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Assessment of recovery measures and austerity packages

1. <u>Which support and stimulus measures have shown to be effective?</u>

A short description of measures is only required if actual evaluation information is available. You can use this to describe the measure(s) which have been evaluated.

- Stimulating labour demand: Job subsidies and reductions in non-wage labour costs
- Maintaining employment: Short-time work arrangements
- Re-employment measures: Job search assistance and activation measures
- Investing in skills: Training and work experience programmes
- Job creation support: business start-up incentives
- Income support for job losers and low-income earners

Evaluation information could be specified in terms of:
- How much has been spent
- How many people or firms participated
- What have the effects been (number of jobs saved; number of matches created, number of apprenticeship places created…)

Without being exhaustive, sources could include:
- Official government evaluation studies or references to that
- Evaluation studies prepared by external agencies

The onset of the economic crisis which touched Romania at the end of 2008 caught its executive rather ill-prepared. A lack of experience in dealing with the effects of the economic and business cycle as well as certain type of adverse macro-management of the intense period of growth experienced by the country between 2000 and 2008, lead to an exacerbation of its external imbalances thus almost nullifying advantage of having one of the lowest sovereign debts in Europe as percentage of GDP (2008 data showed a value around 20% of GDP; by contrast 2010 data showed almost 40%!).
The country had therefore little alternative left than to run for the safety of an IMF-World Bank-European Commission sponsored loan agreement of around EUR bn.19. While providing a cushion that has prevented the country's currency from an abrupt and chaotic depreciation its straitjacket of austerity measures did not leave any room for fiscal stimulus; a new tax has been imposed on small business in 2009-revoked truly by the end of 2010, salaries of public employees were cut in 2010 by 25%, with unemployment benefits seeing a 15% reduction, pensions being frozen at their 2009 values and, minimum salary also frozen for both 2009 and 2010 at its end of 2008 values. Although Romania did not take much from the loan facility throughout 2009 (by contrast the largest take-ups came in 2010), the burden of debt has been made disproportionately large by the sharp drop in GDP which lost in 2009 alone 7% as against its 2008 levels. This has left public finances in worse shape than they have been at the end of 2008, with austerity measures practically bringing in no relief and thus calling for yet more austerity measures, plunging the country downwards on the contraction spiral. The relative stability of the exchange rate was thus of no great assistance as more and more households and businesses (especially small and medium ones) have been pushed into insolvency by the lack in demand and not, as it has been initially thought, by an impossibility to service their foreign currency denominated debt due to the depreciation of the RON.

Moreover, the belief that state borrowing will simply overcrowd banking sector and thus leave no resources for the private sector has been simply brushed aside by reality, as it did not take into account the very basic fact that in times of "balance-sheet recession" the state acts both as lender as well as borrower of last resort! Data from the National Bank clearly show non-governmental credit coming to a practical halt in 2009 as both business and households, far from trying to get new credit lines, were actually having a hard time returning what they have taken. In such an environment, measures to stimulate employment have been, predictably enough, rather in short supply.

Table per country (RO)

Description of measure	Evaluation information	Source
Technical Unemployment (Through this mechanism, enterprises facing a drop in their activities can put workers on technical unemployment for a period of 3 months maximum instead of firing them. Employees have their contracts of employment temporarily suspended but are paid 75% of their wages from the unemployment fund. Workers are exempted from the payment of social security contributions and taxes during the 3-month period. Should the period of technical unemployment last more than three months, the financing will come from the State budget instead of the unemployment fund). Initially measure was supposed to last only until the end of 2009 but it has been prolonged in 2010; A series of abusive practices and cases of fraud have been uncovered by Labour Inspectorates with enterprises calling back workers while in the meantime continuing to claim "technical unemployment".	No evaluation available yet;	
Increase in the duration of unemployment benefit period by 3 months thus brining the minimum period to 9 months and the maximum one to 15 months;	No proper evaluation available;	
All public employees on un-paid leave for 10 days at the end of 2009;	Yet unclear how much has been actually saved;	
Enactment of a unitary salary law as of Sept.2009 with application starting Jan. 1st 2010; Application of the law hampered by numerous incoherence; Currently an improved version under discussion with unions employers;	World Bank Assessment; However not publicly available yet; One rapid assessment made by the SYSDEM correspondent prior to the application of the Law in summer of 2009; (part of the Innovative LM measures- "Spring Review of the EEO");	Ministry of Labour; EEO

2. Which austerity packages have been announced (and possibly implemented) and what are expected employment effects?

A more than tough austerity package has been announced by the Romanian Government in Early May with application due to start as of June. The backbone of the package aimed at restoring the balance of the public budget consists of a series of deep cuts into the salaries of the public employees which by this time (Aug.2010) have already seen a cut amounting to 25% or even actually more coupled initially what would have been a reduction in the value of the pension point (the basis for pension calculations in Romania) by 15%. Alongside the package also included a 15% reduction of the unemployment benefit as well as of a host non-contribution related social benefits, including the paid child care leave benefit. Minimum salary however has been kept at RON 600 (gross amount-equiv EUR 142.8) and the minimum social pension of RON 350 (equiv. EUR 83.3) has not been lowered. However, following a ruling of the Constitutional Court in June, the reduction in the value of the pension point has been repealed as un-constitutional and consequently abandoned. As Government resorted to "Plan B" and hiked VAT from 19% to 24%, thus instantly increasing inflationary expectation for the year though one has to emphasize it purely mechanically as on the mid-term there are no inflationary pressures building up in an economy where the contraction of the crisis has simply levelled down domestic demand. That is the reason why most analysts, including the undersigned, concur to a vision whereby after the mechanical effects of the VAT surge will wane and, bar of course some unexpected spike in the price of several commodities or a more sharper depreciation of the national currency, inflation will subside in 2011 to levels around 4-5% (with this *year to December values* <u>expected</u> to be somewhere around 7%).
While measures adopted might have been well intended so as to sanitize Romanian public finances their timing can be placed into some degree of doubt. The Government might have acted in a rush but, under the pressure of both its external creditors as well as given the highly volatile international context, it might also have had little room to manoeuvre. This time however, things went better than expected! On the back of high world economic growth (almost 5% on the year for the 1st quarter) Romanian exports thrived and thus the country recorded its first quarter on quarter growth since the end of the third quarter of 2008. Moreover, the fall on the year to the second quarter of 2010 is a trifle 0.5%. While this is against the very weak basis of last year it nevertheless signals that an end to recession might be in reach. Therefore, what would have been necessary probably, was not a harsh blow to domestic demand but rather a sort of "cushioning" (there is of course no room for stimulus if equilibriums are to be restored) so as get a speedier recovery and thus lower the relative burden of debt and deficit (e.g.: the deficit of the public pension fund budget added more than one full percentage point from 2008 to 2009 and this in spite of the value of pension point being allowed to fall as against values in 2008, reaching a whooping 8% of the GDP). Again as in 2009 when austerity measures have been enacted just when external demand was at its weakest thus pushing the Romanian economy downwards at a speed 100% higher than initially expected (drop of GDP in 2009 of roughly 7% against an initial estimate of no more than 4%!), timing was of the essence. Concluding, while with domestic demand at the same level as for the first half of 2010 one might have expected, on the background of world economic growth of more than 4%, the Romanian economy to come out of the recession on a *year on year basis* as early as the next quarter of this year, one can now only bet on a milder than initially expected recession, with the evident cause being the blow to domestic demand dealt by the combined effect of lowered salaries and increased taxes. Our estimates, which are based on the already confirmed "*tractor- beam effect*" of world economic growth on the Romanian economy show that, keeping all else constant on the "domestic front", average

GDP growth for this year on the year early would been somewhere at around 0.13-0.15%. Official estimates however, which take into account the knock-off effect of the austerity package damp the picture down to (-1.9) – (-2)% thus squarely making both the burden of sovereign debt as well as that of the budget deficit looming larger than it would have been otherwise. The mechanical effect of inflation, as generated by the increase in VAT, would not suffice to lower them significantly in relative terms as against the country's diminished GDP. Erratic moves of the currency which might be still in store might play both ways. On the one way they might make it more difficult for government, business and households to repay their foreign-currency denominated liabilities, if they go the depreciating side while, on the other way, they might as well hamper the country's ability to continue its export drive on markets still seeing the incipient recovery as fragile, if of course the way taken is the on the appreciation side.

Table per country (RO)

Type of austerity measure(s)	Description	Value in euro (% 2010 GDP)	Expected employment effects
Reduction of salaries of public employees by 25% starting July 1st 2010	Public sector employee, both civilian, including teachers at all levels of education, and military will see their monthly payment cut by 25%. No gross salary however will be allowed to fall under the minimum threshold of RON 600;	Savings to the state budget equivalent to roughly 0.5% of GDP (at est. 2010 levels);	Some public sector employees will probably leave thus freeing some labour force for the private sector but this might be as well wishful thinking as private companies are battling a clear "balance sheet recession" with their accumulated liabilities still exceeding the crisis-battered value of their assets; A lot others might opt for migration like in the case of medical personnel. Most of then however will stay put; The overall effect will be a further dampening of domestic demand which will feed into the private sector's rather apprehensive mood towards job creation;
Reduction of the number of public employees by around 53,000 due to take place in Aug.-Oct./Nov. this current year	All public sectors will lose employees, education will be hit hardest as it was probably the most bloated with personnel (see here also other papers of the undersigned); Public administration will also suffer (e.g.: the National Agency for employment will lose probably half of its staff while the Public Pension House will shed around 1,500 of its approx. 4,500 employees countrywide)	Savings to the state budget equivalent roughly to 0.5-0.6% of the GDP (at est. 2010 levels)	Unemployment rate (national definition, more sensitive to cycle gyrations than the harmonized one which tends to lag the cycle) which recently stabilized at around 7.4% after growing for a full 19 months in row between Oct.2008 and Mar. 2010
Increase of the VAT from 19% to 25% as of July 1st.	VAT for all products (few exceptions are allowed under RO legislation) took up a 26% increase starting July 1st	Increase as against same semester of 2009 of 18.9% in the amount of state revenues	Indirectly it will hammer domestic consumption but, bode well for external competitiveness! Overall it

	2010;	collected via this tax; But the 1.4 bn. RON of extra income will barely compensate for the loss of an equivalent in excise income due to a fall in both consumption as well, predictably enough, production of excised goods; The forecasted hike in revenues due to the increase, equiv. roughly to 0.27- 0.30% of GDP (at est. 2010 levels)	might keep unemployment rather high for RO levels of sustainability (administrative measures might however curb eventual increases in unemployment and even send it falling)
Reduction of the unemployment benefit by 15%	Unemployment benefit is to be reduced by 15% starting with July 1st 2010; Currently unemployment benefit is entirely contribution based, with the calculation formula combining a flat rate sum of 75% of the minimum salary plus a sum that relates itself to both contribution period as well as indirectly to contribution base; The reduction will however take into account the whole sum received by the beneficiary;	Savings roughly equivalent to 0.025% of GDP;	Net effect will be a general increase of poverty in unemployment. Moreover it will make unemployed less prone to take on active measures and more and more tempted by UDW; A more focused action with regard to UDW might however help in stamping down this "side-effect";
Introduction of social protection contribution levy (health, pensions, unemployment) for various forms of non-salary type employment (e.g..: civil contracts, authorship etc) starting with Aug.2010;	Until now non-salary employment was not subject to social protection contribution levy. Of course there was some evasion due to it but taking into account that fact that most of these activities are non-permanent in nature and they include a limited number of individuals it would be preposterous to say that it was here that the budget was really losing money; Moreover it is unclear if individuals combining salary and non-salary employment (popular in urban areas-large ones especially) will have to pay practically a double contribution; Application thus hampered by both bad timing as well as incoherent implementation rules;	Not yet assessed;	Difficult to say but given the general mood it might act as a push factor towards UDW. A rather ill-timed pro-cycle measure; Effects on employment will be however difficult to quantify given the peculiar nature of this "type of employment";

One has to note that while the Government will probably save via reductions of salaries in the public sector as well as by massive lay offs the equivalent of something around 1% of the GDP (maybe a little bit more), but had to increase its allocations for the unemployment insurance fund by the equivalent of 0.23% of the GDP and this just to meet current liabilities. At current GDP levels and when calculating in terms of % share of the GDP, the "*hole*" dug in the budget by the increased allocation for the unemployment insurance fund (largely to fund payments of unemployment benefits as active measures account for little) will be only 0.04 pp. lower than the "*heap*" of revenue brought in by the 5 pp. increase in VAT. This squarely means that the Government chiefly counts on the reductions in salaries and massive lay offs from the public sector in order to maintain budget balance (an estimated deficit equiv. now to 6.8% of GDP up from an initial forecast of 5.9%) and less on tax increases. This however remains to be seen as the take-up from an increased VAT might prove nevertheless higher than one might initially expect.

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Note: All data and analysis are as of the beginning of the 3rd quarter of 2010.

Romania
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Overview of recent employment policy measures specifically targeting young people

Sources:
- Cambridge Review 2010: country fiches prepared by Member States (February 2010)
- OECD (2009). Addressing the labour market challenges of the economic downturn: a summary of country responses to the OECD-EU questionnaire
- Summary tables "Mitigating the effects of the economic crisis on the labour market" - Prepared by EEO Secretariat on the basis of background information from the MISEP network MISEP Meeting in Stockholm 7-8 October 2009)
- draft EMPL Lisbon country fiches (autumn 2009, were not published)

Country\ Supply Policy side measures	enhance labour supply	School Education (reforms)	VET & Apprenticeships
RO - Romania		* Introduction of school curriculum based on competences. * Projects:*The reform of early education* and *Inclusive early education*. The activities funded within the two projects aimed at increasing the quality of education in preschool education and developing human resources and the specific curriculum for inclusive early education. * Grant projects financed by ESF: *Preventing and correcting early school leaving phenomenon* and *Second chance in education and access to education for disadvantaged groups* support the efforts to prevent early school leaving and to reintegrate those who left school.	Apprenticeship contracts according to Apprenticeship Law

Country\ Supply Policy side measures	enhance labour supply	**Youth guarantee (activation policies)**	**Job-search assistance and guidance (employment services - ALMP)**	**Training (schemes for gaining work experience - ALMPs)**		
		guaranteed place		for existing workers/on the jobs	for unemployed	for newly comers, leaving school or university
RO - Romania		* For youth aged 16 to 25 years, personalised social accompanying measures are provided by PES specialised staff under the form of vocational counselling, labour mediation and job insertion: solidarity contract, concluded between the young person and employment agency. **Budget in 2009 euro 2.5 million**	* *Programme From school to professional life towards career* implemented by PES counsellors within schools for pupils in the final years of pre-university education. * Job fair for graduates and job fair for young persons leaving the institutional care system.	vocational training is financed from the unemployment fund, at request, for individuals resuming their activity following the 2 year paid child care leave; PES responsible, part of Unemployment Insurance Act (2002) provisions as modified in 2004;	all unemployed have free access to vocational training courses throughout the legal unemployment period; unemployed receiving unemployment benefit have legal obligation to participate in vocational training courses while receiving benefit; PES responsible; Part of the Unemployment Insurance Act Provisions;	training services offered free of charge and upon request for individuals resuming their activity following full or partial recovery of work capacity; PES, employers and employee have joint responsibility; part of provisions under the Unemployment Insurance Act (2002) as modified in 2004

Country\ Demand Policy side measures	increase labour demand	**employment/job subsidies (ALMP)**	**gross hiring subsidies**	**reduction of non-wage labour costs**	
				stock subsidies = social security contribution/social insurance expenditure reduction	labour taxes reduction
RO - Romania		* 2009-2010 - Under ESF, a State aid scheme for employment subsidy for certain unemployed categories including youth is available. **Budget euro 60 million**	* Funded from the unemployment insurance fund: wage subsidy offered to employers hiring young graduates for 12 months (18 months for disabled graduates) and exemption from the payment of the unemployment fund contribution for 12 months; In place in the frame of the Unemployment Insurance Act; PES responsible for application; Subsidy different according to level of educational attainment (1 minimum national wage equivalent for lower secondary or vocational school graduates; 1.2 minimum wages equivalent for graduates of secondary education (i.e.: high school or post-high school); 1.5 minimum wages equivalent for graduates of higher education); PES responsible, upon request from employers in the frame of the Unemployment Insurance Act provisions (2002) as modified in 2005; 3,605 beneficiaries in 2009 (MoLFSP data)	exemption from payment of unemployment insurance fund contribution for 12 months (18 months in case of employment of persons with disability) (see previous box-left)	

Country\ Demand Policy side measures	increase labour demand	**Unemployment benefit**	**Micro-enterprise development/self-employment assistance (ALMP)**
RO - Romania		Unemployment benefit granted to young graduates, provided that 60 days after graduation they did not find work; amount equal to 50% of the national minimum salary for a six months period; Measure in place in the frame of the Unemployment Insurance Act (Law no76/2002) since 2002; Duration increased to 9 months starting with 2009 as a crisis related measure; PES (NAE) responsible for the application of the measure;7,488 beneficiaries in 2009 (MoLFSP data)	Credits and business consultancy granted to students applying for subsidized loans from the unemployment insurance fund, provided their age at application is below 30, they are attending day courses and they are following a form of tertiary education for the first time ever (irrespective if public or private but accredited in accordance with the standards of relevant RO law); PES responsibility under provisions of the Unemployment Insurance Act (2002) as modified in 2004;

Employment indemnity provided to graduates, aged at least 16, equivalent to the minimum national wage, for a period of 12 months provided their contract is for more than 12 months, full time (8 hour s per day, five days per week according to the Romanian Labour Code (Law 53/2003); Provision part of the Unemployment Insurance Act (2002), as modified in 2005 (PES responsible); 2,989 beneficiaries in 2009 (MoLFSP data)

Solidarity contracts for the young according to Law 116/2002; 710 beneficiaries in 2009 (MoLFSP data)

Country\ Demand or Supply Policy side measures?	increase labour demand or supply?	……	……..
BE - Belgium			
BG - Bulgaria			
CZ - Czech Republic			
DK - Denmark			
DE - Germany			
EE - Estonia			
IE - Ireland			
EL - Greece			
ES - Spain			
FR - France			
IT - Italy			
CY - Cyprus			
LV - Latvia			
LT - Lithuania			
LU - Luxemburg			
HU - Hungary			
MT - Malta			
BG - Bulgaria			
AT - Austria			
PL - Poland			
PT - Portugal			
RO - Romania	Supply	Vocational training offered, upon request, with financing from the unemployment insurance fund to persons from rural areas provided they have no income or their income less than the amount of the unemployment benefit; PES responsible under provisions of the Unemployment Insurance Act (2002) as modified in 2004;	
SI - Slovenia			
SK - Slovakia			
FI - Finland			
SE - Sweden			
UK - United Kingdom			