Notable positive economic developments pre-pandemic

- Economic growth averaged 4.7% per year in 2015-2019 (7.3% in 2017)
  - even with the 2008 and 2020 crises, avg 3.7% per year since 2000
  - (however, driven mostly (>90%) by private consumption)
- Strong labour productivity growth over the past decade
  - (however, from very low basis even among CEE countries)
- Despite fiscal deficits, public debt remained low relative to EU targets or avg.
- WB classified RO as high-income country for first time, based on 2019 data
  - positively impacted investment rating decisions, OECD accession negotiations
- Bucharest Stock Exchange (BVB) officially 'Emerging Market' in Sep 2020
  - two Romanian companies included in the FTSE Global All Cap Index (and three other indexes)
Moderate recovery since 2021, helped by international aid

- Strong rebound in the first half of 2021
  - 2021 GDP growth revised downwards since, but still projected at 7%
  - (3.9% GDP contraction in 2020, less than anticipated, 6.5% GDP growth in first half 2021)

- Despite increasing fiscal deficit, public debt still one of the lowest in EU
  - even pessimistic projections of public debt are at <63% by 2023

- External financial stimulus (essential given limited fiscal space)
  - about 49.5 billion till 2027 under the EU Multiannual Financial Framework
  - about 29.2 billion till 2026 under the NextGenerationEU package
    - (but PNRR barely approved, could be in danger if new gov not acting fast etc)
  - 400 million of pre-arranged financial support from the World Bank to help prevent and respond to the pandemic
    - activated in April 2020
High inequality, poverty, social exclusion

- Inequality higher than in most advanced economies
  - poorest 20% of households earn 5.7% of total income
  - also large disparities (in income, labor participation, education, health) by ethnicity, sex, age, region

- High poverty rates, especially in rural areas, not improving over time
  - overall 24.6% in 2007, and hardly changed at 23.8% in 2019.
  - in 2019, 38.1% poverty in rural, and 12.8% poverty in urban areas

- Extreme risks of poverty/social exclusion for children and old age
  - > 40% for children <18 (highest in EU) and old > 65 years old (2nd highest)

- All exacerbated by the Covid-19 pandemic, via inadequate state support
  - E.g., at pandemic start, poor/vulnerable households less supported by fiscal response measures (which favoured those in formal employment etc.)
  - Poverty forecast to remain high due to the persistence of the pandemic, poor agricultural year, and declining remittances.
Absurd social protection, education, healthcare: in 1 slide

- Unreformed, unsustainable social security system
  - both coverage and replacement rate of unemployment benefits well under EU/OECD average
  - no counseling/training for vulnerable jobseekers or marginalized communities
  - unsustainable old-age social security is textbook example of "how not to do"

- Underfunded, execrably managed public education and scientific research
  - neglected, deprived schools, particularly in rural areas; low pay → negative teacher selection
  - lowest R&D intensity in EU; public R&D 10 x below the EU target for 2020
  - incompetent/corrupt governance in higher-education and research
    - parallel universe in scientific standards/evaluation criteria; rampant plagiarism
    - just tip of the iceberg, substance is "publish AND perish", originally

- Public healthcare system in fire, *ad litteram*
  - hospital infrastructure = disaster (euphemism); insufficient spending on pretty much any aspect of healthcare
  - coverage gaps of the public health insurance and access to decent medical care
  - no performance, accountability and governance mechanisms in hospitals
    - inadequate pay/work conditions → acute shortages of medical staff
    - rampant informal pay/corruption
As far as possible from a green economy

- 75% of RO’s population subject to nocive air pollution on continuous basis
- In terms of water infrastructure, Romania conforms to EU norms/ regulation only in proportion of 6%.
- RO has many EU open infringement procedures concerning the environment
  - e.g., for illegal logging/ deforestation, destruction of protected areas, environmental pollution
- The transport infrastructure is one of the most undeveloped in the EU in general and the worst for road transport by far
- We are well behind most of the EU in terms of utilization of renewable energy, as well as efficientizing traditional energy use
- Sizable chunk of the PNRR funds from the EU earmarked for decarbonisation/ transition to a green economy, but the RO plans in that realm were the heaviest criticised, and for good reason
  - missing quantification of measures to reach the national targets for renewal energy, circular economy; no specific objectives for competitiveness, unclear/ conflicting info on phasing out fossil fuel energy sources, just and fair transition (e.g., impact on employment/ well-being of those in coal mining areas) etc.
Missing competition / proper regulation in product markets

- Despite some progress, still considerable barriers to competition and rigid/inadequate regulation standards
  - Restrictive product market regulation
  - Lack of proper review of anticompetitive practices
    - dormant, inefficient competition/ antitrust authority ("Competition Council")
  - Cumbersome licence and permit system in some professional services
  - Absence of early warning tools and out-of-court mechanisms for SMEs in financial distress
    - "everything takes forever": Romania the worst in EU from this perspective
- Immature / corrupt public procurement
  - badly-designed and/or outright rigged "public" auctions
- State-owned enterprises lack even basic accountability and corporate governance standards
- In general, promotion of "pro-business" instead of "pro-market" environment
  - "Being pro-market is being in favor of a competitive market system where you give everybody opportunities, but you don't favor anybody. On the other hand, being pro-business is actually favoring existing businesses at the expense of other constituencies." (Luigi Zingales)
Pandemic mismanagement, large negative externalities

- 2nd lowest vaccination rate, highest recent mortality rate within EU
  - 30.7%, compared to 65.5% avg. EU, 42.4% avg. worldwide (21 Nov, 2 doses)
  - throughout most of Nov, RO had the highest daily mortality rate in EU
    - "A village vanishes daily in Romania!"

- How did RO get here?
  - not communicating clearly and not trusting the population sufficiently
  - lifting too soon the initial restrictions (after imposing them a bit late, but luckily RO less exposed initially)
  - not doing enough Covid-19 testing, in the beginning or now
  - not being firm enough in re-imposing restrictions/ the Covid-19 certificate
  - using the vaccination campaign politically
    - experts ignored or even removed from authority in the context of the pandemic
  - not combating officially misinformation, including from public figures

- Large lack of trust/confidence in government/institutions
  - eroded over time, but new lows in the pandemic: Eurofound survey: 34% trust Gov (Feb-Mar 2021); 17% in another survey (May)
  - at same time, 67% of CEOs did not think the economic impact of the crisis is well managed (Nov)
Demographic decline, huge emigration, workforce crisis

- Demographic decline, especially in rural areas
  - population RO July 1990: 23.2 million, of which approx 10.6 million rural
  - population RO July 2020: 19.3 million, of which 8.8 million rural (45,9%).
  - continuing process of ageing in rural areas: >65 years old approx 21% in 2019
- Highest number of young people emigrating directly after studies, within EU
  - inter alia, textbook "brain drain" example, increasing especially after 2007
- Large workforce deficits in recent years, both pre-pandemic and currently
  - both skilled and unskilled, both public and private sectors, becoming more extreme in 2021
  - increased number of work permits for nationals of Vietnam, Nepal, Sri Lanka etc. but not covering the workforce deficit
  - so far no systematic, long-term strategy to attract external workforce, immigrants in general, but this will (have to) change
    - sound projects to attract back (particularly highly-skilled/ experienced) emigrated Romanians would be strategic, but the precedents imply it will not happen anytime soon, despite plenty of good examples even in CEE
Twin deficits for the last three decades

- Both fiscal and current account deficit, only country to have done that for the last > 30 years
  - purely consumption-led economic growth
    - also impeding sustainable convergence towards general EU living standards
  - pro-cyclical fiscal policies
  - lack of systematic strategy to attract/ incentivize private investment
  - much of RO public investment both ex ante and ex post irresponsible
    - RO does not seem to understand that public investment can be labeled "responsible" iff it creates a positive societal value
  - absence of notable strategic industrial policy, high reliance on imports/ global supply chains
- Wrong moment to reduce fiscal deficit now, after 3 decades of incompetence
  - unlikely that the fiscal deficit can be reduced considerably in the next years (however only moderate public debt increase)
    - SPG initial criteria under scrutiny at EU level as well (proposal for "standards" instead of "rules" etc)
  - the government made a mess of the pandemic management, needs to prioritize that and the economic recovery
    - unclear if, when and how Romania will get the Covid-19 crisis under control!
RO is being "prepared" to enter the eurozone since 2014...

- "Convergence criteria" according to Maastricht Treaty
  - inter alia, SGP debt and deficit targets, inflation and long-term governmental interest rates below reference values, stable currency exchange rate w euro
  - expected that last point demonstrated by two consecutive years of participation in the European Exchange Rate Mechanism (ERM II)
- Bulgaria way ahead of us, could be adopting the euro already in 2023
  - accepted in the ERM-II/ Banking Union in 2020 (together with Croatia)
- Romania could earliest enter ERM-II (and Banking Union) in 2024-2025, thus aim to be a eurozone member no earlier than 2027-2028
  - Originally, RO scheduled euro adoption by 2014, but since 2012 that started to be delayed; in 2015 even 2020 was no more realistic; then 2022, and later 2024 failed, currently the aim being 2028. I say add 2-3 yrs to that, at least.
Not clear yet how the new governmental coalition will do

- If anything, this ought to be a movement towards more legitimacy, the social-democrats being currently the largest in terms of parliamentary seats. Abstracting, of course, from:
  - the (proven) incompetence of the main actors from both major coalition parties
  - the fact that almost 70% of population with voting rights did not actually vote

- It could work, mainly because at stake there are almost 80 billion euro in EU funds for the next 6-7 years.
  - then again, when I see, e.g., whom they propose as Minister for European Funds, I put less than 50% prob. on them performing/succeeding.

- In any case, not sure people will remember well when time will come to choose again, since we have many precedents already
  - to paraphrase Jean Tirole, there are more Proustians than Bayesians in the Romanian electorate: "Facts do not penetrate the world where our beliefs live." [Marcel Proust, "Du côté de chez Swann", first volume of "À la recherche du temps perdu" (EN: "Swann’s Way", from "In Search of Lost Time") ]