europe, Romania is less integrated in the global production flows. Thus, we deem that there is room to improve Romania's integration into these production flows.

- ★ Wage costs in Romania continue to be low compared to other countries in the region, which is an expression of the low productivity rates.

However, the advantage of low wage costs gradually decreases in the context of the developments on the global job market (increased automation).

- ✦ Increasing the capital endowment of the population (developing infrastructure, increasing the stocks of tangible and intangible assets) will keep Romania interesting for investors in labor-intensive production capacity, which would enable productivity rates to grow sufficiently to cover the raise in wage costs.

- ✦ The main long-term goal, however, should be to stimulate integration of the economy in the global production flows in asset- and knowledge-intensive processes (high added value-generating activities) and diminish the proportion of labor-intensive processes.

- ✦ The main key sectors where the Romanian economy has a competitive advantage in exports need to be identified and supported through measures that stimulate technological progress.

### **Stimulation of internal savings and development of the financial system**

- ✦ The high amount of investments needed in the economy requires an increase of the internal funding sources for such investments, which can be achieved by diminishing consumption spending and increasing savings. The role of investments in supporting economic growth should increase to the detriment of the role of consumption.

- ✦ In the next period, the state must limit the increase of current public spending (salaries in the public sector; social benefits; goods and services), especially after the very fast progress that such spending has seen in the past five years (2015-2019). A greater amount of the additional

public revenue generated in the following years should be allocated to investments.

- ✦ Greater savings should be stimulated at population level by increasing financial inclusion and providing instruments and tax incentives to this purpose (for instance for long-term saving schemes). Increasing saving is also necessary in the context of the population ageing process. In connection with this aim, maintaining and reasonably developing the Pillar II of private pensions plays a decisive role.

- ✦ Stimulation of responsible financial behavior in terms of the management of life and health risks will lead to better financial integration of the citizens. In order to achieve this, a number of steps are necessary, such as optimizing the usage of voluntary health insurance to protect the family's budget in case of unforeseen events; a stimulating tax regime to support purchase of life insurance policies; consolidation of Pillar II of private pensions; passing the Law on the payment of private pensions (PII and PIII); passing the law on occupational pensions to stimulate the employers' contribution as well.

- ✦ Financial brokerage in Romania is very low compared to other EU countries, and it is mainly provided by the banking system. Within this context, a strategy needs to be implemented to increase and diversify the financial market (development of the capital market; a more diverse range of financial brokers; a wider range of financial instruments; increased coverage of mandatory insurance).

### **Attracting "healthy" foreign capital flows**

- ✦ Internal saving is insufficient to cover the high demand for funding in the economy. Romania continues to depend on foreign capital to cover

the high demand for investments and improve the economic potential at a fast pace that would generate true convergence.

✧ However, “healthy” direct foreign capital needs to be stimulated, including especially direct foreign investments and transfers from the European Union. Both funding sources envisage projects that support the growth of the economic potential.

✧ We deem that it is necessary to work more on improving the absorption of European funds and reduce bureaucracy in the process of accessing such funds.

✧ Promoting a friendly business environment (predictable macroeconomic policies; predictable fiscal policies; promoting the principles of market economy) and developing the infrastructure are key to attracting direct foreign investments.

✧ Using the funds provided through the investment support mechanisms promoted by the European Union and the loans provided by specialized International Financial Institutions.

✧ Developing the local capital market to promote it to the “emergent market” category, which will generate additional and permanent incoming of substantial foreign capital. Continuing to list state-owned companies through the capital market; supporting Romanian entrepreneurs to access the capital market and tax measures to increase the number of natural-entity investors are the key mechanisms that can turn Romania into an “emergent market”.

### **Implementing cautious macroeconomic policies**

✧ Improving the integration of the Romanian economy into the global economy (commercial and capital flows) increases its dependence on the developments on the external markets, as well as its response to changes in the investors' risk aversion on external markets. Also, the current context of the global economy suggests growing unpredictability regarding future developments.

✧ Within such context, the macroeconomic policies that are implemented need not to generate vulnerabilities. Thus, these macroeconomic policies should not favor high levels of public budget and current account deficits. When such deficits occur, they must be the consequence of expenses which improve the economy's potential (investment expenses).

✧ Within this context, the trends of the past few years (2016-2018) of deepening public budget and current account deficits must be prevented, first by limiting the increase of current public spending.

✧ Realistic multi-annual budget planning is key in supporting major public investment projects and ensuring fiscal predictability.

### **Reducing economic, social and opportunity inequalities**

✧ The priority actions of the state, mentioned above, must actively target reducing of the economic gaps between the regions of the country;

✧ The implemented macroeconomic policies must aim at reducing income inequalities;

✦ Economic and social policies must promote equal opportunities for all social categories and age groups.

#### **D. SECTORAL VIEW**

**Romania's economy is challenged by a macroeconomic competitiveness issue, as shown by the imbalances accumulated lately in the field of external trade, and by the still significant gap between our economy and the countries of Western Europe, but also those of Central and Eastern Europe in terms of productivity levels.**

##### **Beyond the state's sectoral policies**

AmCham believes that these challenges should not necessarily be approached by the state authorities merely developing and implementing sectoral policies - which often implies discriminatory measures within and between sectors and impairs the allocation of resources in the economy on a competitive basis - but rather by conducting an analysis on the impediments that prevent capitalization on Romania's comparative advantage to the expected levels. AmCham shares the philosophy that the Romanian state must revise its role, which private businesses often perceive as disrupting due to the excessive bureaucracy, over-regulation and lack of accountability, and switch to the role of a facilitator of better coordination of the factors involved in various fields of activity, while aiming

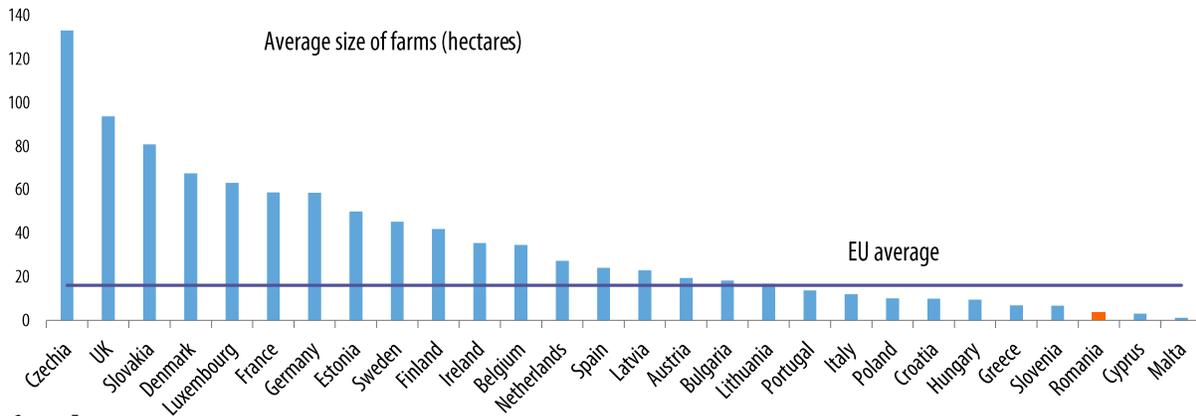
its financial and regulatory intervention to target those aspects where such coordination for the public interest is not possible.

##### **Agriculture and rural development**

Romania's European Union accession brought about the need to endorse and comply with EU's Common Agricultural Policy, which aims at improving competitiveness of the agricultural sector within the Community. With a farming sector defined by small farms (90% of which have less than 5 hectares), Romania holds approximately one third of the total number of farms in the EU. Restructuring, increasing the competitiveness and possibly consolidating such farms must become a priority, since approximately 90% of the farms (with an average surface of about 3.5 hectares) own less than 30% of the agricultural production (**graphic 5, page 16**).

We also think that the following aspects are a priority for the entire agricultural sector, and for promoting real rural development:

- ✦ Speed up land registry actions at national level, to clarify issues regarding farming land ownership rights;
- ✦ Improve access to funding, especially for small farmers;
- ✦ Improve professional training for those who work in farming, by updating the school curricula and developing specific schools in this field;
- ✦ Diversify the types of economic activities in rural areas by providing incentives for other business sectors as well, which would offer alternatives to agricultural jobs and develop and/or improve the quality of basic infrastructure;



Source: Eurostat

- ✳ Reconstruction and modernization of the irrigation system;
- ✳ Capitalize on the potential provided by the quality of farming land, by promoting ecological farming;
- ✳ Promote associations of small farmers;
- ✳ Increase the density of agricultural produce processing units to promote short supply chains;
- ✳ Promote the advantages of precision agriculture technology (agricultural drones; automated GPS systems; soil sensors; management of works and processes using farming applications);
- ✳ Measures to stimulate and rebuild the livestock breeding sector, considering the very large existing resources (cereals for fodder and, especially, pastures for dairy and meat cows) and the density of the sector (livestock heads/ha of farming land) way below the average of any other EU country;
- ✳ Measures/schemes for risk insurance in farms, especially weather-related risks, through funds created at national/organization level.

### Energy: a local base for a regional projection

Romania is firmly committed to the European Union's effort to transform the energy sector, starting at the basic pillars of energy policy: security of energy supply; competitiveness; sustainability; capacity to bear, considering the global transformational trends: decarbonization, decentralization, digitalization, electrification, etc.

Romania is part of the first governance exercise of the EU Energy Union through the clarification, negotiation and completion of the Integrated National Energy and Climate Plan (INECP), a programming document that will define road maps for various strategic sub-sectors or goals (energy efficiency; greenhouse gas emissions; proportion of renewable energy in the final gross energy consumption of the country). This kind of commitments of Romania, accompanied by appropriate primary and secondary legislation, will enable the business environment to plan its investments and economic activities, and ensure the much-needed predictability and transparency for a healthy economic environment.

Within this context, AmCham Romania insists on the need to consult with the business environment, which can ensure the flows of capital needed for the transformation and modernization of the energy sector (within the context of the diminishing investment resources of the state for this sector), about the optimal decisions that need to be endorsed under the INECP. Transforming and maintaining the energy sector at high economic sustainability and capacity to bear standards is an element of national security for a country such as Romania, with its specific geostrategic position.

In the field of the **security of energy supply**, AmCham Romania emphasizes the need to facilitate the bringing in, on the Romanian market, of the domestic resources of primary energy, through measures that would ensure predictability, transparency, capacity to bear, fairness for the investors. As natural gas is expected to be the transition fuel for the next few decades, exploration and production of domestic natural gas (on-shore and especially off-shore) needs to be encouraged. Furthermore, the gas infrastructure in Romania - supplying new consumers (especially the population) and cross-border interconnections - must be developed.

The **flexibility** of the national energy sector should be a major concern for the future, since the maximum capacity that can be installed in uncontrollable capacities (renewable sources) has been reached. Possibilities/mechanisms are available to fund new production capacities (structural funds; strategic/financial investors; prosumers, etc.), but not flexibility resources.

In terms of **competitiveness**, the development towards full, effective liberalization of energy markets should be continued. Measures targeting protection of vulnerable consumers have been implemented on wholesale markets to protect all household consumers; the distortion-inducing effects of such measures raised concerns even for the European Commission. Romanian authorities need to urgently identify vulnerable consumers and define mechanisms to supply aid directly, while realigning on the route to liberalizing wholesale and retail markets as soon as possible.

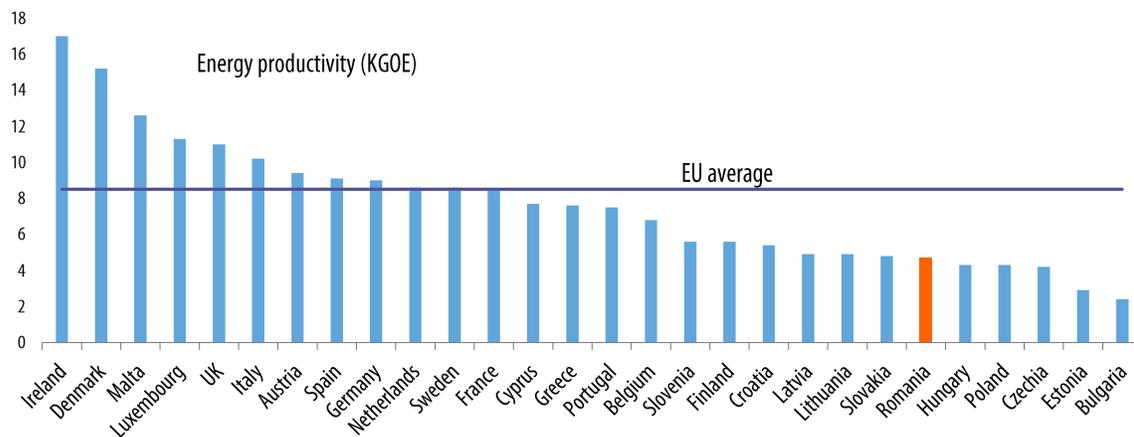
In terms of **sustainability**, one fundamental policy aspect is **energy efficiency**, which is a field where Romania lags greatly, and now requires costly measures to be implemented. Besides

continuing the financial efforts in the field of acquiring energy efficiency of public buildings, finalizing the legal and regulatory framework for third-party financing of energy efficiency investments is key.

**Decarbonization of transport** is another major line of action, where Romania's daring steps must be translated into coherent, consistent multi-annual policies that may include regulating the electric vehicle battery charging services.

**Decarbonization of the electricity production industry** is the most sensitive element for the medium-term governance of Romania's energy sector. Coal plants are affected by European legal developments, while the current national legislative and regulatory framework will favor the development of decentralized solutions using renewable energy sources. It must be noted, however, that Romania lags greatly in terms of implementing measures to ensure compliance with the environment requirements undertaken as a EU member state or through international treaties it is a part of; for the best interest of the citizens of Romania, these commitments have to be complied with.

Last, but not least, **in terms of governance**, the independence of the regulatory authority must be ensured and respected. The energy regulator must be able to make decisions concerning all the relevant regulatory aspects, and it must be fully independent from any other public or private interests (**graphic 6, page 18**).



Source: Eurostat

### Industry and services: in search for added value

In the years following the EU accession, Romania has become more and more integrated into the European and the global production chains, which has brought about an improvement of Romanian exports, the global market share of which has doubled between the time of the accession and year 2018. However, Romania remains deficient in terms of added value of exports; great deal of the exports are products with small added value, often based on the export of cheap labor or low-processed primary resources. However, to increase the sophistication of the local production of goods and services, what is needed is innovation, research and development, which is a field where Romania ranks last in Europe.

### Health and health innovation

Health is a key component in a society, also in terms of economic growth and prosperity, quality of life and life expectancy. Although innovation in the field of health becomes ever more dynamic globally, Romania continues to rank last in the European Union in terms of several indicators measuring the quality of and the access to healthcare services.

One important step is adequate financing for this sector, according to its needs, as well as more efficient spending. We see positive prospects in the past few years, with increased budgets being allocated to the health sector. The GDP percent allocated to the health sector in Romania is 4.5 % in 2019, and we recommend this percent to **be increased gradually every year to reach the average European Union values.** (9.6% in 2017 according to the „Health at a Glance: Europe” 2018 report).

**Innovative treatments, latest-generation medicines and medical devices** contribute to reducing the spending in the health sector and give the patients the opportunity for faster social reintegration and continued active contribution to the economy.

Hence, increasing the budget allocated for treatments, increasing patients' access to innovative, EU-standard therapies, and ensuring budget sustainability are what authorities in all EU member states are looking for, and the same should be true for Romania to build a **predictable healthcare system** and a **sustainable climate** for the market.

We recommend new optional/alternative sources to be identified to finance the health sector; **a stimulating framework to be developed to**

**enable implementation of voluntary health insurance; speeding up clinical studies; rethinking the exemptions from payment of health insurance contributions, and fair distribution of the fees charged on** entities operating in the health sector. For instance, the clawback tax, introduced in 2009 as a temporary budget control measure in a context of economic recession, continues to be a tax burden for the members of the pharma industry, and has doubled in the past three years.

**Digitalization in the health sector; electronic monitoring and control registries,** alongside the diversification of **assisted access schemes** for innovative therapies are sustainable solutions which other European countries already implement, and which enable comprehensive data analysis, cost-efficiency, and the development of a national e-health strategy.

The population's health influences the engagement and productivity of the workforce. It is necessary to increase awareness on the importance of prevention, promote innovation and the value that it brings about for patients, public authorities, the society, and the business environment.

### **Digital economy - a framework to stimulate competitiveness**

According to the information published in the latest DESI Country Report <sup>3</sup>, Romania ranks second-to-last in the European Union, with the lowest performance among Member States, which pushes the concept of a digital economy even farther away.

To enable completion of the transition to such economy, which would stimulate competitiveness and result in economic and technological

progress, Romania should pursue three lines of development, namely: **digitalization of the public administration; use of technologies in companies, and development of digital skills (basic and specific) in citizens.**

Data in the Country Report point to the fact that, in terms of **digital public services**, Romania performs lowest among Member States, despite the high rate of e-governance users (ranking 7 in the EU). <sup>4</sup> Moreover, the country is below the EU average in terms of fully online services (out of a total 100 points, Romania only scores 67, while the European average ranges at 87).

Despite some degree of online interaction between citizens and public authorities, data point to the need for a structured, homogeneous vision, with a correlated approach on the interaction flows between citizens and authorities to finalize the currently fragmented digitalization processes.

Concerning the **citizens' digital skills**, the Report points to the fact that only 29% of the citizens have at least basic digital skills (EU average – 57%). If we are to look farther away, only 10% of citizens have digital skills above the basic level (while the EU average is 31%). This data must be correlated with internet usage data - ranking lowest among EU Member States (21% of people aged 16 to 74 have never used internet, compared to the EU average of 11%). Lack of digital skills in correlation with low internet usage generate consequences both for the economy overall, since digital services tend not to be used (e.g. e-commerce or banking services), and for the labor market, since companies are challenged by great discrepancy between employee skills and their capacity to innovate/capitalize on innovation.

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<sup>3</sup> Digital economy and society index 2019

<sup>4</sup> Romania - Digital Single Market, <https://ec.europa.eu>

Studies point to the need to train digital skills in citizens by including them in the education process at as early a stage as possible; encourage young people to access higher level STEM (science, technical, engineering, mathematics) education to create the grounds for continuous growth of jobs in the ITC (information technology and communications) sector, and investment in digital skill specialization programs for citizens. It is extremely important, to this purpose, to ensure training of teachers in the field of digital skills, to respond to the need to bring digital skills closer to citizens, irrespective of the professional stage at which this happens (vocational training or re-skilling).

The third approach to develop the digital economy has to do with the **use of technologies in companies**. The report shows that Romania ranks 27/28 with regards to integration of digital technologies by companies, which overall is greatly below the level of EU countries.

To increase their competitiveness, policies must be implemented at national level to encourage development of technology-based businesses, and adaptation of technologies within the internal processes of the existing businesses. For instance, according to the quoted Report, with only 7% usage of cloud services, Romania remains far below the EU average of 18%. Moreover, among the SMEs registered in Romania, only 8% choose to sell online (compared to 17% EU average), while only 2% of them manage cross-border online sales (compared to 8% EU average). An approach focused on helping and guiding businesses to embrace digital technologies will result in developing the digital economy and contribute to reaching Romania's economic potential within the context of the technological changes happening internationally.

## **Entrepreneurship: a way of thinking, not a financing program**

AmCham believes that entrepreneurship, as a responsible behavior of undertaking economic (and other types of) risks, must be encouraged not only at its stage of setting up **start-ups**, but in the entire economic system, including large corporations and - maybe even more so - in the institutions of the public sector, because many economic and non-economic projects that Romania contributes to are actually projects of public interest.

However, a favorable ecosystem is needed to allow entrepreneurship and entrepreneurial thinking to bloom, and we think that the key components of such ecosystem are the following:

- ✳ A professional system of values based on meritocracy and competence-based promotion: applying it in the public system would ensure not only potentially greater efficiency of public services, but also, concomitantly, greater responsibility of the private sector in the same direction;
- ✳ Improving the efficiency and timeliness of the judicial process: long time between hearings, no consistency between the decisions of different courts, repeated postponements are just some of the issues that turn the judicial process into a time-consuming endeavor of attrition; especially in the case of insolvency, the inefficiency of the legislative and judicial system have created a commercial landscape populated by "zombie" companies which are either inactive, or they have negative assets or work in no compliance with the law;
- ✳ An education system adapted to the demands of the current society and economy, where acquiring skills and attitudes are more important than accumulating a very large (doubtful and often inadequate, too) of knowledge;
- ✳ Supporting a functional, efficient capital market to allow venture capital to be allocated to

young companies that have a possibility to grow, and offer a viable **exit** option for **venture capital** or **private equity funds**, to indirectly encourage the presence, in the local financial landscape, of these funds which have the capacity to accumulate significant financial resources that can be invested in the businesses of local entrepreneurs;

✧ Stability of the pensions system and the funds industry, which ensures the flow of local institutional investors towards the public offers of private companies that take or look for long-term financing on the capital market;

✧ In the public sector, a legal and administrative framework needs to be drafted to encourage and stimulate civil servants to become accountable, and enable them to make decisions timely and essentially, so that public projects, especially those funded from European funds, can progress as expected by the society and by Romania's public and private partners;

✧ Introduce a simplified taxation system that would encourage voluntary compliance of starter companies or of certain types of taxpayers. This could take the form of a single tax for certain categories of tax payers, which would include the main tax obligations - profit tax, income tax and social contributions, local taxes - like in other countries, or the form of a single tax for tax payers during their first three years of activity. The result of such a system would also be a reduced bureaucracy, as bureaucracy is a permanent issue for entrepreneurs.

## **Sustainable development and protection of natural assets**

**Concerning its natural environment**, Romania enjoys optimal conditions that it could try to use to secure a competitive advantage for itself, if such assets are used and managed sustainably

and with maximum efficiency, as a viable source for creating national wealth.

Romania's National Strategy for Sustainable Development 2013-2020-2030, developed by the Ministry of Environment and Sustainable Development, was pointing out, as early as 2008, that Romania needs to cover considerable gaps compared to other EU Member States and, at the same time, endorse and implement the principles and practices of sustainable development within the context of globalization; this situation has not changed in the recent years. **It is a reality that Romania's economy is based on intensive consumption of resources, while Romania's natural assets are at risk to reach a state of degradation that can become irreversible.**

AmCham Romania deems that the areas the Romanian authorities need to focus on in the short- and medium-term to ensure sustainable operation of the natural environment of our country must include the **protection of forests and waste management as key priorities.**

Although the management of the forest stock is on the public agenda in Romania for over a decade now, and the authorities have made efforts in the past few years to pass a European legislative framework and strengthen institutional capacity, the major challenges have deepened and have become chronic, especially due to the devastating impact of corruption. Despite all the actions taken by now (e.g. the Forest Radar; the creation of Forest Guards; implementation of the "Forest Inspector" application; increased fines, etc.), illegal deforestation continues at a large scale, and what is most alarming is that such deforestation massively threatens national parks and protected natural areas as well. Only through a range of substantial, intransigent, wide set of actions that would repair the distortions

generated by corruption at all levels, enforce the law fully and timely, and generate sustainable medium- and long-term preventive effects can we ensure protection and sustainable exploitation of the forest stock.

The following specific measures are required:

- ✧ Establish an intervention plan and an inter-institutional working group specializing in anti-corruption in the field of forest resources, which would focus on intensifying territorial inspections and promptly implementing comprehensive correction measures, including in protected areas/natural parks;

- ✧ Permanent proactive collaboration of the Ministry of Environment, the Ministry of Energy, Water and Forests with the Ministry of Justice, the National Anti-Corruption Department (DNA), the DIICOT (Directorate for Investigation of Organized Crime and Terrorism), the Ministry of Internal Affairs and other authorities, resulting in *immediate* measures against illegal deforestation and abusive retrocession, unblocking and speeding up of grand corruption cases in the field of forests, sanctioning of the persons in charge, and recovering of the direct and indirect material prejudice;

- ✧ Issue exploitation licenses that are limited in time, which should include requirements concerning restoration of biodiversity, considering the provisions of the forestry agreement;

- ✧ Rigorous protection of virgin forests and national parks, including water flows - through special protection and management programs accompanied by rigorous monitoring, control and sanctioning programs;

- ✧ Establish a restocking plan for the damaged/deforested areas, including clear deadlines and rigorous sanctions in case of non-compliance;

- ✧ Endorse a national forestry strategy.

The European legislation in the **field of waste management** has been solidly translated into local legislation; however, the implementation of the measures outlined in the laws greatly lags. The lack of modern waste management infrastructure, especially in ensuring separate collection of waste, will result in Romania failing to meet its commitments in this field, undertaken by joining the EU, which would trigger an infringement procedure.

Therefore, measures are required to ensure solving of the systemic issues and long-term sustainability of waste management.

- ✧ Urgent solving of the chaos in the field of packaging and electrical and electronic appliance waste management. The major deviations currently existing on the market can only be stopped through accountability of all stakeholders (including local authorities) in this field. Failure to achieve the goals concerning capitalization/recycling of these types of waste will result in substantial penalties for Romania, which will affect the state budget, with all the resulting consequences. Concomitantly, failure to meet the waste capitalization/recycling objectives by private economic agents significantly affects their businesses and triggers chain reactions in the entire economy of Romania;

- ✧ Make the process of revising the current accountability transfer system and procedures transparent, in line with the process of accurate,

objective costing for each of the actors along the packaging waste capitalization chain;

- ✦ Improve local authorities' expertise to implement waste management projects funded with European funds;

- ✦ Encourage separate collection of waste by subsidizing economic agents in this industry, and through specific legislative measures.

## **E. SOCIAL ASPECTS AND THE FUTURE OF THE JOB MARKET**

**The social dimension is one of the key aspects of the development policies in a society. Most of the successful society stories nowadays have humans, the quality of life, sustainability of economic activities and even happiness at the core of the elements guiding allocation of resources and development of economic policies.**

### **Medium-term social priorities**

In Romania, multiple transition processes and the evolution of economic systems often came along with core imbalances at social level. Phenomena such as increased income inequality in the society; restructuring and structural transformation of the economy; quasi-disappearance of nonindustrial areas; migration; access to key public services, especially healthcare, education, transport etc. left their mark on the balance within the society. Such developments give birth to tensions in any society, and Romania is no exception.

In an economy-development model based on knowing the human capital, the coherent development and the capitalization of human capital in economic activities with high added

value are key elements of social development. Modern societies adopting this development model need an integrated approach on education, healthcare and economic systems, which empowers and coherently capitalizes on the existing human capital.

In these past few decades, Romania is a society looking for its optimal growth and development model. Although topics such as education, healthcare, undifferentiated access to good-quality public services are highly placed on the public agenda, no satisfactory solution has been found for these issues so far. The development of human capital overall, its coherent management as a key element to stimulate economic growth and ensure a sustainable economic development are topics that should urgently be included in a comprehensive vision of a country project.

This report focuses on several types of issues pertaining to the field of social policies, which affect both the population's wellbeing and quality of life, and the sustainability of the society model proposed by Project Romania. Among these, we will tackle on five big social challenges that the contemporary Romanian society is facing:

- ✦ Job market and the human capital;
- ✦ Vulnerable groups in the society;
- ✦ Formal and life-long education;
- ✦ Poverty and unequal opportunities;
- ✦ Pension system.

### **Job market and the human capital**

The Romanian society is yet becoming familiar with the various forms that capital takes and the creation of mechanisms to manage it properly. Physical infrastructures are of unsatisfactory quality; public and private companies are low in capital, and there are no coherent mid- and long-term strategies to boost capitals; human capital is

depreciated as a result of demographic phenomena, the quality of the education system and the public and social services; the forms of long-term saving and investing are scarce, and the existing ones - such as the pension funds - are constantly challenged.

Unemployment is at its lowest, due to the fast-economic growth, which generated very high participation rates in the national economy. Such developments point to the limits of the flexibility of the job market, defined by the fast migration and population ageing process. Within this context, the contribution of labor to the creation of the GDP remains in the positive realm; however, questions are being raised about its sustainability within the context of the continuous degradation of human capital.

According to the reviews of the European Commission, the World Bank and the International Monetary Fund, the migration process had a significant impact on Romania's economic growth. Thus, almost one quarter of Romania's active population has emigrated over the past 30 years. If this population contributed to the local economic activities, the annual economic growth could have been 0.6 to 0.9 percent higher every year. The impact of this demographic phenomenon is uneven throughout the territory. The population of the big cities, usually better educated and more productive, is most prone to emigration. Furthermore, young people aged 15-34 in under-developed areas such as the North-East or South-Muntenia regions are most willing to emigrate. The drivers of these processes are many; however, the lack of opportunities, poor quality of and unequal access to public services, the quality of physical and social infrastructures or the lack of real opportunities for satisfying standards of living are some of the key drivers of this process.

Internal mobility of the workforce is limited by the poor quality of physical infrastructures, especially transport infrastructures, but also by the relatively low level of salaries. Workforce mobility is mostly regional, and it is more advanced especially in more developed areas, where service sectors account for a significant portion of the local economy. Examples of this could be the Bucharest-Ilfov area, the West or the North-West region. The mobility pattern in these regions is one where the dominant urban centers in that region attract the workforce and the resources of the remaining parts of the region. As for the other regions, where the development pattern is mostly based on industrial activities, they mostly rely on attracting labor from the rural areas.

In our view, the transition to a knowledge-based economy is deeply connected to improving the quality of human capital. Within this context, measures to limit migration are crucial, along with in-depth reforms of the education system, considerable improvement of public services, fiscal predictability and a stable business environment.

Other measures should aim at:

- ★ Focusing on reducing disparities and inequalities in general, by ensuring inclusion of disadvantaged categories in the public education system, ensuring access to quality medical services, and improving workforce mobility by investing in infrastructure;
- ★ Encouraging participation of women on the job market;
- ★ Improving institutional efficiency and consistency, by continuing to fight against corruption and endorsing goals that focus on the delivery of quality public services;
- ★ Providing incentives to retain highly qualified specialists in the country and reverse the outflow of "brains";

- ✧ Stimulating birth rates through fiscal measures for families with more than two children;
  - ✧ Improving the efficiency of public spending in the fields of education and health;
  - ✧ Stimulating private investments in education and health;
  - ✧ Tax deductions for parents who invest in the educational performance of children in the private education system;
  - ✧ Stimulating life-long learning;
  - ✧ Including entrepreneurial education and financial education in the school curricula.
- ✧ Harmonize integrated social services for families to bring them in line with long-term educational programs that develop XXI-century-relevant skills;
  - ✧ Empower and train teachers in poor communities in reducing the risk of school dropping among children who live in poverty;
  - ✧ Long-term investment in early education to reduce the educational gap that challenges children in marginalized urban and rural communities;
  - ✧ The need to build school canteens that ensure food for children in schools that operate in vulnerable communities;
  - ✧ Automate educational administrative processes associated with teachers by including innovative technologies such as RPA and AI to increase the time and attention dedicated to children.

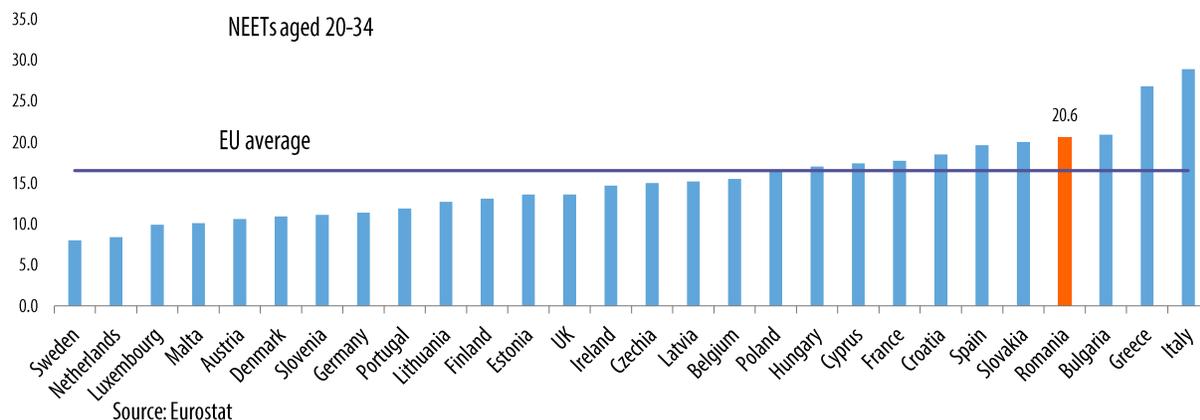
### Vulnerable groups in the society

Significant groups in the Romanian society continue to be poorly represented on the job market. Among these, young people and women are key priorities that could contribute to reducing some of the current imbalances manifesting on the job market.

Young people are one of the demographic groups that public policies need to particularly focus on. Despite recent positive developments, Romania continues to have one of the highest rates of NEET (not in education, employment or training) youngsters, namely 20.6% in 2018 (**graphic 7, page 26**).

We hereby suggest some specific measures to fight poverty and support children who come from disadvantaged environments, as follows:

The number of young Romanians aged 15-24 who choose to emigrate is among the highest in the EU. These realities point to, on one hand, the lack of skills in managing human capital, but also the poor quality of public policies designed to train and integrate these groups in the economic activity. Whatever the model of society Romania will go for in the future, the sustainability of growth and development models is questionable in the absence of coherent mechanisms aimed at integrating young people in the society. Therefore, reforms of public policies and of the national systems that provide public services for young people are necessary in order to have an integrated approach, focused on solving the problems that make this category emigrate.



Women – despite the period of economic growth that we are going through, the activity rate of women within the national economy overall is significantly lower than that of men, as it ranges at 63.7%. The most severely affected groups are middle-aged women who have responsibilities related to looking after their families. The explanation for this situation is the absence of integrated policies offering young families maternal care support, especially for children aged 0-3, the development of a functional national network of nurseries and kindergartens and of the staff needed to deliver these services. Furthermore, the lack of public policies focused on bringing young mothers back on the labor market.

Active employment policies are generally limited to offering financial resources to companies that choose to use workforce coming from a specific target group, without, however, solving the issues that challenge such groups. One of the key issues of workforce in Romania is the need to continuously adapt their level of skills to the demands on the job market. From the very moment when educated young people in Romania leave the education system, employers complain about the poor matching of their level of training with the needs of the labor market, while skilling on the job takes time and resources. The problem of cooperation between the

academic environment and employers is still not addressed; however, there are many initiatives supported by the business environment, focused on bringing into the educational system the types of knowledge and skills that young people need on the job market.

AmCham can offer guidance through its experience with the Business Academia Council program, at its 8th edition this year, which intends to put together representatives of the business environment and rectors of the most prestigious universities in the country, to contribute to solving the issues of inappropriateness for the job market of the young people who complete university-level education.

### Life-long education

Continuous education remains a challenge yet not addressed for the national economy. According to recent surveys, more than 81% of the employers interviewed state that they were unable to find the right employees for their vacancies.

The service sector, especially the ITC sector continue to grow at a fast pace; however, there is a significant imbalance between the levels of workforce demand and supply. The number of graduates who are relevant for this sector is

continuously dropping, from 16.6 per thousand population in 2014 to only 14.4 in 2016. Furthermore, these figures bring Romania below the European average of 19.1 per thousand population in the EU. Within the whole of the society, the level of digital literacy is another issue, with only 29% of citizens having basic knowledge of ITC (**graphic 8, page 28**).

A comprehensive nation-wide approach is needed to guide the continuous workforce training process. A national evaluation of the skills that are required to ensure the human resources needs for the development of the national economy is a priority that can no longer be postponed.

In a global economy that is based on finance and digitalization, financial inclusion plays a key part in improving the citizens' quality of life; financial inclusion takes place through financial education programs, but also through facilitated access to financial products and services. The level of financial knowledge of a person directly determines their financial behavior; in turn, this influences the prosperity of individuals and the society.

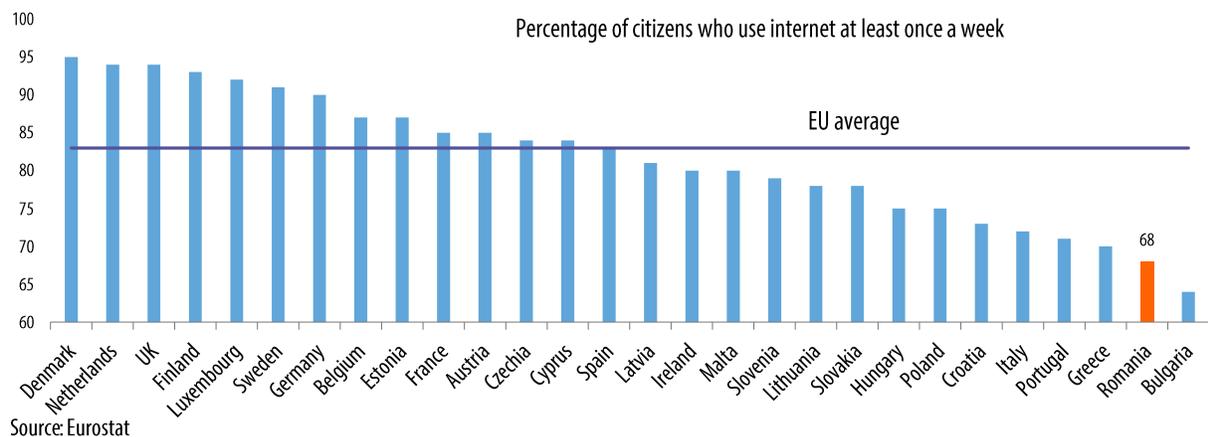
Social dialogue is a mechanism inconsistently used in developing public policies and solving the fundamental challenges in the society. The fundamental logic for having this mechanism is to create the proper framework to approach the issues occurred in the functioning of the job market and generate the arrangements and the solutions needed to overcome such issues. A

formal approach on the process leaves out some of the interests that are present in the society, which are not included when public policies are developed and substantiated. Such practices fail in generating the cohesion needed for a coherent progress of the proposed development models.

### **Poverty rates continue to be among the highest in the EU**

Despite the period of economic growth that Romania is witnessing, 1 out of 3 Romanians continues to be affected by the risk of poverty or social exclusion. Approximately 23.6% of the country's population was ranked as poor in 2017. The key causes of this phenomenon continue to be economic idleness; low level of education due to limited participation in the education system; poverty being passed along to the next generations, and lack of regional mobility. Poverty rates in rural areas are approximately twice as high compared to urban areas, and the vulnerable groups in these areas are very challenged by poverty and social exclusion.

Income inequality is among the highest in the EU. The incomes of the 20% best paid of the population exceed the incomes of the poorest 20% by 6.5 times. The active population is exposed to this risk of inequality; however, the explanation for the evolution of this phenomenon comes from the continuous process of impoverishment of the poor layer of the population. Furthermore, within this segment of the population, working people with a basic level



of education are exposed to higher poverty risks than those with tertiary education. There are essential differences between men and women as well, coming from the higher risk of poverty among men and the higher rate of idleness among women.

One of the groups that are most vulnerable to poverty in the society are children. Against a background of unequal opportunities, children coming from poor or disadvantaged environments have great chances to continue living in poverty during their adult life as well. In the case of children, the risk of living in poverty is correlated with the level of education of their parents. The development problems of social, education and healthcare systems make it so that a child born at this time in precarious social conditions enters the labor market with only a fraction of its potential. Some estimations for Romania quote a figure of 60%, which is the lowest level in the EU. Compared to the average level in the EU, low-income families in Romania report difficulties in affording their children's education. Specialized public services do not have any efficient solutions to address this type of issues.

The key social policy measure adopted recently by governments was to systematically increase the minimum wage. However, this solution does

not address the issues described above, because most of those who are at risk of poverty or social exclusion are not active on the job market. For those, the minimum inclusion income guaranteed was the solution preferred by the government; however, the level of this income and subjecting it to the requirement of performing community service in exchange for it are recent developments. One example of a positive recent initiative that should be continued is the arrangement by which all families living below the poverty line can receive social kindergarten vouchers if they bring their children to kindergarten every day.

The development of social services and their representation in the territory is uneven. According to the statistics of the Ministry of Labor and Social Justice, only 20% of the territorial-administrative units have functional social services. In general, these services are clustered in the urban areas, although the significant needs for social services are found especially in the rural areas. The lack of specialized personnel is part of the problem; however, the lack of coordination between the various administrative levels, namely local, county and central levels results in a still fragmented approach on these issues. The outsourcing process designed as a solution especially for the areas where there is a strong

need for social services is impaired by the lack of continuity in funding. Alternative solutions such as volunteering, or sponsorship are not a sufficiently appealing solution for the moment.

The new public system pension law, stipulating an increase of the pension point by 77% over three years (2019–2020), will lead to a considerable increase of public spending for pensions, and has the potential to result in a considerable increase of the public budget deficit. Within this context, the uncertainty concerning the prospects of fiscal policy for the next years has increased considerably, and the prerequisites for a tax increase in the period to come are looming. Building a medium-term fiscal-budgetary strategy has become key within the new context (risk of major increase of the budget deficit and increased public debt).

Romania needs to build coherent public policies, which can offer the citizens a transformation of economic growth into wellbeing, along public finance sustainability and compliance with the commitments taken in relation with its citizens. Raising the pensions as per the schedule committed to through the modifications included in the pension law cannot be analyzed separately from the context of the budget structure, the execution of the public budget, the size of the deficit and the financing of it. Similarly, these elements cannot be taken apart from the model of economic growth, where consumption has taken the lead, and from the imbalances generated by its functioning, namely the twin, budget and current account deficits. Therefore, increasing social spending without conducting a reform of the pension and social insurance systems, especially concerning special pensions and benefits, without considering demographic developments, the level of contributions, and budget revenues, is not sustainable. The solution preferred up to now for funding these expenses

was to sacrifice investments and bring these costs upon the society by increasing the budget deficits. All these alternatives raise doubts about the health of the economic growth and the capacity of this model to continue.

Equally, it is crucial for the future sustainability of the pension system overall and that of the public finance of Romania to strengthen the private pension funds, especially Pillar II, in a sustainable, reasonable way.

## **OBJECTIVE:**

### **NATIONAL CONSENSUS FOR A COMPLEX COUNTRY PROJECT**

AmCham deems that the Presidency and the political parties, through their representative position, must take responsibility for building and sustaining a national consensus for a wide, comprehensive Country project, to reach the common goal of ensuring democracy, prosperity and security. Stimulated by our confidence in Romania's potential to become stronger and more competitive, we all want to see transformation in Romania, and we all want to see the entire society engaged in an intense integration and development exercise.

The biggest challenge is the capacity to mobilize, filter out distortions and coagulate complementary or fragmented vectors, as well as the capacity to integrate and validate the whole and make it work, by identifying shared values, the visionary target and the priority goals. The initiative will have to go beyond every personal, party or circumstantial interest, in a shared mission that requires responsibility, enduring determination, and strong anchors. In order to get traction and generate consensual accountability, such concept excludes right away its unilateral origination from one specific barricade; it goes beyond the need for ownership, beyond electoral/governmental plans, and it must be built as a powerful, frank, open platform, through substantive consultation, in an advanced, balanced democratic exercise, for the benefit of the citizens and of Romania, to identify the vision of identity and the mandate that the society grants to politicians and governing bodies.

