



Economic Challenges of Lagging Regions

Annex 2

Task 2 - Country report ROMANIA

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Unit B.1 — Policy Development and Economic Analysis

Contact: Blazej Gorgol

E-mail: Blazej.GORGOL@ec.europa.eu

*European Commission
B-1049 Brussels*

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A joint effort by

- › The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche
- › Cambridge Econometrics
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Preliminary note

The Country Reports are concerned with identifying the main structural imbalances in each of the 8 Member States on the basis of a broad range of data from various sources with regard to the 6 reform areas that has been identified as likely to most influence investment decisions and which are:

1. Corporate taxation
2. Banking and Access to finance
3. Labour market
4. Education
5. Business environment including product markets, research and innovation
6. Governance

The approach is to compare, for each structural variable, the situation in the country concerned and, so far as possible, in the lagging (NUTS 2) regions where data are available with the EU average, used as a benchmark. The findings are then confronted with the reforms recommended and implemented so to identify areas still in need of reform.

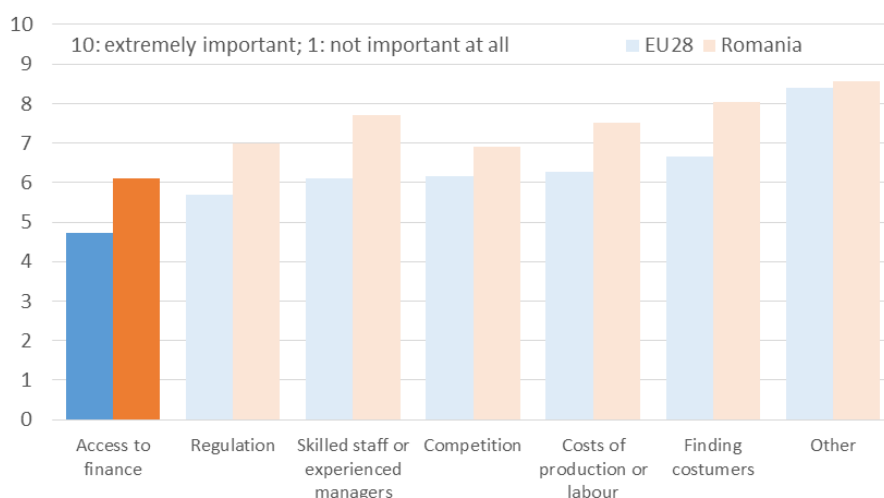
A summary of the main findings coming out from the detailed analysis provided in the Country Reports is included in the main report.

1. CORPORATE TAXATION

Data is not available for Romania. No country-specific recommendations have been made in relation to this issue over the period 2011-2015. Corporate taxation is nevertheless considered as an outstanding challenge to be tackled as the lack of continuity and predictability in this area is held to be a potential hindrance to investment¹.

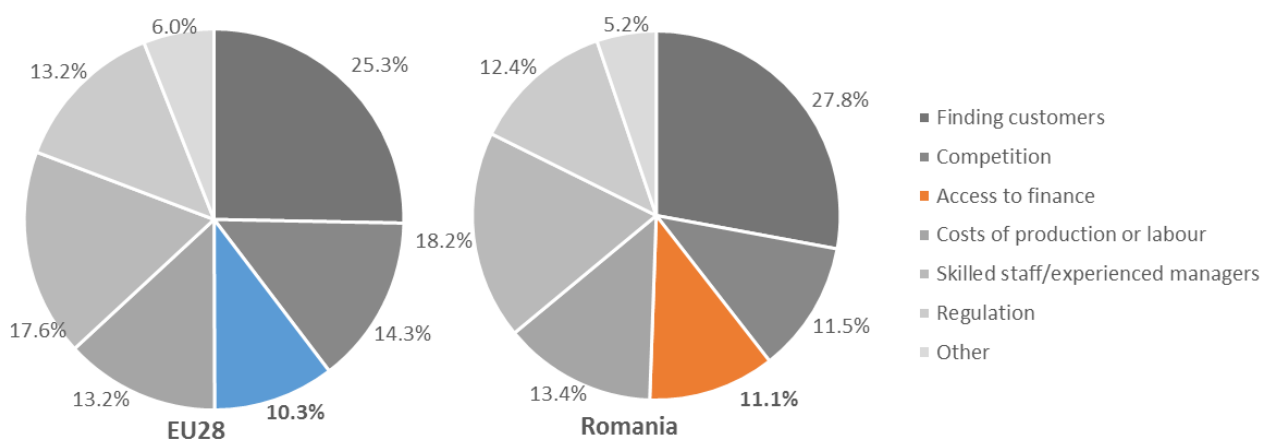
2. ACCESS OF ENTERPRISES TO FINANCE

Figure 2.1 – Problems faced by enterprises in the past 6 months in Romania, 2015



Source: SAFE, wave 13.

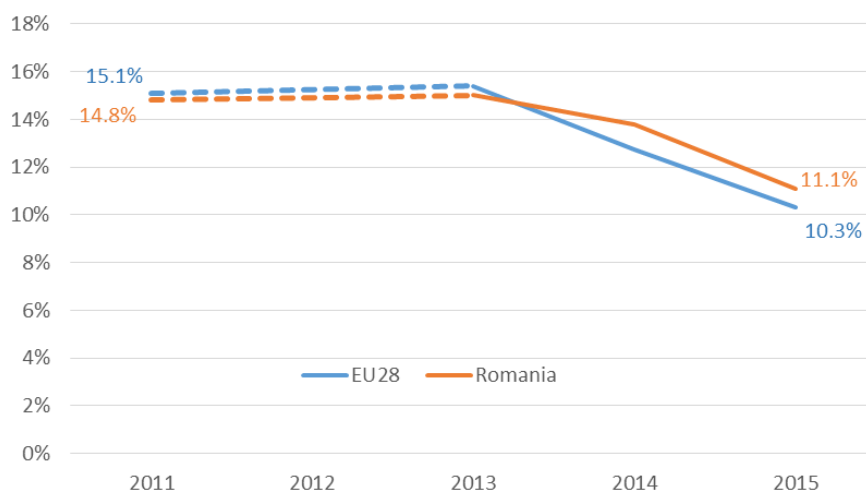
Figure 2.2 – Current most important problem for enterprises in Romania, 2015



Source: SAFE, wave 13.

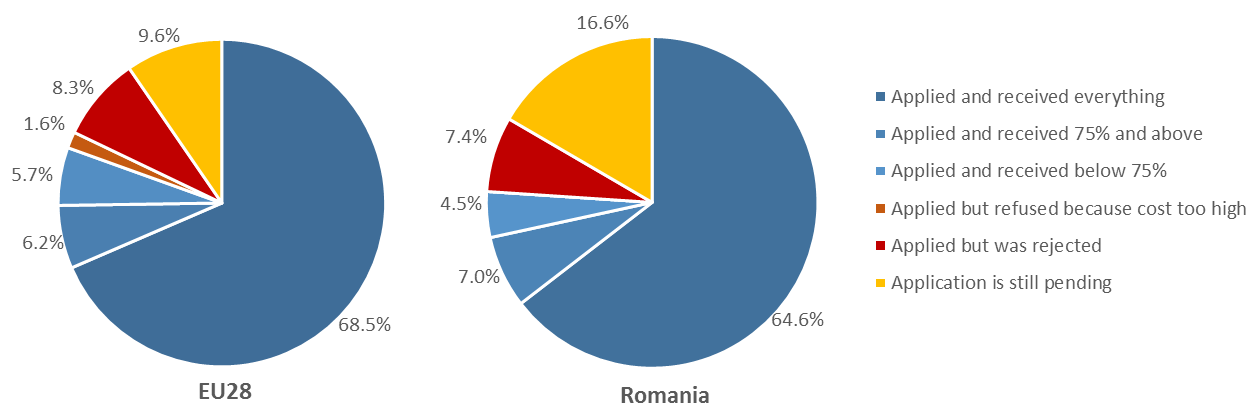
¹ National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final

Figure 2.3 – Share of responding enterprises that said that access to finance was the current most important problem for them in Romania, 2011-2015



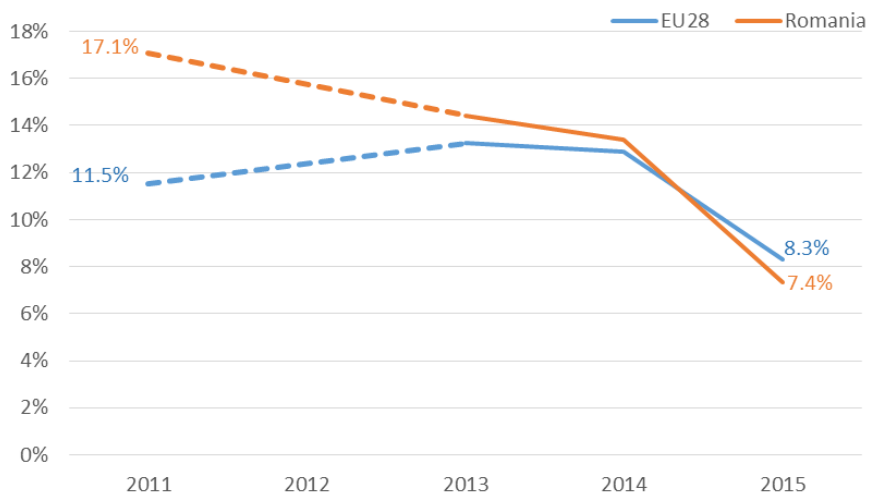
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.4 – Outcome of applications by enterprises for bank loans in Romania, 2015



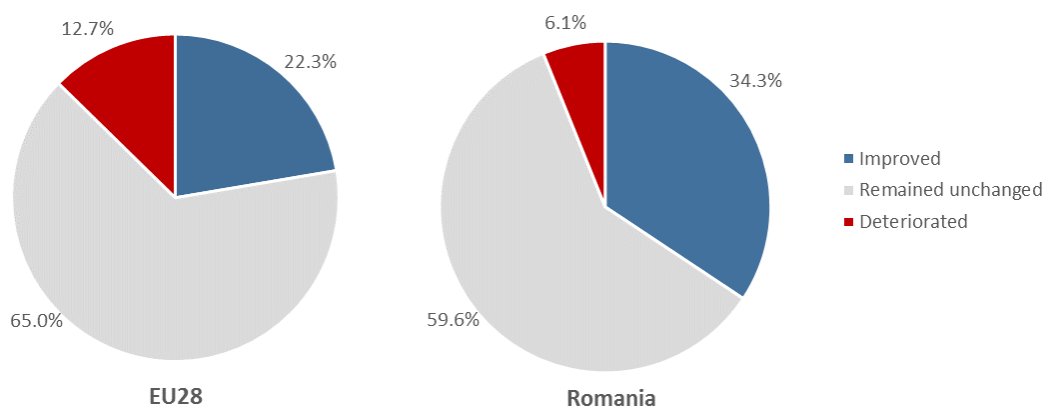
Source: SAFE, wave 13.

Figure 2.5 – Share of responding enterprises that applied for a bank loan but saw their application rejected in Romania, 2011-2015



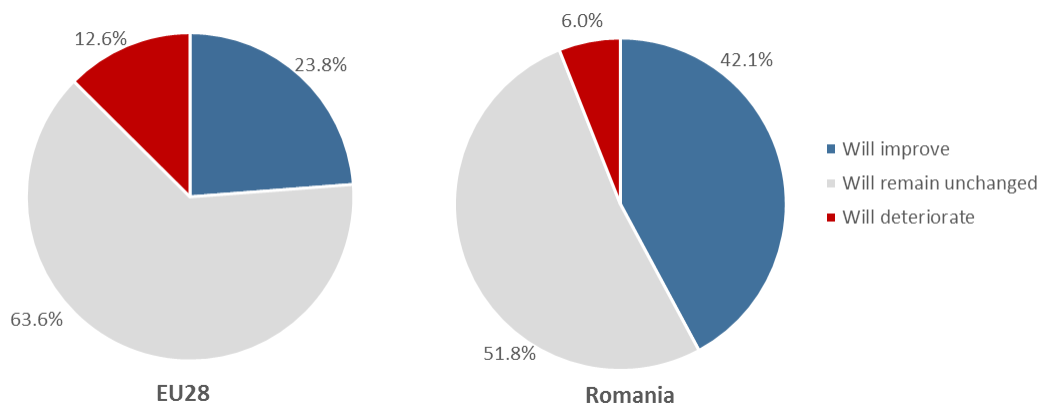
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.6 – Availability of bank loans over the past 6 months in Romania, 2015



Source: SAFE, wave 13.

Figure 2.7 – Evolution of the availability of bank loans for the future in Romania, 2015



Source: SAFE, wave 13.

ACCESS TO FINANCE in Romania	
Country-specific recommendation, 2011-2015	
2013	Ease and diversify access to finance for SMEs.
Structural reforms carried out, 2011-2015	
2011	The <i>Mihail Kogalniceanu Programme</i> to improve access to finance for SMEs. Within this programme, the interest rate for banking loans is fully subsidized, the credit ceiling is increased and the guarantee is also increased up to a maximum of 80% of the loan amount. Moreover, in July 2012, the <i>National Credit Guarantee for SME</i> diminished the fees charged to SMEs by 0.5 percentage points to facilitate access to guarantees.
2011	To facilitate youth access to financing, two multi-annual programmes are implemented: a seed capital type programme (START) to foster young people's entrepreneurial skills, and a start-up phase type programme to finance business support structures (business incubators).
2014	The scheme of <i>State guarantees for bank lending to SMEs</i> was relaunched in 2014.
2015	A <i>Business Angels Law</i> was adopted in April 2015.
2016	The creation of two investment funds is envisaged: one with opening and seed capital for entrepreneurs with innovative ideas, and one with venture and growth capital for innovative start-ups.
Outstanding challenges	
	Access to finance of SMEs has remained muted over the last couple of years due to both supply and demand side constraints. Corporate loan demand is subdued due to the balance-sheet adjustment of domestic companies.
	There is no appropriate regulatory framework, including investor and entrepreneur protection, for alternative sources of financing.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 91 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

In the case of access to finance, data are not available at the regional level. The analysis is therefore limited to the country level.

Based on the SAFE results for 2015, access to finance was not considered to be a major issue for enterprises in Romania which seem more concerned about finding customers and skilled staff. Nevertheless, since 2014, access to finance seems to be slightly more difficult in the country compared to the EU as a whole. Data on the outcome of bank loan applications however indicate that enterprises in Romania seem to have a slightly better access to this form of financing than elsewhere in the EU and perceptions of the future availability of bank loans indicate a better situation in the country than in the EU on average.

A country-specific recommendation issued in 2013 highlighted the need to improve access to finance for SMEs and Romania has responded to this through the introduction of various measures such as the *Mihail Kogalniceanu Programme* (which offers subsidised interest rate for banking loans), multi-annual programmes facilitating the access to financing for young people, and a specific scheme promoting the access to credit guarantees for SMEs.

Despite these efforts, access to finance of SMEs is still considered as an outstanding challenge and alternative sources of financing are encouraged.

3. LABOUR MARKET

Figure 3.1 – Unemployment rate (15 and over) in Romania, 2002-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.1 – Unemployment rate in Romania, 2015

Region	Unemployment rate, 15 and over (%), 2015
Nord-Vest	4.6
Nord-Est	3.6
Sud-Est	9.0
Sud-Muntenia	10.3
Sud-Vest Oltenia	10.1

Romania	6.8
EU average	9.4

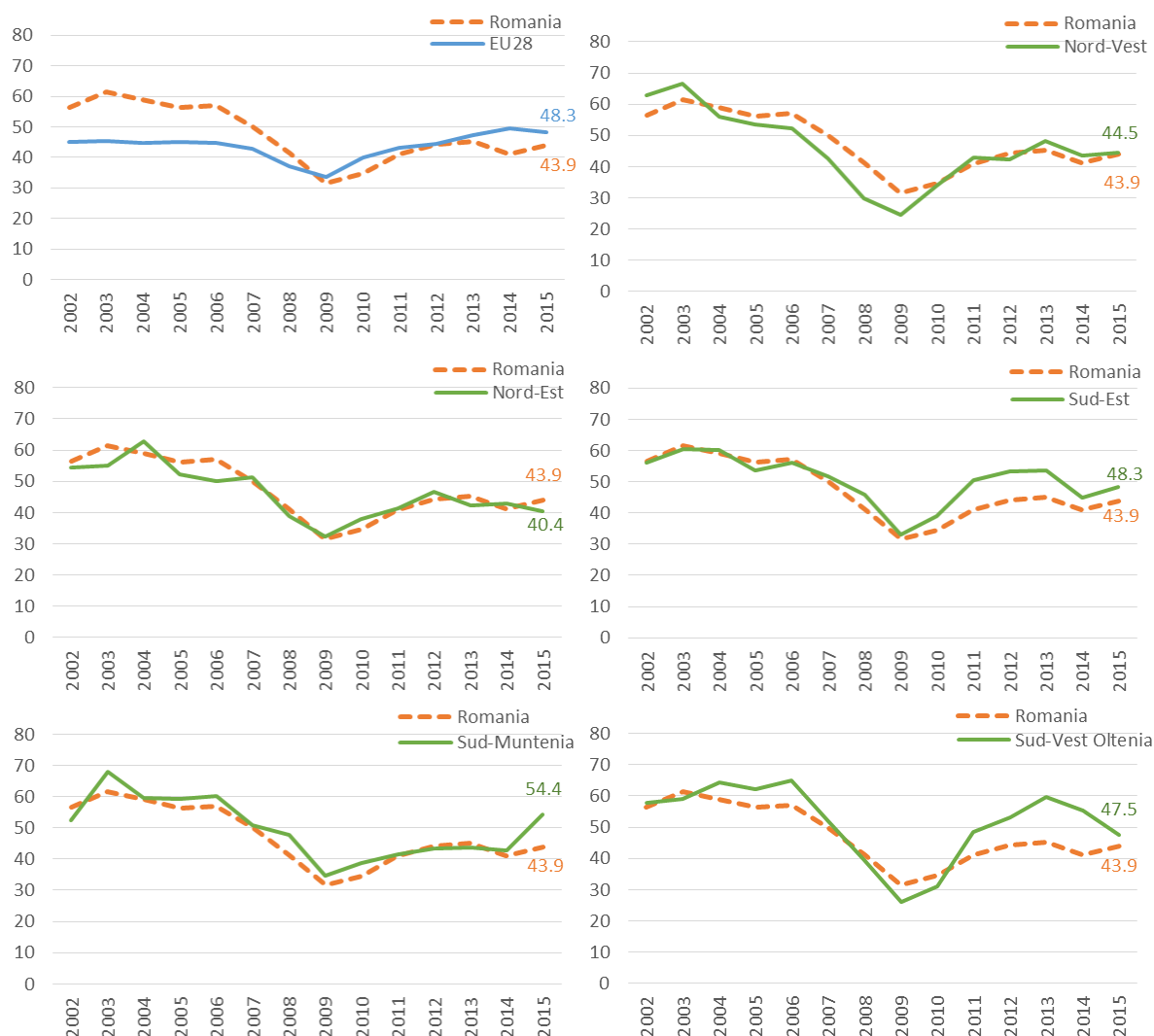
Source: Eurostat, LFS [lfst_r_lfu3rt].

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate in Romania was below the EU average during the period 2002-2015. Between 2002 and 2008 the gap was relatively small. But since 2009, while the unemployment rate remained relatively stable (around 7%) in Romania, the corresponding figure in the EU significantly increased. In Nord-Vest and Nord-Est, the rate was well below the national average over the whole period. In Sud-Est and Sud-Muntenia the unemployment rate was consistently above the national average over the period 2002-2015. In Sud-Vest Oltenia, the rate tracked the EU average relatively closely before increasing markedly in 2015. In 2015, the unemployment rate was higher than the national and the EU average in Sud-Muntenia and Sud-Vest Oltenia. Job shortages, therefore, seem to be a particular problem in these two southern regions.

Figure 3.2 – Long-term unemployment in Romania, 2002-2015, % of total unemployed



Source: Eurostat, LFS [lfst_r_lfu2ltu].

Table 3.2 – Long-term unemployment in Romania, 2015

Region	LTU rate (% of total unemployed), 2015
Nord-Vest	44.5
Nord-Est	40.4
Sud-Est	48.3
Sud-Muntenia	54.4
Sud-Vest Oltenia	47.5
Romania	43.9
EU average	48.3

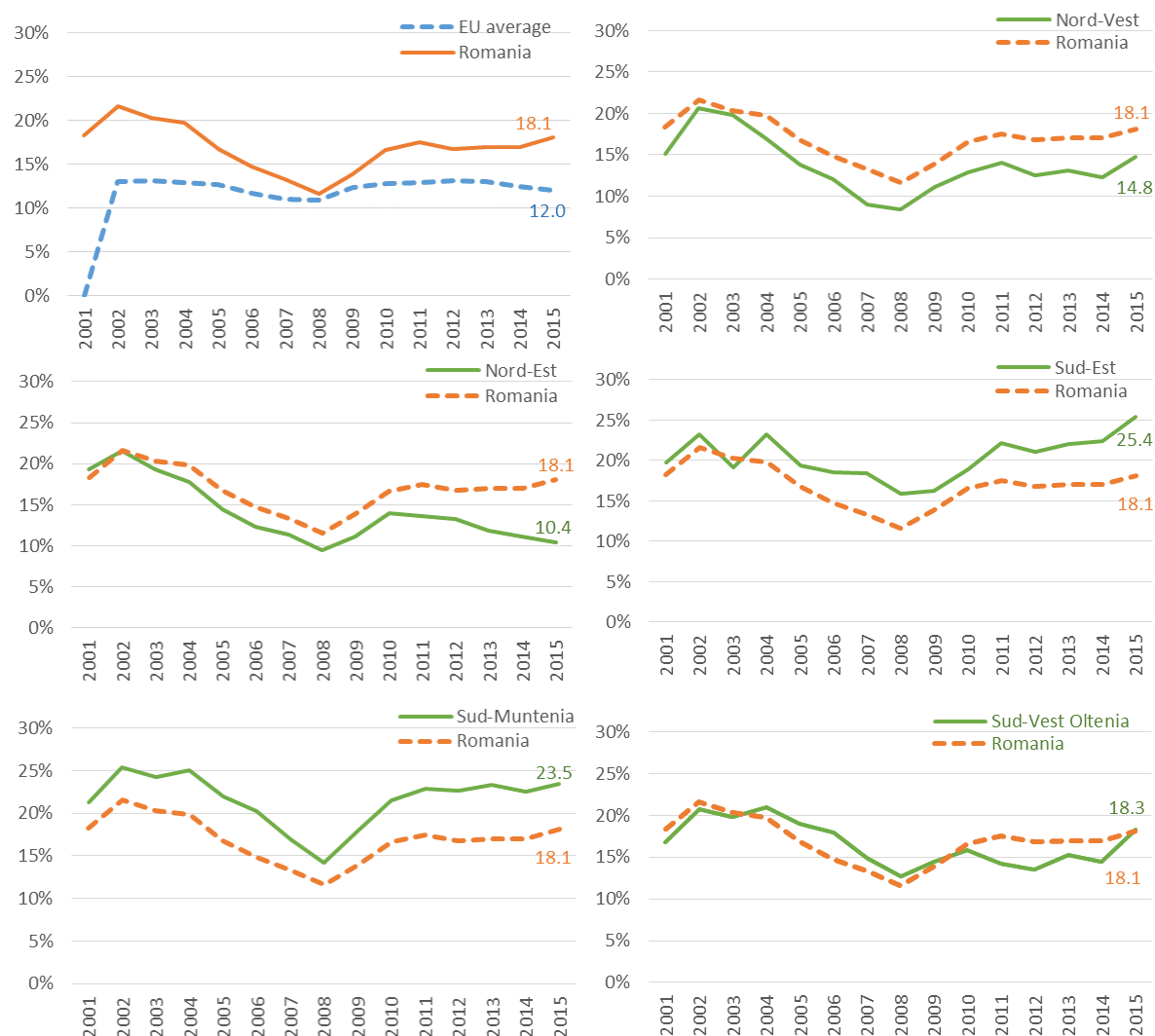
Source: Eurostat, LFS [lfst_r_lfu2ltu]

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The share of the unemployed out of work for a year or more (i.e. those designated as long-term unemployed) was smaller in Romania in 2015 than the EU average and was consistently below since 2009, suggesting that structural unemployment was a less of a problem in Romania than in the rest of the EU. In 2015, the long-term unemployment rate was however above the national average in all the lagging regions except in Nord-Est. It was markedly above the national average in Sud-Muntenia where the share was also well above the EU average. Structural unemployment, therefore, seems to be a particular problem in this region.

Figure 3.3 – Proportion of young people aged 15-24 neither in employment nor in education and training in Romania, 2001-2015



Source: Eurostat, LFS [edat_lfse_22].

Table 3.3 – NEET rate in Romania, 2015

Region	NEET rate (15-24), %, 2015
Nord-Vest	14.8
Nord-Est	10.4
Sud-Est	25.4
Sud-Muntenia	23.5
Sud-Vest Oltenia	18.3
Romania	18.1
EU average	12.0

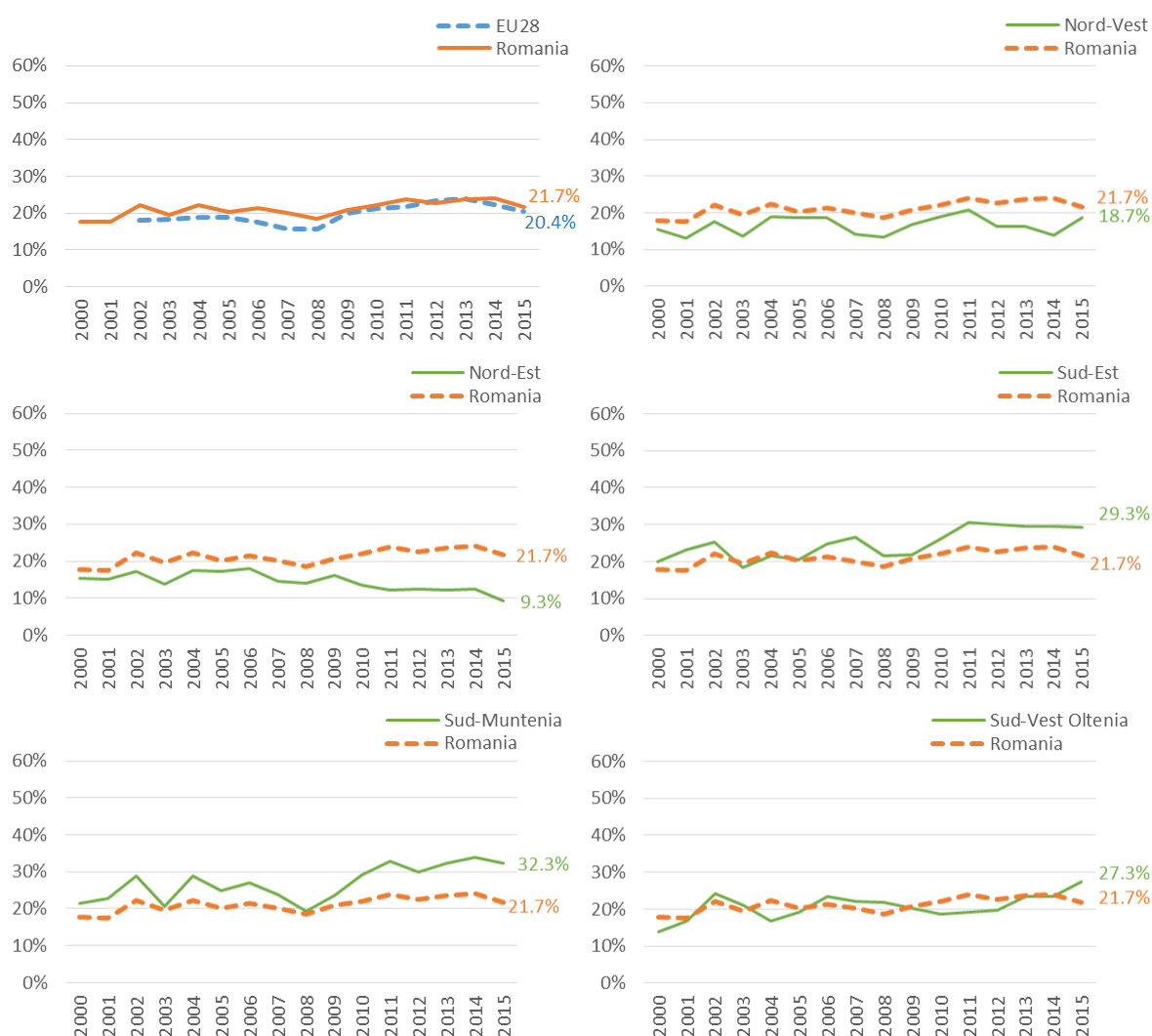
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The NEET rate for young people aged 15-24 in Romania was largely above that in the rest of the EU in 2015. This was the case since 2001 even if in 2008 the rate significantly reduced in the country, when the gap with the EU rate was the smallest. Among the lagging regions, only in the northern regions was the rate below the national average, which was also the case throughout the 2001-2015 period. In Sud-Est and Sud-Muntenia, the NEET rate was significantly above the national and EU average in 2015 but also over the recent years. In Sud-Vest Oltenia, the rate was above the EU rate throughout the whole period. It was however below the national average since 2010 before a sudden rise in 2015. The lack of jobs for young people and/or their limited participation in education or initial vocational training were, therefore, particularly acute in the southern lagging regions of Romania.

Figure 3.4 – Unemployment rate (15-24 years) in Romania, 2000-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.4 – Youth unemployment rate in Romania, 2015

Region	Unemployment rate (15-24), %, 2015
Nord-Vest	18.7

Nord-Est	9.3
Sud-Est	29.3
Sud-Muntenia	32.3
Sud-Vest Oltenia	27.3
Romania	21.7
EU average	20.4

Source: Eurostat, LFS.

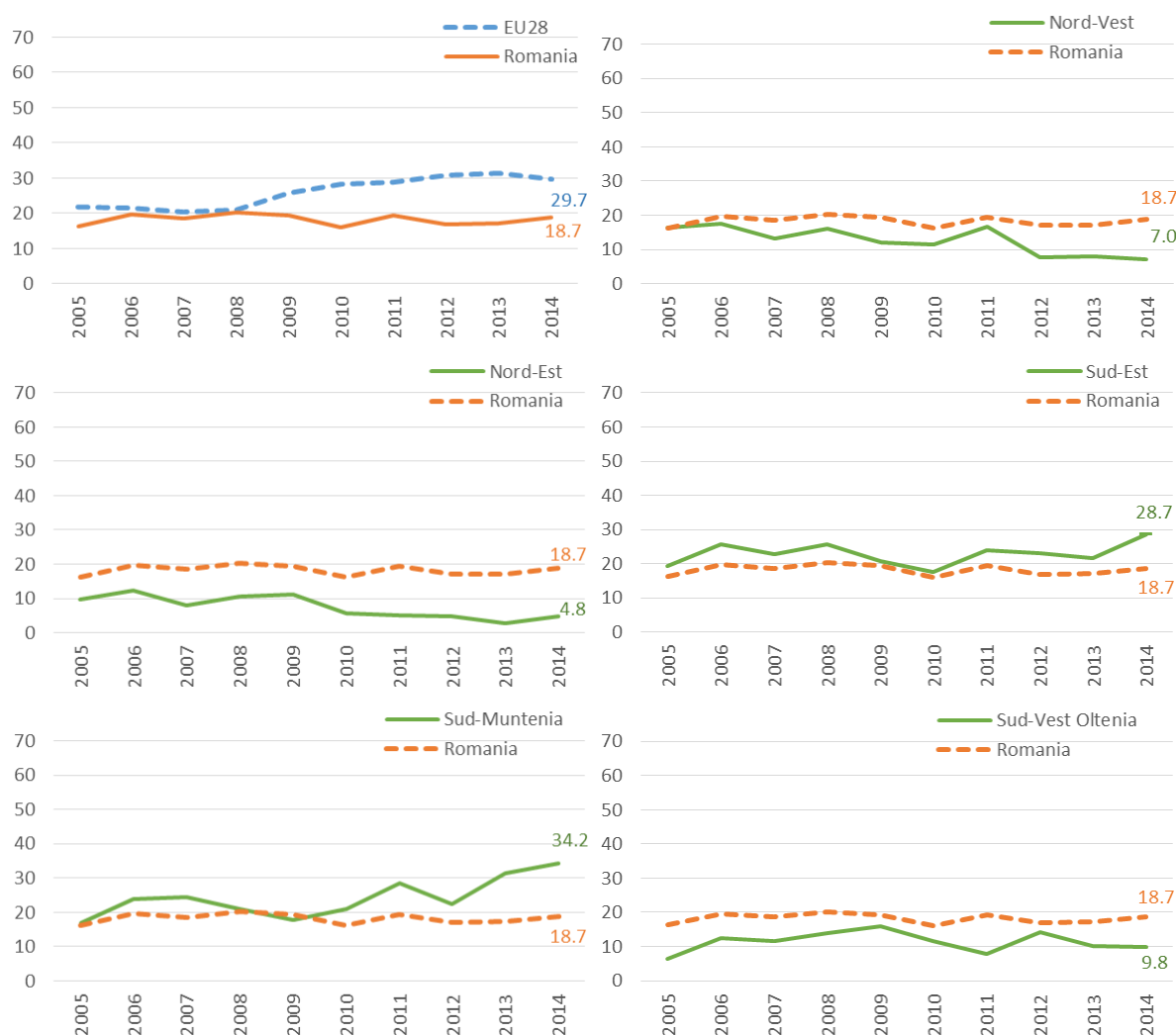
Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The youth unemployment rates show a similar picture than the NEET rates. In Romania as a whole, youth unemployment was higher than the EU average in 2015 just like the NEET rate, implying that it was more difficult to find a job but also to participate in education or training for young people in Romania than in the rest of the EU.

At the regional level, the youth unemployment rate was lower than the national and EU average in the northern regions (especially in Nord-Est). By contrast, the rates were highest in the southern lagging regions (Sud-Muntenia, Sud-Est and Sud-Vest Oltenia), well above both the national and EU average (as was the NEET rates). The implication is that jobs were especially scarce for young people entering the labour market in these three regions.

Figure 3.5 – Unemployment rate of young people aged 15-24 with low education in Romania, 2005-2014



Source: Eurostat, LFS microdata.

Commentary

The unemployment rate among young people with only basic schooling was significantly lower in Romania than that in the rest of the EU in 2014 and over the preceding 5 years. At the regional level, problems of low-skilled youth finding employment were particularly acute in Sud-Muntenia and Sud-Est, where the unemployment rate was substantially above the national average in 2014 and earlier years, and well above the EU average in Sud-Muntenia in 2014. In the other regions, low-skilled youth unemployment rates was both below the national and EU average over the period 2005-2014.

Figure 3.6 – Unemployment rate of young people aged 15-24 with medium education in Romania, 2005-2014



Source: Eurostat, LFS microdata.

Commentary

The unemployment rate in Romania was above the EU average for young people with upper secondary education (unlike for those with only basic schooling). Again the rate was particularly high (above the national and EU average over the 2005-2014 period) in Sud-Muntenia and Sud-Est. In Sud-Vest Oltenia, it increased in 2012, now exceeding the national and EU average as in the other two southern regions.

Figure 3.7 – Unemployment rate of young people aged 15-24 with high education in Romania, 2005-2014



Source: Eurostat, LFS microdata.

Table 3.5 – Youth unemployment rate by education attainment level in Romania, 2014

Unemployment rate, 15-24, %, 2014			
Region	ISCED 0-2	ISCED 3-4	ISCED 5-8
Nord-Vest	7.0	11.5	49.3
Nord-Est	4.8	16.3	30.9
Sud-Est*	28.7	30.3	33.9
Sud-Muntenia	34.2	33.7	32.9
Sud-Vest Oltenia*	9.8	30.1	35.5
Romania	18.7	25.4	33.2
EU average	29.7	20.0	16.5

Source: Eurostat, LFS.

Notes: *Unemployment rate of people with high education for Sud-Est relates to 2013, and to 2009 for Sud-Vest Oltenia. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate among young people with tertiary education was also higher in Romania than in the rest of the EU in 2014 and over the preceding years (in 2014 it was about twice as high). Unlike for other levels of education, unemployment among tertiary-educated young people was highest in Nord-Vest in 2014. It was however above the national and EU average in Sud-Est and Sud-Vest Oltenia. (It needs to be highlighted that there are no reliable data beyond 2013 for Sud-Est and beyond 2009 for Sud-Vest Oltenia because of the small number of observations). The latest data show that in all the lagging regions of Romania, the unemployment rate of tertiary educated young people is significantly higher than in the EU as a whole.

In sum, in Sud-Muntenia, there was a shortage of jobs for young people with basic schooling and upper secondary education. In Sud-Est and Sud-Vest Oltenia, the problem concerned young people with upper secondary and tertiary level education. In Nord-Vest, there was a shortage of jobs for tertiary educated young people (about half of them were unemployed in 2014).

Figure 3.8 – Employment rate (20-64 years) in Romania, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emppt].

Table 3.6 – Employment rate in Romania, 2015

Region	Employment rate (20-64), %, 2015
Nord-Vest	68.3
Nord-Est	75.7
Sud-Est	62.0
Sud-Muntenia	64.3
Sud-Vest Oltenia	60.5
Romania	66.0
EU average	70.0

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

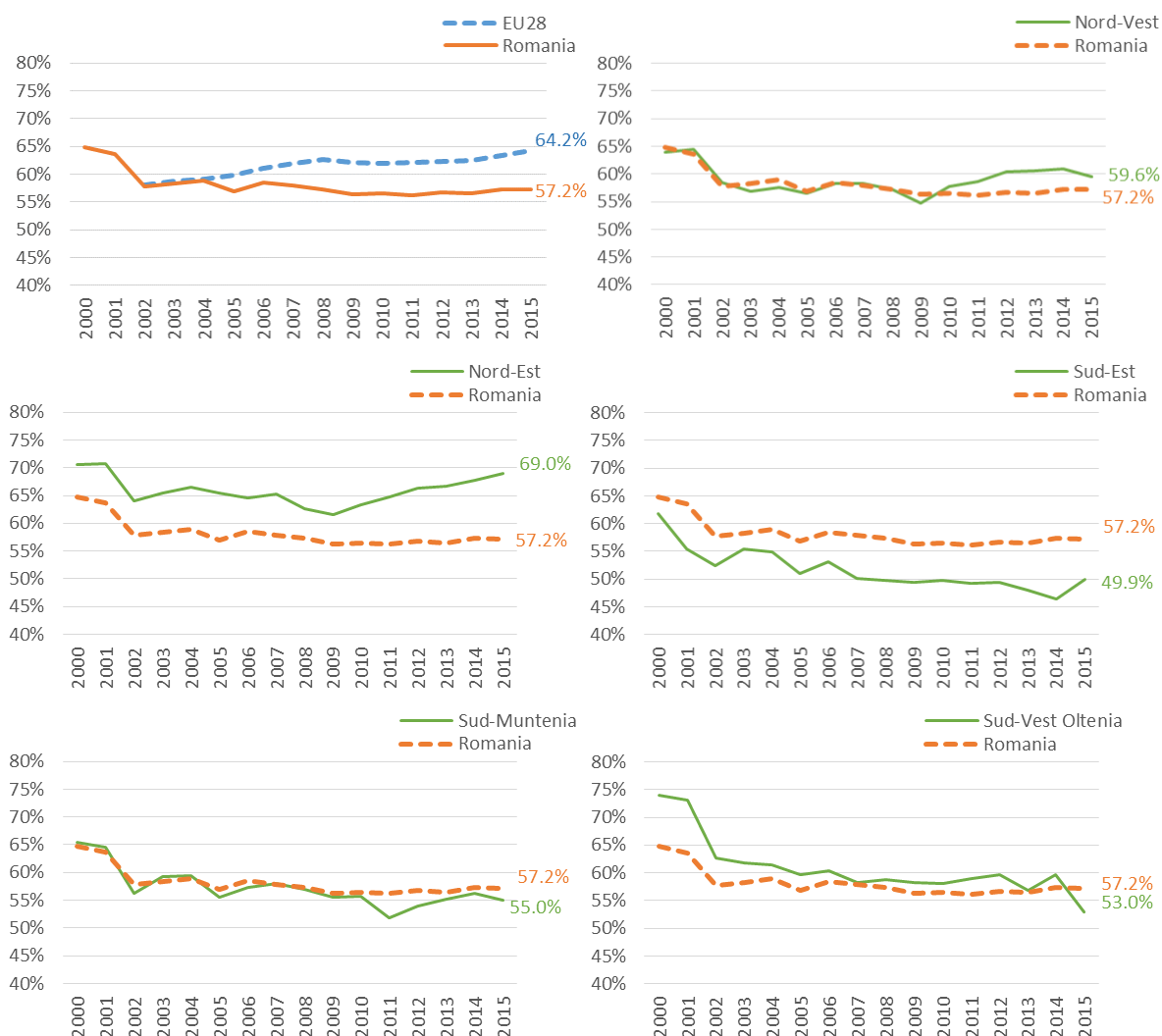
Commentary

The employment rate in Romania has been consistently below the EU average over the 2002-2015 period. Since the unemployment rate was also below the EU average over the same period, the implication is that the rate of participation in the work force (the rate of economic activity) was below the EU average as well.

At the regional level, the employment rate in Nord-Est was higher than the national and EU average in 2015, reflecting the relatively low rate of unemployment in this region. The situation is similar in Nord-Vest, though the rate was slightly below the EU average in 2015.

In all the other lagging regions, the employment rate was below the national average, though only slightly so in Sud-Muntenia. The employment rate was particularly low in 2015 in Sud-Vest Oltenia, about 6 percentage points below the national average and 10 percentage points below the EU average. However over the preceding years the employment rate in this region was higher than the national average, it was only in 2015 that it significantly dropped (which is also reflected in the sudden rise of the unemployment rate in 2015 in this region). In fact, it is in Sud-Est that the employment rate was consistently below the national and EU average over the 2000-2015 period.

Figure 3.9 – Employment rate of women (20-64 years) in Romania, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emp].

Table 3.7 – Employment rate of women in Romania, 2015

Region	Female employment rate (20-64), %, 2015
Nord-Vest	59.6
Nord-Est	69.0
Sud-Est	49.9
Sud-Muntenia	55.0
Sud-Vest Oltenia	53.0
Romania	57.2
EU average	64.2

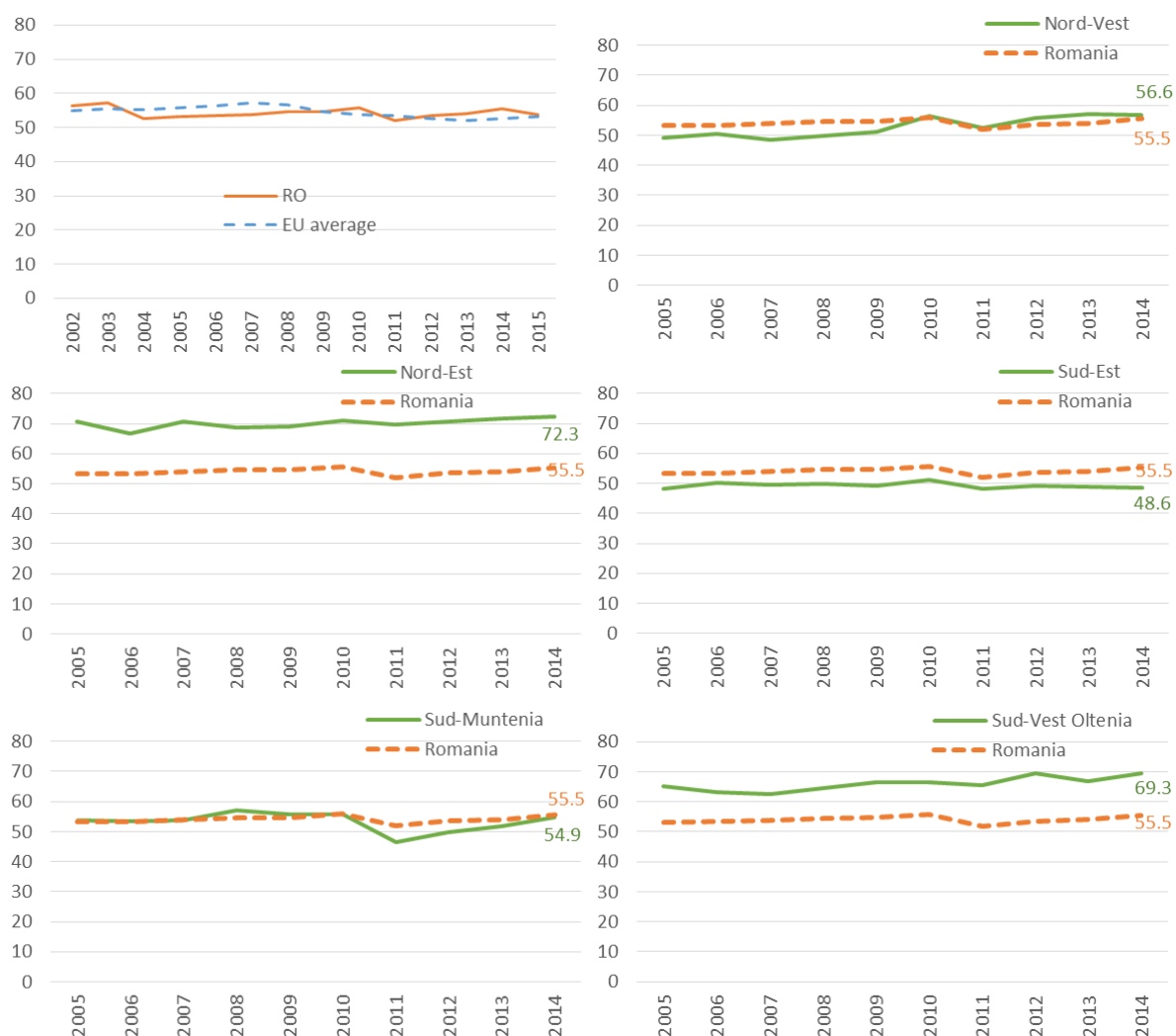
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The employment rate of women in Romania was further below the EU average in 2015 than the overall employment rate, reflecting the lower participation of women in the work force. It was also below the EU average in all lagging regions except Nord-Est (where it was significantly higher) and Nord-Vest. In the southern regions, the relatively low level of the female employment rate broadly reflects that of the overall rate. Women, therefore, seem to face similar difficulties of finding employment as men in the three southern lagging regions though their participation rates are also relatively low, which might reflect a shortage of jobs as much as a reluctance to be in paid employment.

Figure 3.10 – Employment rates of those aged 25-64 with low education in Romania in 2002-2015 and lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

In 2015, the employment rate of those aged 25-64 with only basic schooling in Romania was exactly the same as the one observed at the level of the EU for the same group and it was higher than in the EU in the preceding 3 years. In Nord-Est and Sud-Vest Oltenia, the employment rate of those with only basic schooling has usually been above the national and EU average over the 2005-2014 period. In these

regions, therefore, there seem to be more jobs available for the low-educated than in the rest of the country. In Nord-Vest and Sud-Muntenia, the situation was better than in the EU, but only since 2014 in the latter and 2010 in the former. By contrast, in Sud-Est, the employment rate of people with only basic schooling was lower than the national and the EU average in 2014 and this was true since 2005. People with low education, therefore, face particular problems finding work in this region.

Figure 3.11 – Employment rates of those aged 25-64 with medium education in Romania in 2002-2015 and lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

The employment rate of those with upper secondary education in Romania was below the EU average over the 2002-2015 period. In Sud-Est and Sud-Vest Oltenia the rate has been consistently below the EU average over the recent years. In Sud-Muntenia, the rate was very similar to the one observed in the EU since 2010 while in Nord-Vest and Nord-Est, since 2012 the rate was above the national and EU average.

Figure 3.12 – Employment rates of those aged 25-64 with high education in Romania in 2002-2015 and lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

In contrast to the employment rate for those with upper secondary education, the rate for those with tertiary education in Romania was higher than the EU average in 2015 and marginally so over the preceding years. This implies that the demand for those with this level of education is relatively high and the people concerned have relatively little difficulty in finding jobs. In 2014, the rate, however, was below the national average in three lagging regions (Sud-Est, Sud-Vest Oltenia and Nord-Est), even if it was above the EU average in the latter two regions. The demand for university graduates was therefore below the national average in these regions, most especially in Sud-Est.

Table 3.8 – Employment rate by education attainment level in Romania, 2014

Employment rate (25-64), %, 2014

	ISCED 0-2	ISCED 3-4	ISCED 5-8
Nord-Vest	56.6	75.6	88.1
Nord-Est	72.3	75.5	85.7
Sud-Est	48.6	63.6	80.8
Sud-Muntenia	54.9	71.1	86.5
Sud-Vest Oltenia	69.3	66.7	83.7
Romania	55.5	70.4	86.0
EU average	52.8	73.4	83.6

Source: Eurostat, LFS.

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Figure 3.13 – Temporary employment (% of total employees aged 15-24) in Romania in 2002-2015 and its lagging regions in 2005-2014

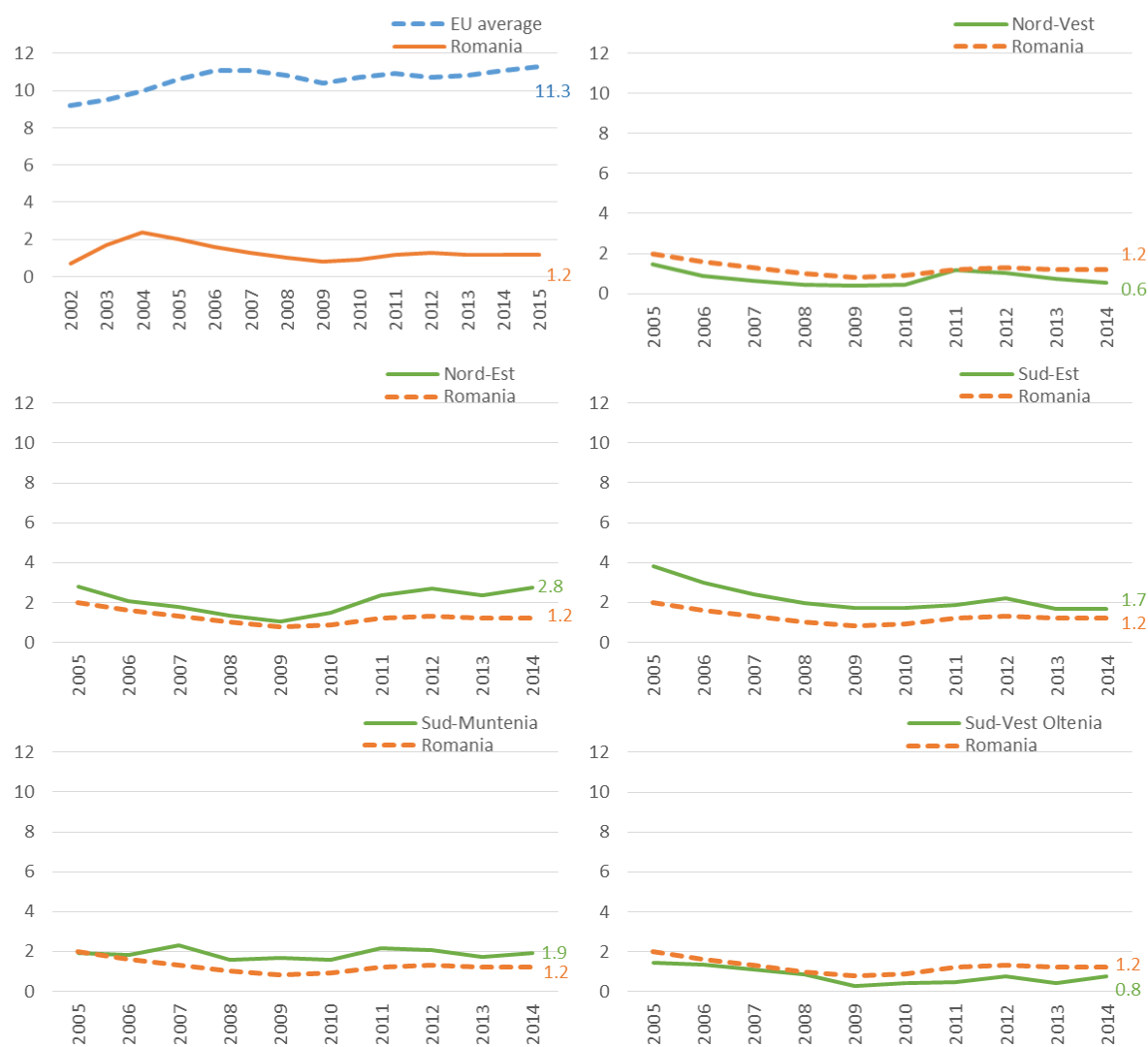


Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Commentary

The share of young employees aged 15-24 in temporary jobs is significantly lower in Romania than in the rest of the EU. This is also the case in all the lagging regions, where the proportion is similarly low, reflecting a general tendency not to employ young people on short-term contracts.

Figure 3.14 – Temporary employment (% of total employees aged 25 or over) in Romania in 2002-2015 and its lagging regions in 2005-2014



Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Table 3.9 – Temporary employment in Romania by age group, 2014

Region	Temporary employment (% of total employees), 2014	
	15-24	25 or over
Nord-Vest	3.2	0.6
Nord-Est	17.1	2.8
Sud-Est	10.4	1.7
Sud-Muntenia	10.1	1.9
Sud-Vest Oltenia	6.8	0.8

Romania	7.0	1.2
EU average	43.4	11.1

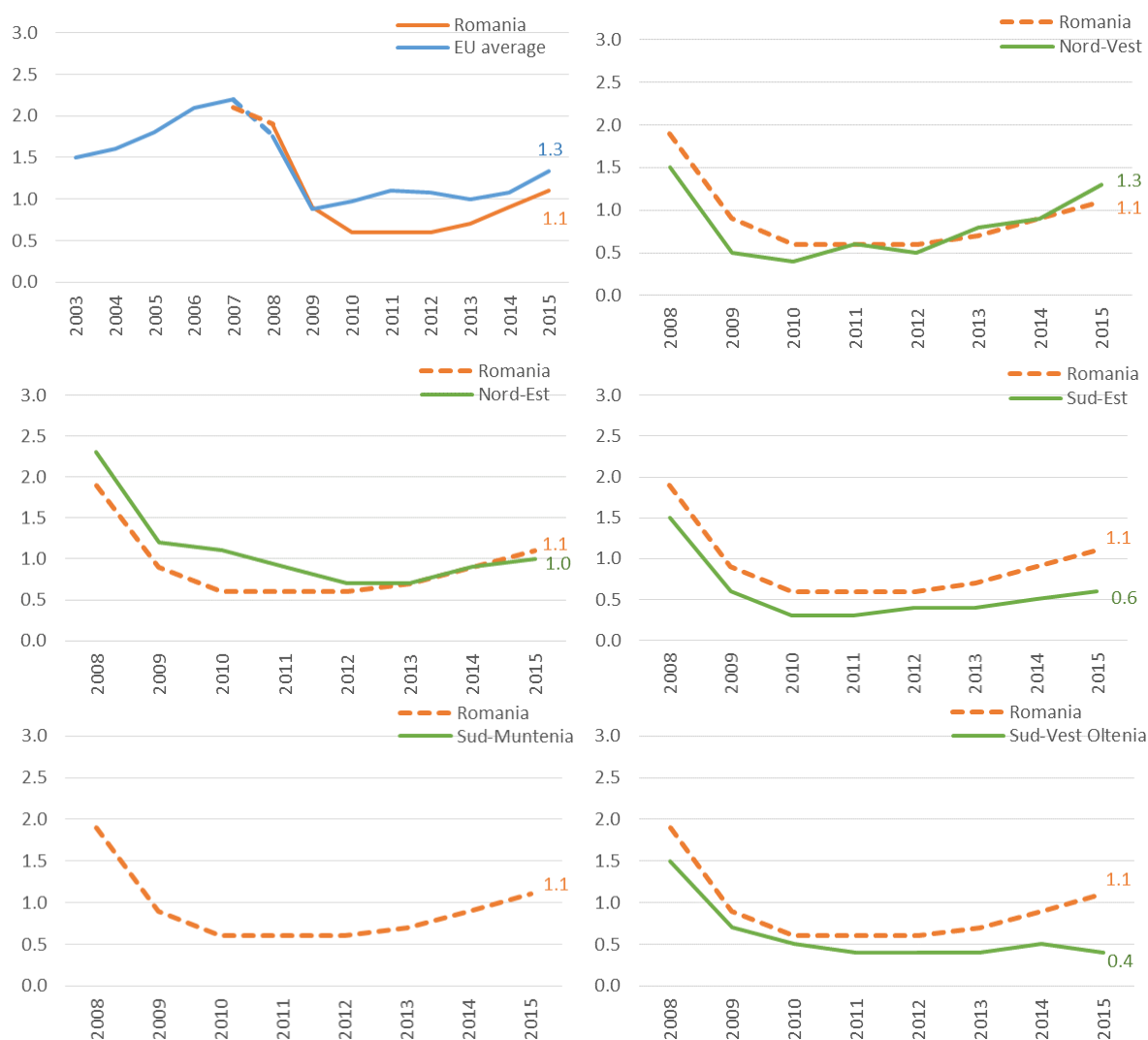
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

The share of employees aged 25 and over who are in temporary jobs in Romania is also well below the EU average and has shown little sign of increasing since 2005. It was equally well below the EU average in all the lagging regions (though above the national average in three of them: Nord-Est, Sud-Est and Sud-Muntenia). In all part of Romania, therefore, temporary workers do not seem to represent a significant share of employees, reflecting the fact that most workers are employed on standard employment contracts.

Figure 3.15 – Job vacancy rate in Romania, 2003-2015



Source: Eurostat, Job vacancy statistics [jvs_a_nace2].

Notes: For the calculation of the EU average: 2003-2007 refers to EU27 as provided by Eurostat. From 2008, average estimated with available data, which excludes BE, DK, IE, EL, ES, FR, IT, CY, MT and AT, for PT data are available only for 2014 and 2015. There is no data for SE for 2008 and 2014.

Data is not available for Sud-Muntenia.

Table 3.10 – Job vacancy rate in Romania, 2015

Region	Job vacancy rate, %, 2015
Nord-Vest	1.3
Nord-Est	1.0
Sud-Est	0.6
Sud-Muntenia	:
Sud-Vest Oltenia	0.4
Romania	1.1
EU average	1.3

Source: Eurostat, Job vacancy statistics.

Commentary

The rate of unfilled job vacancies is slightly lower in Romania than the EU average but because of the partial coverage of the data, this means relatively little. More relevantly, the vacancy rate in all the lagging regions (for which data is available) is less than the national average except in Nord-Vest where the rate was similar to the one observed at the EU level. The implication, apart from there not being an apparent problem of a many unfilled vacancies as such, is that there is not an acute shortage of jobs. In Sud-Vest Oltenia however, where the unemployment rate was substantially higher than in the country in 2015, and where the vacancy rate was lower than the national average, the data suggest that there is an insufficient demand for labour from enterprises in this region.

Summary 1 – Overview of labour market (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

LABOUR MARKET						
	Romania	Nord-Vest	Nord-Est	Sud-Est	Sud-Muntenia	Sud-Vest Oltenia
Unemployment and long-term unemployment						
Unemployment rate (15+), 2015	-2.6	-2.2	-3.2	+2.2	+3.5	+3.3
LTU rate (15+), 2015	-4.4	+0.5	-3.6	+4.3	+10.4	+3.6
NEETs						
NEET rate (15-24), 2015	+6.1	-3.3	-7.7	+7.3	+5.4	+0.2
Youth unemployment rate						
Youth unemployment rate (15-24), 2015	+1.3	-3.0	-12.4	+7.6	+10.6	+5.6
Youth unemployment rate (15-24), ISCED 0-2, 2014	-11.0	-11.7	-13.9	+10.0	+15.5	-8.9
Youth unemployment rate (15-24), ISCED 3-4, 2014	+5.4	-13.9	-9.1	+5.0	+8.3	+4.7
Youth unemployment rate (15-24), ISCED 5-8, 2014	+16.8	+16.0	-2.3	+0.7	-0.3	+2.3
Employment rate						

Total employment rate (20-64), 2015	-4.0	+2.3	+9.7	-4.0	-1.7	-5.5
Female employment rate (20-64), 2015	-7.0	+2.4	+11.8	-7.3	-2.2	-4.2
Employment rate (25-64), ISCED 0-2, 2014	+2.7	+1.2	+16.9	-6.9	-0.5	+13.9
Employment rate (25-64), ISCED 3-4, 2014	-3.0	+5.2	+5.2	-6.8	+0.8	-3.6
Employment rate (25-64), ISCED 5-8, 2014	+2.4	+2.2	-0.2	-5.1	+0.6	-2.3
Temporary work						
Temporary employees (15-24), 2014	-36.4	-3.8	+10.1	+3.4	+3.1	-0.2
Temporary employees (25+), 2014	-9.9	-0.6	+1.6	+0.5	+0.7	-0.4
Job vacancy*						
Job vacancy rate, 2015		+0.2	-0.1	-0.5	:	-0.7
STRUCTURAL IMBALANCE						
Number of unfavourable variables	8	3	3	16	11	12
Number of favourable variables	7	13	13	0	3	4

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

* The job vacancy rate is considered in conjunction with the unemployment rate. Low vacancies and high unemployment mean that there is insufficient demand for labour, that there are unused resources which could add to GDP; high vacancies and high unemployment mean that there are structural problems in the sense that labour is available but it does not have the skills demanded by employers; high vacancies and low unemployment signal the labour available is not sufficient to meet the demand; low vacancies and low unemployment suggests a balanced labour market. Since there are problems in comparing vacancy statistics across countries because of the partial extent of coverage, the comparison here is relative to the national average only.

“:” Not available

LABOUR MARKET in Romania	
Country-specific recommendations, 2011-2015	
2011	Implement reforms to the wage-setting system allowing wages to better reflect productivity developments in the medium term while respecting the autonomy of social partners, national traditions and practices. Widen the set of cases for use of fixed-term labour contracts while ensuring that this does not increase labour market segmentation.
2012	Implement policy measures aimed at rationalising the wage-setting system with a view to allowing wage developments to better reflect productivity. Implement reforms increasing the flexibility of labour contracts and working time arrangements within an integrated flexicurity approach. Widen the set of cases for use of fixed-term contracts while ensuring that this does not increase labour market segmentation.
2013	Improve labour market participation as well as employability and productivity of the labour force by reviewing and strengthening active labour market policies, providing training and individualised services and promoting lifelong learning. Enhance the capacity of the PES to increase the quality and coverage of its services. Implement rapidly the National Plan for Youth Employment including for example through a YG.

2014	Establish clear guidelines for transparent minimum wage setting. Strengthen active labour market measures and the capacity of the PES. Pay particular attention to the activation of unregistered young people. Strengthen measures to promote the employability of older workers.
2015	Establish clear guidelines for setting the minimum wage transparently. Strengthen the provision of labour market measures in particular for unregistered young people and LTU. Ensure that the PES is adequately staffed.
Structural reforms carried out, 2011-2015	
2011	The <i>Social Dialogue Law</i> was promoted to make the system of collective labour agreement (wage-setting system and settlement of labour disputes) more flexible and to strengthen social dialogue.
2011	<i>Law 40/2011</i> : extension of the validity of fixed-term individual labour contract; flexibility of the reference periods used for calculating average working hours; tightening of sanctions against those using illegal work force; priority using the performance criteria in case of collective dismissal procedure.
2013	The <i>National plan for youth employment</i> was adopted with measures focusing on youth guarantee type programmes, improving the entrepreneurial culture among youth and adapting education and vocational training to the labour market needs. The <i>Youth Guarantee Implementation Plan 2014-2015</i> was launched in January 2014. In 2015, in order to create the NEET database, the PES implements the project <i>Chance4Neet</i> (electronic register of NEET people).
2011-2013	During the period 2011-2013, the PES implemented various projects: Call centre to increase the opportunities for vocational guidance/training and socio-professional integration on the labour market of jobseekers by developing an innovative system for providing the information; Self-service centres (<i>Proself</i>) to make the system of providing public employment services more modern and flexible; <i>MedForm</i> to adapt the agency employees to new forms of organization and management, due to legislative changes, by vocational training of the staff to meet the new requirements; <i>RATIO L3</i> to create the general framework for increasing the professional skills level of PES staff based on an innovative approach of continuous training; <i>COMPROF</i> to increase the level of professional skills for PES staff in order to provide personalized services to unemployed, vulnerable groups and jobseekers; <i>CAMPION</i> to modernize and improve the institutional capacity of the 8 regional vocational training structures of the agency to become more competitive in providing quality services tailored to the market demands; <i>ECOP</i> to increase the level of professional, social, civic and communicational skills of the personnel involved in training the unemployed people.
2013	The <i>amended Law on unemployment insurance and employment stimulation</i> put a renewed emphasis on ALMPs, in particular vocational education and training, recognition of prior learning, and mobility incentives.
2013	<i>Law 335/2013</i> aiming at ensuring both the social security and on-the-job training for young people.
2014	To facilitate the labour market insertion of secondary and tertiary young graduates, <i>Subsidized jobs programme</i> (financed under ESF) was launched in August 2014.
2014	A <i>Strategy to modernise the PES</i> was adopted end-2014. Moreover, in order to strengthen the capacity of the PES, 111 local employment agencies were financed under ESF to modernise their activities by providing self-services, and about 2,000 PES experts participated in training courses.
Outstanding challenges	
	Access to the labour market of vulnerable groups remains limited.
	Vocational education and training qualifications are insufficiently aligned with the labour market needs.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 91 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

Unemployment is a problem in two lagging regions in particular, Sud-Muntenia and Sud-Vest Oltenia. This is combined with a relatively low vacancy rate in Sud-Vest Oltenia (vacancy statistics are not available for

Sud-Muntenia), which suggests that there are no jobs available to employ the people looking for them rather than the unemployed not having the skills to take up the jobs on offer. (This, however, has to be a tentative conclusion insofar as employers may not create jobs if they consider that there is not the labour available with the requisite skills to fill them.) Moreover, the long-term unemployment rate was particularly high in the three southern regions, especially in Sud-Muntenia. It's also in the three southern regions that the highest NEET and youth unemployment rates among those aged 15-24 were observed, reflecting the fact that not only young people struggle to find a job but also it's difficult for them to participate in education or training programmes.

Employment rates were below the national and EU average in 2015 in Sud-Vest Oltenia, Sud-Est and Sud-Muntenia. Low employment rates among women, which reflect low rates of labour force participation, are equally a problem in these regions (most especially in Sud-Est).

Low employment seems to be a particular problem for those with upper secondary education in Romania while employment rates are relatively high for those with only basic schooling or tertiary education. This in itself seems to suggest that those with upper secondary education have relatively more difficulty to find a job, implying a that their qualifications are not sufficiently aligned with the labour market needs.

The country-specific recommendations focused on the activation of unregistered young people and long-term unemployed. The *National plan for youth employment* was adopted in 2013 (to implement the Youth Guarantee programmes, to promote entrepreneurship among young people and to adapt education and vocational training to the employer needs). In 2015, the PES implemented the *Chance4Neet* project, which aims to create an electronic register of NEET people.

Moreover, in order to increase the flexibility of work contracts, which is mentioned in the country-specific recommendations, a new law was introduced in 2011 to encourage fixed-term contracts.

The country-specific recommendations also focused on the importance of improving the capacity of the PES. Various projects were implemented during 2011-2013 in response to this in order to strengthen the institutional capacity of the PES. Moreover, a *Strategy to modernise the PES* was adopted end-2014.

In the lagging regions, the labour market situation in Nord-Vest and Nord-Est seems to be more favourable than in the rest of the country, with a relatively high employment rate, a low rate of unemployment and relatively few young people not in employment or education/training. On the other hand in Nord-Vest, a relatively high unemployment rate is observed among young tertiary educated people (which suggests a mismatch with the labour market needs) while in Nord-Est the share of temporary workers is larger especially among those aged 15-24.

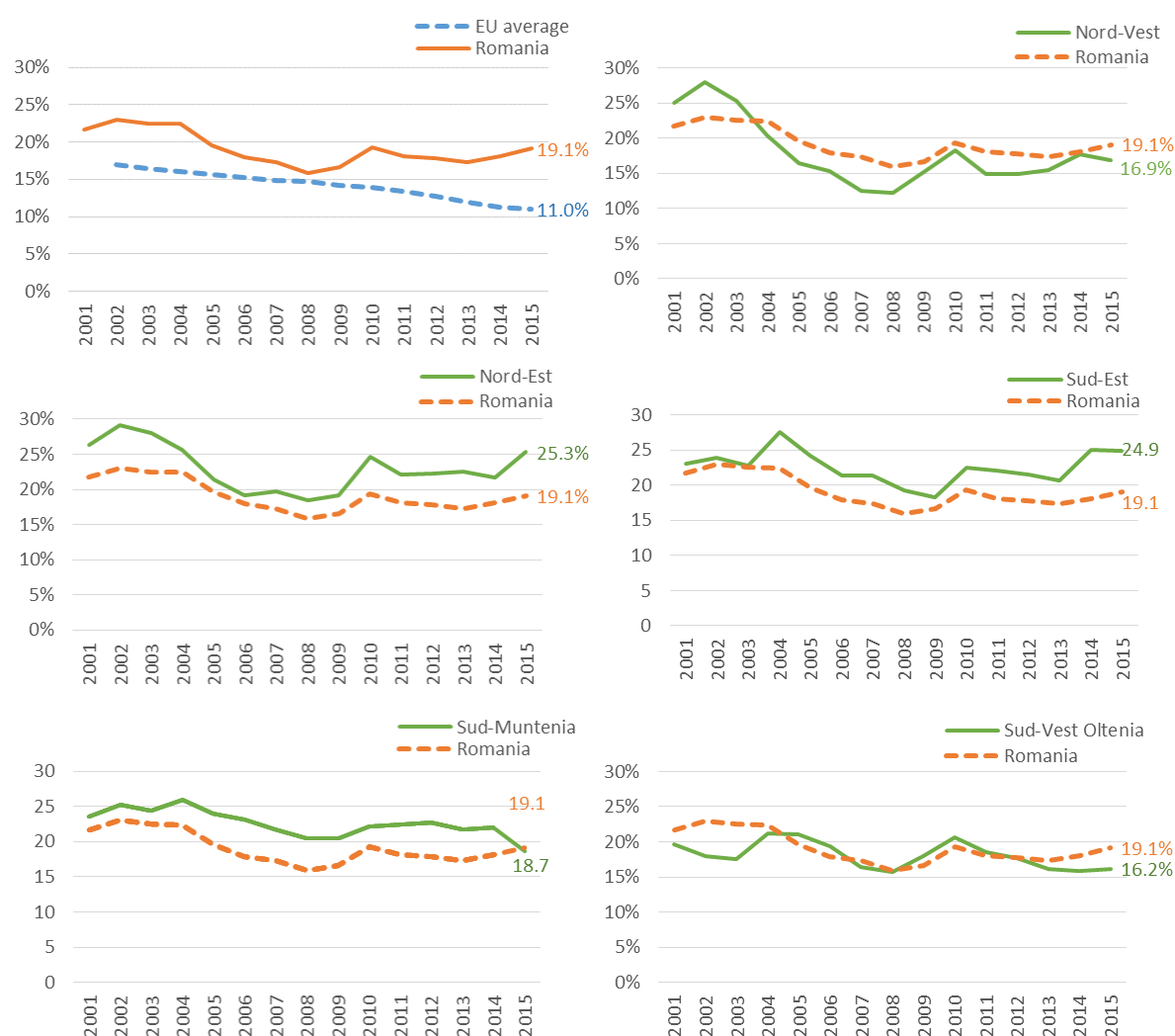
In Sud-Est, the labour market situation is critical with respect to the various indicators analysed, with high levels observed for the unemployment rate, the NEET rate, the youth unemployment rate (especially among those with only basic education), accompanied by a low employment rate, which signals an acute shortage of jobs.

In Sud-Muntenia, the situation is broadly similar to that in Sud-Est, though the problem in this region seems more acute in relation to the long-term unemployment rate as well as the youth unemployment rate (especially among those with only basic schooling).

In Sud-Vest Oltenia, the labour market situation is also worrying though some favourable outcomes are worth mentioning: the youth unemployment rate among those with only basic schooling was significantly lower compared to the national and EU average and the employment rate (25-64) of those with only basic schooling was also much better than in the country and in the EU as whole, suggesting the fact that there were jobs available for the low skilled but less so for those with higher qualifications.

4. EDUCATION AND TRAINING

Figure 4.1 – Early leavers from education and training in Romania, 2001-2015



Source: Eurostat, LFS [edat_lfse_16].

Table 4.1 – Early leavers from education and training in Romania, 2015

Region	Early leavers aged 18-24, %, 2015
Nord-Vest	16.9
Nord-Est	25.3
Sud-Est	24.9

Sud-Muntenia	18.7
Sud-Vest Oltenia	16.2
Romania	19.1
EU average	11.0

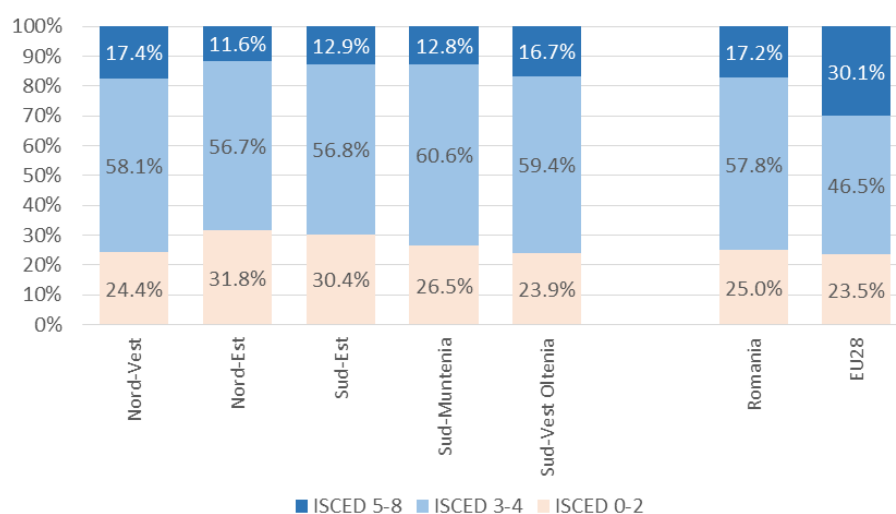
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The relative number of young people leaving school without any qualifications beyond basic schooling in Romania is well above the EU average (and has been consistently higher since 2002), and this is also true among the lagging regions. The highest rates were observed in Nord-Est and Sud-Est (where about 1 young person out of four left school early). In Sud-Est, this is particularly worrying as the employment rate of those with only basic education is relatively low in this region, which represents an obstacle both for the young people concerned to find employment and for the region to achieve its growth potential.

Figure 4.2 – Educational attainment by ISCED level in Romania, % of population aged 25-64, 2015



Source: Eurostat, LFS [edat_lfse_04].

Table 4.2 – Percentage of population aged 25-64 by educational attainment in Romania, 2015

Region	Individuals with ISCED 3-8, %	Individuals with ISCED 5-8, %
Nord-Vest	75.6	17.4
Nord-Est	68.2	11.6
Sud-Est	69.6	12.9
Sud-Muntenia	73.5	12.8
Sud-Vest Oltenia	76.1	16.7
Romania	75.0	17.2

Source: Eurostat, LFS microdata.

Figure 4.4 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 5-8 in Romania, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.3 – Highest educational level attained among people aged 25-34 in Romania, 2014

Region	ISCED 3-8, %	ISCED 5-8, %
2014		
Nord-Vest	81.1	27.5
Nord-Est	70.6	21.4
Sud-Est	72.2	22.0
Sud-Muntenia	75.1	21.9
Sud-Vest Oltenia	78.5	25.0
Romania	80.1	28.8
EU average	85.3	39.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

Like for the working-age population as a whole, the proportion of the 25-34 age group in Romania who completed tertiary education is well below the EU average. Participation in tertiary education however seems to be on an increasing trend over the last 10 years. The proportion in lagging regions is also below the EU average and the national average in all cases, suggesting that there has been less young people participating in tertiary education in these regions or alternatively that a significant number of those who have participated have left the region to live and work elsewhere.

Figure 4.5 – Share of young people aged 15-24 in regular education or vocational training in Romania, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.4 – Share of young people aged 15-24 in regular education or vocational training in Romania, 2014

Region	Young people in regular education or vocational training, 2014 (% of population 15-24)
Nord-Vest	64.5
Nord-Est	61.3
Sud-Est	56.8
Sud-Muntenia	55.9
Sud-Vest Oltenia	63.8
Romania	61.8
EU average	65.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Table 4.5 – Share of young people aged 15-24 in vocational education or training in Romania, 2014

Region	Young people in vocational education or training (% of population 15-24), 2014
Nord-Vest	16.3
Nord-Est	22.0
Sud-Est	18.0
Sud-Muntenia	16.9
Sud-Vest Oltenia	16.7
Romania	17.2
EU average	16.4

Source: Eurostat, LFS.

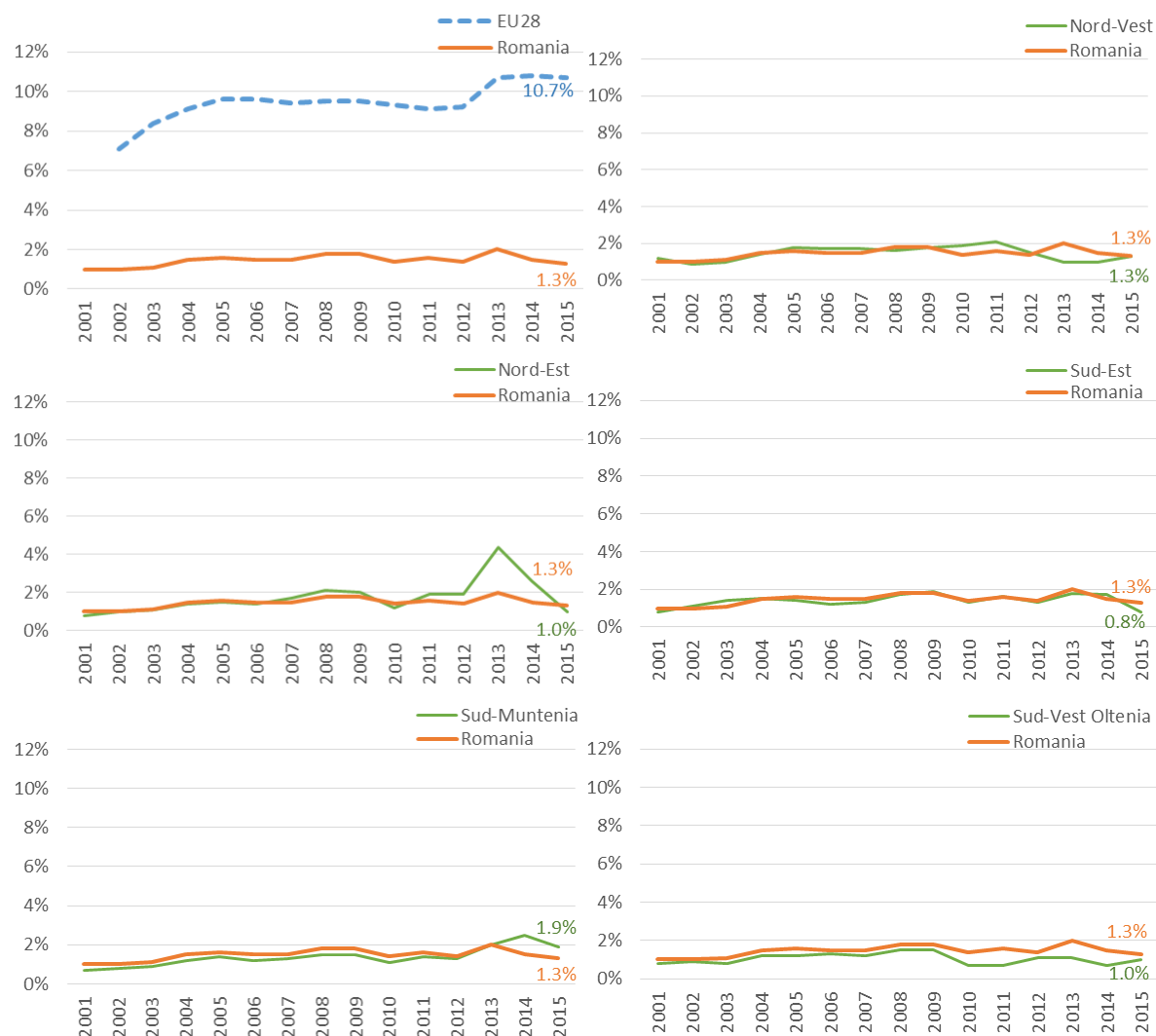
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

The proportion of young people aged 15-24 in education or initial vocational training is lower in Romania than in the rest of the EU, and this has been the case since 2005. The proportion is also lower than in the EU in all the lagging regions, especially in Sud-Est and Sud-Muntenia, where the proportion in education or training is also below the national average, in line with the relatively low proportion of those aged 25-34 with tertiary education in these regions.

The proportion of young people in vocational education or training is larger in Romania than in the rest of the EU, as it is in all the lagging regions, except Nord-Vest where it is slightly below.

Figure 4.6 – Participation rate of people aged 25-64 in education and training, in Romania, 2001-2015



Source: Eurostat, LFS [trng_lfse_04].

Table 4.6 – Participation rate of people aged 24-64 in education and training in Romania, 2015

Region	Education and training participation rate (%), 2015
Nord-Vest	1.3
Nord-Est	1.0
Sud-Est	0.8
Sud-Muntenia	1.9
Sud-Vest Oltenia	1.0
Romania	1.3
EU average	10.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The participation of those of aged 25-64 in continuing education or training is markedly lower in Romania than in the rest of the EU. Moreover, while the EU average has tended to increase over the past few years, in Romania, it has tended to decline. The situation is even less favourable in Nord-Est, Sud-Est and Sud-Vest Oltenia. In the other regions it is equal or higher than the national average but much less than the EU average. In Romania generally, therefore, and in all the five lagging regions, workers have less possibility of improving their skills or acquiring new ones than in the rest of the EU. Equally, the unemployed have less access to training to help them increase their employability.

Figure 4.7 – Participation rate of 4-years-olds in education in Romania, 1999-2012



Source: Eurostat, Regional education statistics [educ_regind].

Table 4.7 – Participation rate of 4-year-olds in education in Romania, 2012

Region	4-years-old in education (%), 2012
Nord-Vest	86.3
Nord-Est	74.9

Sud-Est	80.2
Sud-Muntenia	79.2
Sud-Vest Oltenia	85.3
Romania	79.7
EU average (EU27)	91.9

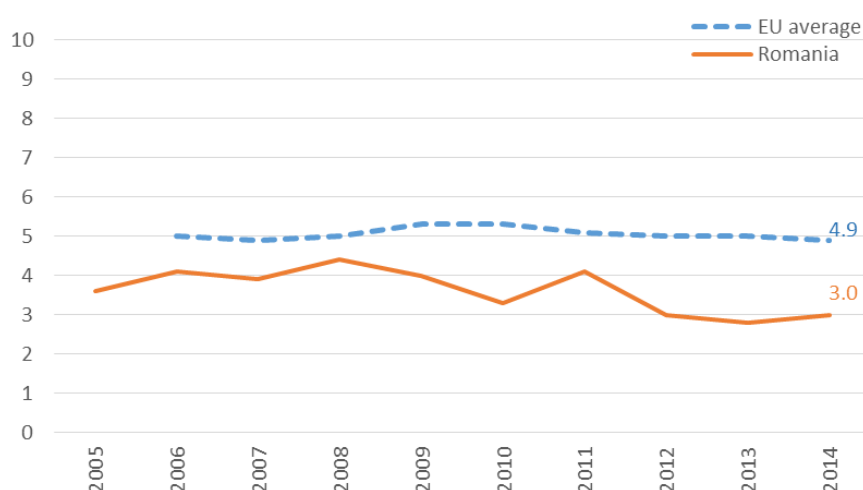
Source: Eurostat, Regional education statistics.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The extent to which children are involved in education at the age of 4 is much less in Romania than in the rest of the EU even though the gap seems to have narrowed since 2004. It is also less in all the lagging regions and less too than the national average in Nord-Est and Sud-Muntenia, though in all these regions the proportion has tended to rise over time. While the situation is tending to improve, the implication is that children are less well prepared for school in all the lagging regions than those in other parts of the EU.

Figure 4.8 – Expenditure of the general government in education in Romania, 2002-2014, % of GDP



Source: Eurostat, General government expenditure [gov_10a_exp].

Commentary

Expenditure on education was lower in relation to GDP in Romania than the EU average in 2014 and was consistently lower over the preceding 8 years.

Summary 2 – Overview of Education (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

EDUCATION						
	Romania	Nord-Vest	Nord-Est	Sud-Est	Sud-Muntenia	Sud-Vest Oltenia

Early leavers						
Early leavers aged 18-24, 2015	+8.1	-2.2	+6.2	+5.8	-0.4	-2.9
Educational attainment level						
Share of population aged 25-64 with ISCED 3-8, 2015	-1.5	+0.6	-6.8	-5.4	-1.5	+1.1
Share of population aged 25-64 with ISCED 5-8, 2015	-12.9	+0.2	-5.6	-4.3	-4.4	-0.5
Share of population aged 25-34 with ISCED 3-8, 2014	-5.2	+1.0	-9.5	-7.9	-5.0	-1.5
Share of population aged 25-34 with ISCED 5-8, 2014	-10.8	-1.3	-7.4	-6.8	-6.9	-3.8
Education and apprenticeship						
Young people aged 15-24 in regular education or vocational training, 2014	-3.9	+2.7	-0.5	-5.0	-5.9	+2.0
Young people aged 15-24 in vocational education or training, 2014	+0.7	-0.9	+4.8	+0.9	-0.2	-0.4
Lifelong learning						
Participation rate of 25-64 in continuing education and training, 2015	-9.4	-	-0.3	-0.5	+0.6	-0.3
Early childhood education						
Participation rate of 4-years-olds in education, 2012	-12.2	+6.6	-4.8	+0.5	-0.5	+5.6
Education expenditure						
General government expenditure in education (% of GDP), 2014	-1.9	:	:	:	:	:
STRUCTURAL IMBALANCE						
Number of unfavourable variables	9	2	8	7	7	5
Number of favourable variables	1	6	1	2	2	4

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available, “-“ No difference.

EDUCATION in Romania	
Country-specific recommendations, 2011-2015	
2011	-
2012	-
2013	Speed up the education reform including the building up of administrative capacity at both central and local levels and evaluate the impact of the reforms. Step up reforms in vocational education and training. Further align tertiary education with the needs of the labour market and improve access for disadvantaged people. Implement a national strategy on early school leaving focusing on better access to quality early childhood education including for Roma children.
2014	Increase the quality and access to vocational education and training (VET), apprenticeships, tertiary education and lifelong learning and adapt them to labour market needs.

2015	Take action to implement the national strategy to reduce early school leaving.
Structural reforms carried out, 2011-2015	
2011	<p>The new <i>Act on National Education</i> was adopted to modernize the educational system and better accommodate it to the requirements of the knowledge-based society and smart, sustainable and inclusive growth. The education reform covers the following changes: 1) Synchronising education cycles with the requirements of a modern education system and the European Qualification Framework (uniform approach of early education; increased duration of primary education to 5 years; increased duration of lower secondary education to 5 years); 2) Modernization and decongestion of school curriculum (by reducing the amount of knowledge to be memorized and making the content of the programmes more attractive); 3) Reorganization of students' assessment system; 4) Ensuring a high degree of decentralization, accountability and financing of the system; 5) Ensuring equal opportunities for disadvantaged groups; 6) Upgrading vocational education and training; 7) Reform of human resource policies in education; 8) Stimulating lifelong learning; 9) Modernization of management and leadership of universities; 10) Universities ranking (three categories: universities focused on education, universities focused on education, scientific research and artistic creation, and advanced research and education universities); 11) Quality assurance in higher education; 12) Competitive financing and incentives for academic excellence in higher education.</p> <p>The Education Act was amended in December 2013 addressing access to high school and vocational education and training, skill testing, financing of pre-university schools and funding of higher education and provision of general facilities for pupils.</p>
2012	The Ministry of education elaborated methodologies for various measures designed to provide opportunities for early school leavers to re-enter education: <i>School after school programme</i> , <i>Second Chance programme</i> and <i>Functional literacy programme</i> .
2012	In order to match higher education to labour market needs, regular national studies were initiated: <i>National monitoring survey on the insertion of higher education graduates on the labour market</i> and <i>Single Registration Intake of public and private universities</i> (to monitor participation in higher education and ensure a tight control of diplomas issued by universities). In addition, in 2013, the <i>National Forecast and Statistics Council in Higher Education</i> was founded.
2012-2015	In order to increase both quality and access to VET and apprenticeships and to adapt them to the needs of the labour market, since the 2012-2013 school year, there is a 2-year dual-type VET for 9 th grade graduates and, since the 2014-2015 school year, a 3-year dual-type VET for 8 th grade graduates.
2015	To strengthen the counselling and guidance of students, the framework-methodology for the organization and operation of <i>Counselling and Guidance Centres in higher education</i> was approved. The objectives of these centres is to provide advices on educational route, to decrease school drop-out, and to match the academic supply with the labour market demand.
2015	The <i>National Lifelong Learning Strategy</i> was completed and the <i>Strategy for reducing early school leaving</i> was adopted, and a <i>Strategy on vocational training 2014-2020</i> is planned. In addition, the National Authority for Qualifications also implemented the <i>Learn, for a better life!</i> project which aims at fostering adult participation in lifelong learning education and programmes, and promoting the recognition of non-formal and informal learning.
Outstanding challenges	
	Early school leaving rate remains high in particular among disadvantaged groups.
	The quality of vocational education and training remains an issue.
	The relevance of higher education to the labour market needs remains a challenge.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 91 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

The extent of early school leaving is relatively important in Romania as compared with the rest of the EU and the same is the case in the lagging regions in the country, suggesting that young people are more likely to leave education with no qualifications beyond basic schooling than in the EU as a whole.

As a reflection of this, the proportion of people of working age with at least upper secondary education is lower in Romania than the EU average, as it is in all the lagging regions, especially in Nord-Est, Sud-Est and Sud-Muntenia where the proportion was also smaller than the national average. The relative number of 15-24 year-olds in some form of education or training is also lower in Romania than in the rest of the EU, as it is in all the lagging regions, which bodes ill for the future education level of the work force.

The situation is even less favourable in relation to tertiary education, which is generally regarded as being particularly important for economic development. The proportion of the working age population with this level of education is significantly smaller in Romania and its lagging regions than in the EU and smaller in all the lagging regions than in the rest of the country, except in Nord-Vest. And the same is true among the 25-34 age group (even if participation in tertiary education among this group has consistently increased over the past decade in Romania).

In Romania, but also in all lagging regions, the relatively low proportion of young people who have successfully completed a tertiary-level education programme is coupled with a relatively low share of those aged 25-64 in tertiary education. This suggests that the overall share of working-age population with this level of education is likely to stay low in future years, which constitutes a challenge for economic development.

The very limited extent of continuing training is also an essential issue as workers have limited opportunity to learn new skills and to adapt to advances in technology and methods of working. The proportion of those aged 25-64 participating in education or training is indeed considerably below the EU average in Romania and all the lagging regions (in particular Nord-Est, Sud-Est and Sud-Vest Oltenia).

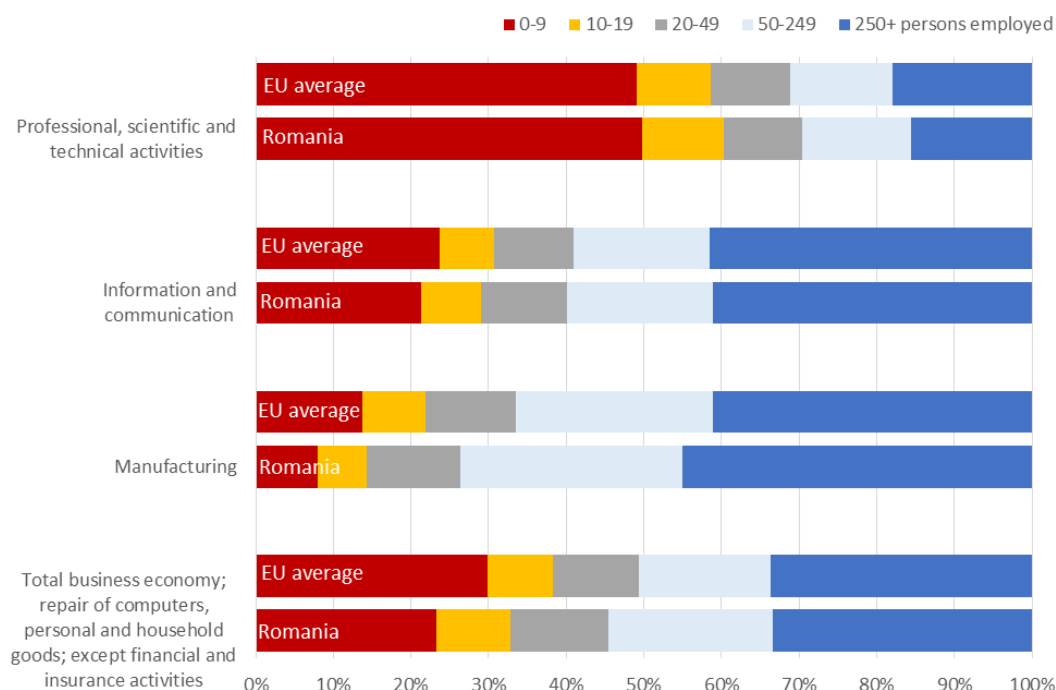
It is also the case that the extent of early childhood education (the proportion of 4-year olds in school or pre-school) is less in Romania than in the rest of the EU, as it is in all the lagging regions (in Nord-Est and Sud-Muntenia it is also less than the national average), which suggests that children may be less well prepared for their future schooling than those elsewhere.

Country-specific recommendations in relation to education and training mainly underlined the need to reform the vocational education and training system, to reduce early school leaving, and to improve access to lifelong learning. Despite several major reforms in the national education and VET systems between 2011 and 2015, various specific measures to fight early school leaving, and the adoption of strategy in relation to lifelong learning and early school leaving, it was still considered that the quality of VET system remains an issue, and there was still a mismatch between the supply of skills and the demand for them in the labour market.

In the lagging regions, the situation with regard to education and training was particularly unfavourable in Nord-Est and Sud-Est, where the proportion of people of working age with tertiary education was not only well below the national and EU average but this was also true of the share of 25-34 year-olds with the same level of education. It was equally the case that the relative number of young people leaving school without adequate qualifications was higher in these regions than elsewhere.

5. BUSINESS ENVIRONMENT AND RDTI

Figure 5.1 – Breakdown of employment by size of enterprise in critical sectors in Romania in 2013



Source: Eurostat, Structural Business Statistics [sbs_sc_sca_r2].

Commentary

The share of employment in manufacturing in large and medium-sized enterprises is bigger in Romania than in the EU as a whole, which indicates that firms are not at a size disadvantage compared to those in other countries in this sector. This is also the case in Information and communication, though the difference is smaller in this sector. In Professional, scientific and technical activities however, there is a larger share of employment in micro and small firms in Romania compared to the EU, which could imply a disadvantage in competing on national and international markets.

Table 5.1 – Ease of doing business and Starting a business in Romania, 2016

	Romania (rank in the EU, 1-28)
Ease of doing business*	19
Starting a business**	14

Source: World Bank: Doing Business report 2016.

Note: * A low value corresponds to a high ease of doing business.

** A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

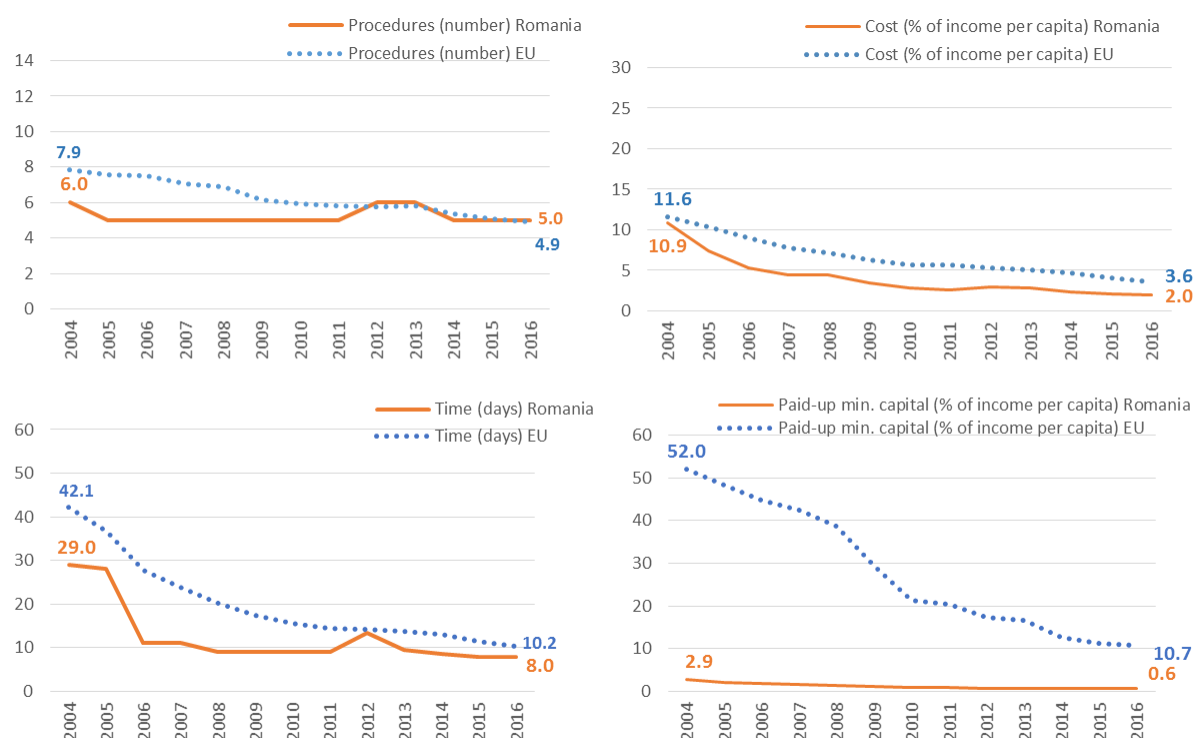
Table 5.2 – Starting a business indicators in Romania, 2016

Region	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-up minimum capital (% of income per capita)
Romania	5	8	2.0	0.6
EU average	4.9	10.2	3.6	10.7

Source: World Bank: Doing Business report 2016.

Notes: Values which are higher than the EU average are highlighted in grey.

Figure 5.2 – Starting a business indicators in Romania, 2004-2016



Source: World Bank: Doing Business 2004-2016.

Commentary

The ease of doing business in Romania is below the EU average (i.e. the country is ranked 19 out of the 28 EU Member States), which means that it is more difficult to do business in this country than in the EU on average. In terms of the ease of starting a business, however, Romania is around the EU average (the country is ranked 14 out of the 28 Member States). This is a reflection of the minimum capital paid-up to start up a business, which is significantly lower in Romania than in the EU as a whole. These data are unfortunately not available at the regional level.

Table 5.3 – Product Market Regulation (PMR) indicators in Romania, 2003, 2008 and 2013

	Overall PMR			State control			Barriers to entrepreneurship			Barriers to trade and investment		
	2003	2008	2013	2003	2008	2013	2003	2008	2013	2003	2008	2013
Romania	:	:	1.69	:	:	2.78	:	:	2.06	:	:	0.22

EU average	1.78	1.53	1.44	2.57	2.27	2.17	2.15	1.85	1.69	0.63	0.45	0.47
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Source: OECD PMR indicators.

Notes: Values which are higher than the EU average are highlighted in grey.

The index ranges from 0 to 6, from least to most restrictive.

Commentary

The PMR indicators from the OECD are again available only at the national level. There was still more State control in Romania than in the EU as a whole in 2013. There are also more barriers to entrepreneurship (which is slightly in contrast to the World Bank index on starting a business which ranked the country 14 out of 28). Barriers to trade and investment were however much lower those in the rest of the EU. Nevertheless, the overall PMR in Romania is still assessed as more restrictive than in the EU.

Table 5.4 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Romania, 2014, % of total employment

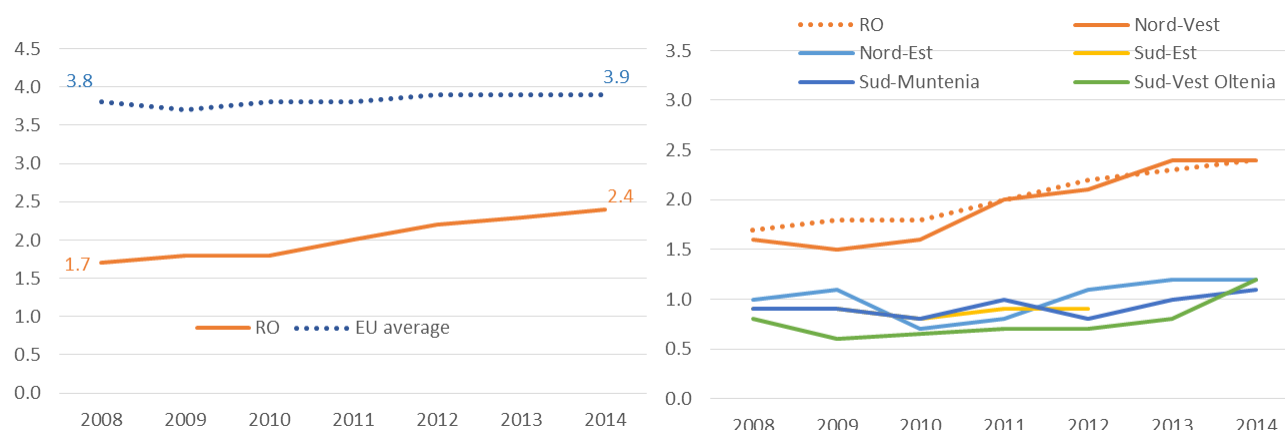
Region	Employment in high-technology sectors (% of total employment), 2014
Nord-Vest	2.4
Nord-Est	1.2
Sud-Est*	0.9
Sud-Muntenia	1.1
Sud-Vest Oltenia	1.2
Romania	2.4
EU average	3.9

Source: Eurostat, High-tech statistics [htec_emp_reg2].

Notes: * Data for Sud-Est refer to 2012.

Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.3 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Romania, 2008-2014, % of employment



Source: Eurostat, High-tech statistics [htec_emp_reg2].

Commentary

The share of employment in high-tech manufacturing and knowledge-intensive services is smaller in Romania than the EU average though it has tended to increase by more than the latter over recent years. The share in the lagging regions is around half or less than the national average in all cases except Nord-Vest. It is particularly small in Sud-Est.

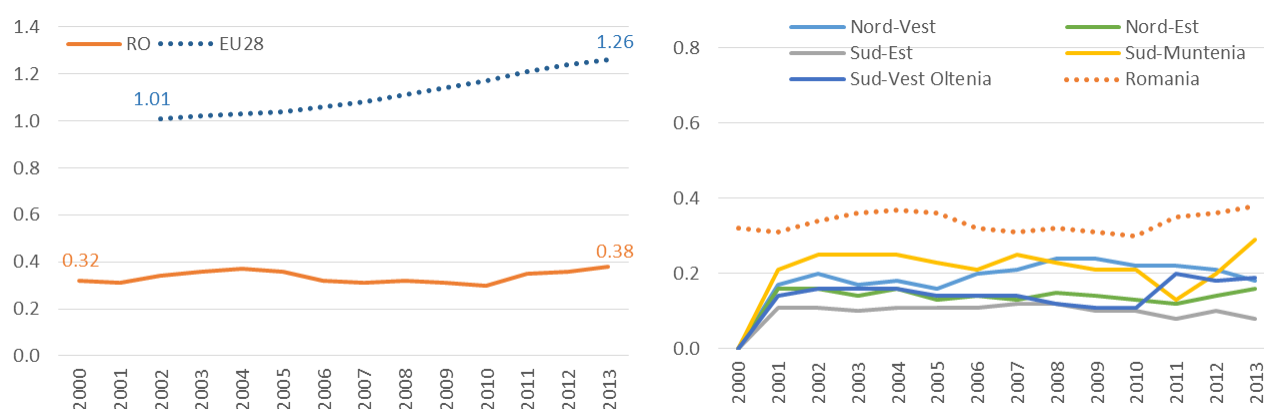
Table 5.5 – R&D personnel and researchers in Romania, 2013

Region	Total R&D personnel and researchers (% of total employment), 2013
Nord-Vest	0.2
Nord-Est	0.2
Sud-Est	0.1
Sud-Muntenia	0.3
Sud-Vest Oltenia	0.2
Romania	0.4
EU average	1.3

Source: Eurostat, R&D statistics [rd_p_persreg].

Note: Rates that are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.4 – R&D personnel and researchers in Romania, 2000-2013, % of total employment



Source: Eurostat, R&D statistics [rd_p_persreg].

Commentary

The share of employment accounted for by R&D personnel and researchers in Romania accounts for only about a third of the EU average and this has not changed greatly over the past decade. The share is smaller than the national average in all lagging regions, though less so in Sud-Muntenia, where it has risen since 2011. It is again particularly small in Sud-Est.

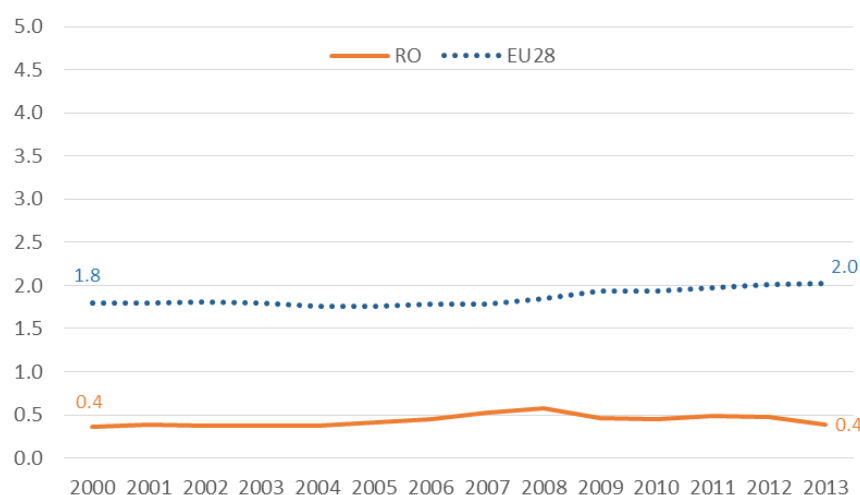
Table 5.6 – Total intramural R&D expenditure in Romania, 2013

Region	Total intramural R&D expenditure (GERD) % of GDP, 2013
Nord-Vest	0.3
Nord-Est	0.3
Sud-Est	0.1
Sud-Muntenia	0.3
Sud-Vest Oltenia	0.2
Romania	0.4
EU average	2.0

Source: Eurostat, R&D statistics [rd_e_gerdreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.5 – Total intramural R&D expenditure in Romania, 2000-2013, % of GDP



Source: Eurostat, R&D statistics [rd_e_gerdreg].

Commentary

Expenditure on R&D in Romania relative to GDP is again significantly lower compared to the EU average and there has been no tendency for it to converge towards the average in the recent years. It is below the national average in all the lagging regions. It is particularly low in Sud-Est, in line with the small share of researchers in total employment.

Summary 3 – Overview of business environment (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures, except where otherwise stated)

BUSINESS ENVIRONMENT AND RDTI						
	Romania	Nord-	Nord-	Sud-	Sud-	Sud-Vest

		Vest	Est	Est	Muntenia	Oltenia
Doing business						
Ease of doing business ranking, 2016	Bottom half (19/28)	:	:	:	:	:
Starting a business ranking, 2016	Top half (14/28)	:	:	:	:	:
Procedures (number), 2016	+0.1	:	:	:	:	:
Time (days), 2016	-2.2	:	:	:	:	:
Cost, 2016 (% of income per capita)	-1.6	:	:	:	:	:
Paid-up min. capital, 2016 (% of income per capita)	-10.1	:	:	:	:	:
PMR indicators (The index ranges from 0 to 6, from least to most restrictive)						
Overall PMR, 2013	+0.2	:	:	:	:	:
State control, 2013	+0.6	:	:	:	:	:
Barriers to entrepreneurship, 2013	+0.4	:	:	:	:	:
Barriers to trade and investment, 2013	-0.2	:	:	:	:	:
Employment in technology and knowledge intensive sector						
Employment in high-technology and knowledge intensive sector, 2014	-1.5	-	-1.2	-1.5	-1.3	-1.2
R&D personnel/researchers and expenditure						
R&D personnel and researchers, 2013	-0.9	-0.2	-0.2	-0.3	-0.1	-0.2
Intramural R&D expenditure, 2013	-1.6	-0.1	-0.1	-0.3	-0.1	-0.2
STRUCTURAL IMBALANCE						
Number of unfavourable variables	8	2	3	3	3	3
Number of favourable variables	5	0	0	0	0	0

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available. “-”: No difference.

BUSINESS ENVIRONMENT AND RDTI in Romania	
Country-specific recommendations, 2011-2015	
2011	Remove restrictions in setting up retail shops: the government should eliminate the legal provisions requiring an economic needs test and the involvement of competitors in the procedure for the authorisation of large surface retail stores by September 2011. Efficiency and effectiveness of investment in RDI need to be substantially improved. The consistent structural reforms of the RDI sector recently initiated by the Government should be implemented in a timely and comprehensive fashion.
2012	Implement measures to facilitate the business environment in services. Establish an operational Point of Single Contact (PSC) to help businesses in the services sector with all administrative procedures involved for the establishment in Romania. Remove restrictions in setting up retail shops.
2013	Improve and simplify the business environment in particular through reducing administrative burdens on SMEs and implementing a coherent e-government strategy. Ensure closer links between research, innovation and industry in particular by prioritising R&D activities that have the potential to attract private investment.

2014	-
2015	-
Structural reforms carried out, 2011-2015	
2011	An <i>inventory of arrears and unpaid invoices</i> by the end of December 2010 was prepared, both at the public administration and state owed enterprises' level. An action plan for eliminating the existing arrears and preventing the accumulation of new ones was elaborated.
2011	Enterprises access to financing of RDI activities is simplified by i) promoting the projects achieved in partnership with companies; ii) waiving the certification of enterprises for their research-development activities; iii) introducing <i>innovation voucher</i> enabling enterprises to directly contract RDI services; iv) advising enterprises on the implementation of the norms regarding tax incentives.
2012	In order to stimulate the growth of private sector investment in R&D, partnerships between research universities/institutes and enterprises were financially supported, as well as initiatives that promote innovation inside enterprises, including innovative start-ups and spin-offs.
2013	To improve business environment, the <i>Government Programme 2013-2016</i> foresees tax incentives for job creation, measures for strengthening the guarantee and the counter-guarantee instruments, as well as renewed commitments for financing innovative projects of SMEs, by creating a venture capital fund and a network of business angels, as national alternatives to the JEREMIE Initiative.
2013	The amendments to the Fiscal Code establish the increase of the additional deduction from 20% to 50% of the eligible expenses for R&D activities.
2014	To facilitate business market exit procedures, the <i>Law on insolvency</i> was amended in April 2014 to introduce provisions on pre-insolvency, creditor differentiation, the 'second chance' provisions and to ensure automatic stay mechanism while preserving the equal treatment of all creditors within the procedure and a reasonable time for the reorganization plan.
2014	The <i>Strategy for SMEs and Business Environment</i> and the related action plan for 2014-2016 are being prepared. In addition, a new <i>Law on enhancing SMEs</i> was adopted in April 2014 to improve the framework conditions for the functioning of SMEs.
Outstanding challenges	
	RDI expenditure remains low and inefficient.
	The long average time required to resolve insolvency cases can weigh on new investment projects.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 91 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

It is more difficult to do business in Romania than in the EU as a whole. The ease of starting a business in Romania nevertheless seems to be around the EU average (the necessary minimum capital is in particular much lower than in the EU). Moreover, product market regulation is considered to be more restrictive in the country than in the EU, though barriers to trade and investment are less.

The share of employment in high-technology sectors is smaller in Romania than the EU average and it is even smaller in most lagging regions, especially in Sud-Est.

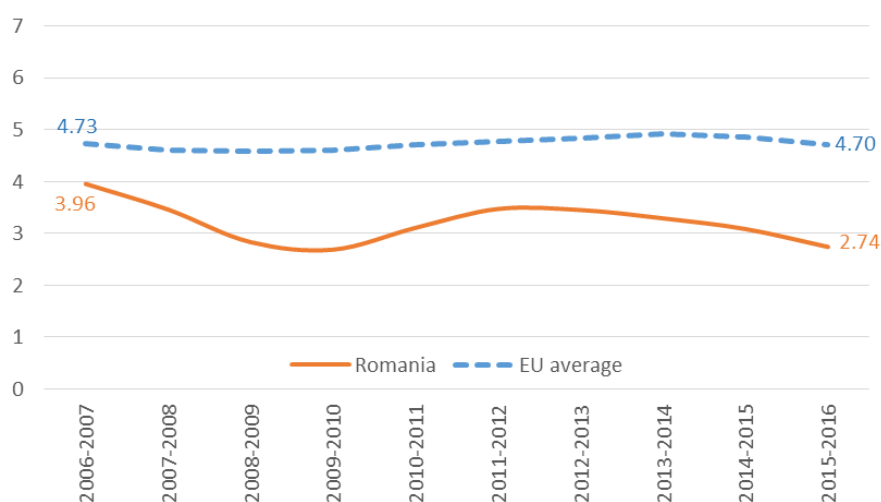
Equally, both the share of employment in R&D activities and R&D expenditure relative to GDP in Romania are significantly lower compared to the EU average and in lagging regions even smaller. This is again particularly true in Sud-Est.

Accordingly, both the regulations in place and the limited availability of research expertise and R&D facilities are likely to discourage investment in Romania, especially in the areas with most growth potential (in knowledge-intensive sectors) and in the lagging regions in particular.

The focus of country-specific recommendations has been on removing restrictions in setting up retail shops, improving the efficiency and effectiveness of RDI investments, improving the business environment, and tightening the links between RDI and the industry. Various measures were introduced as a response to these recommendations: for instance, in 2011, the access to financing of RDI activities was simplified (in particular by introducing innovation voucher enabling enterprises to directly contract RDI services), partnerships between research universities/institutes and enterprises were financially supported, the Law on insolvency was amended in 2014 to facilitate business market exit procedures, and a new Law on enhancing SMEs was adopted in April 2014 to improve the framework conditions for the functioning of SMEs.

6. GOVERNANCE

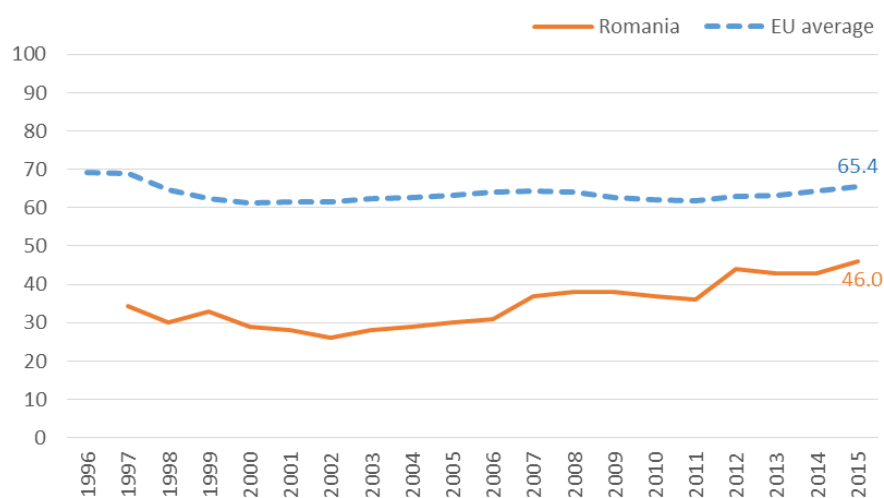
Figure 6.1 – Judicial independence in Romania, 2006-2016



Source: World Economic Forum.

The scale ranges from 1 to 7, from least to most independent (i.e. a higher value reflects a more independent judicial system).

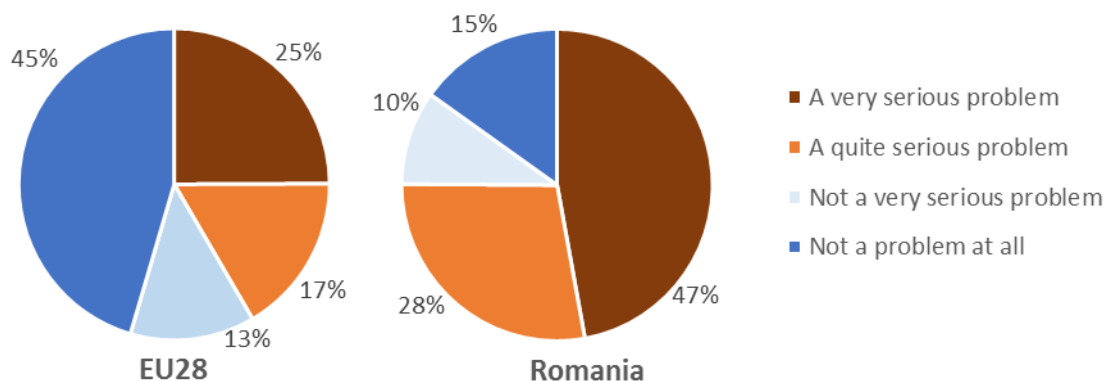
Figure 6.2 – Corruption perception index in Romania, 1996-2015



Source: Transparency International.

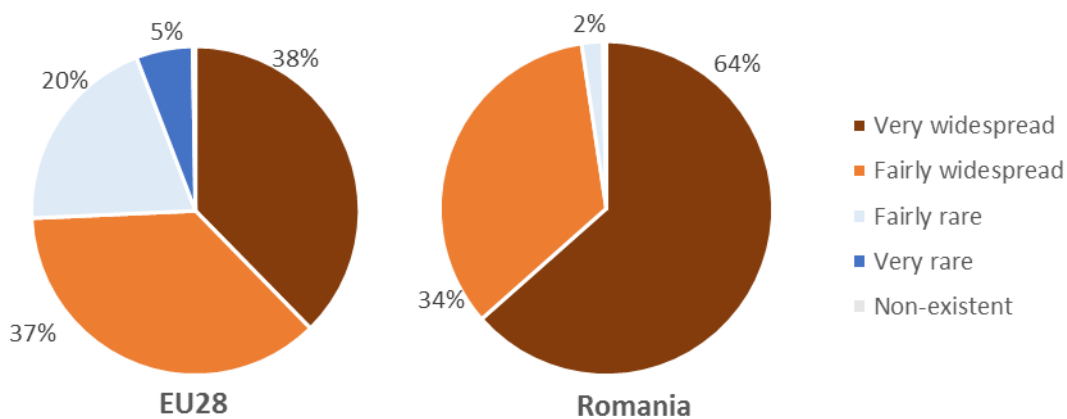
Note: The scale ranges from 0 to 100, from highly corrupt to highly clean.

Figure 6.3 – Corruption as problem for doing business in Romania, 2015



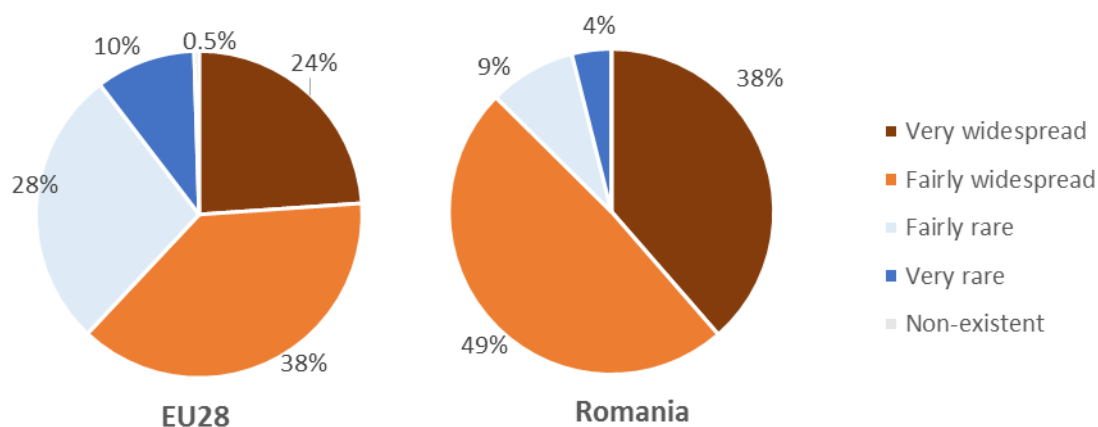
Source: Flash Eurobarometer 428, European Commission.

Figure 6.4 – Extent of corruption in Romania, 2015



Source: Flash Eurobarometer 428, European Commission.

Figure 6.5 – Extent of corruption in public procurement managed by national authorities in Romania, 2015



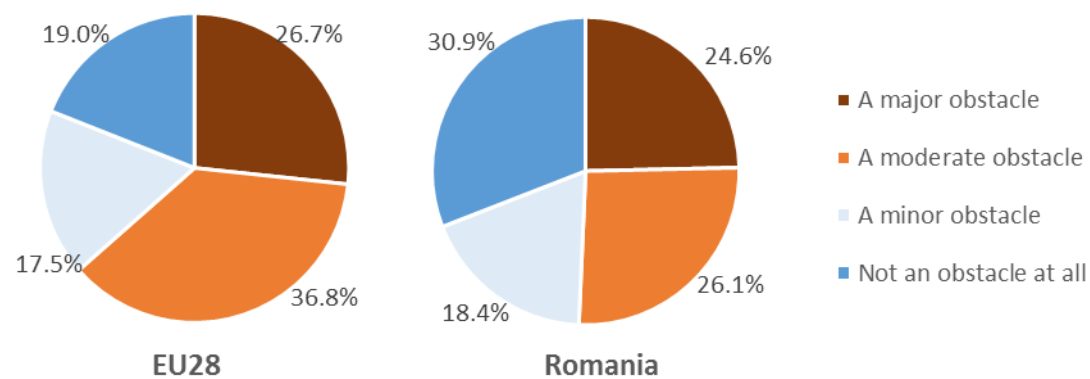
Source: Flash Eurobarometer 428, European Commission.

Figure 6.6 – Extent of corruption in public procurement managed by regional or local authorities in Romania, 2015



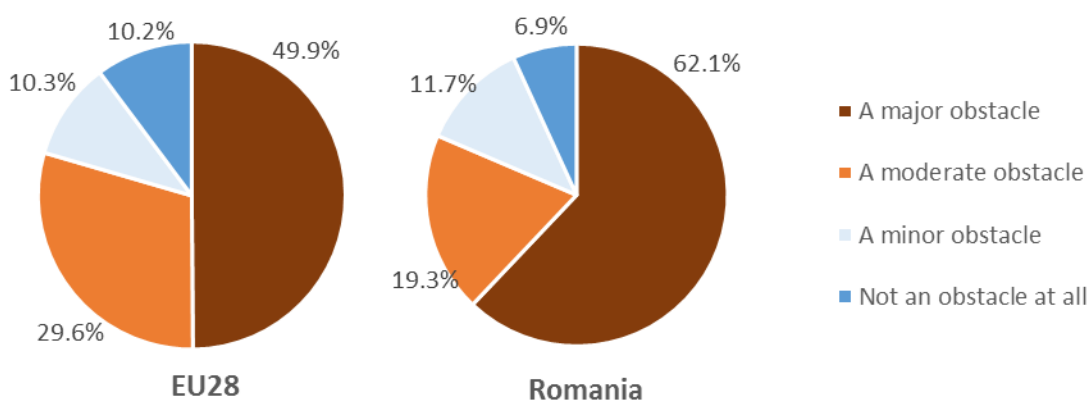
Source: Flash Eurobarometer 428, European Commission.

Figure 6.7 – Procedures for contract enforcement is an obstacle to the activities of enterprises in Romania, 2015



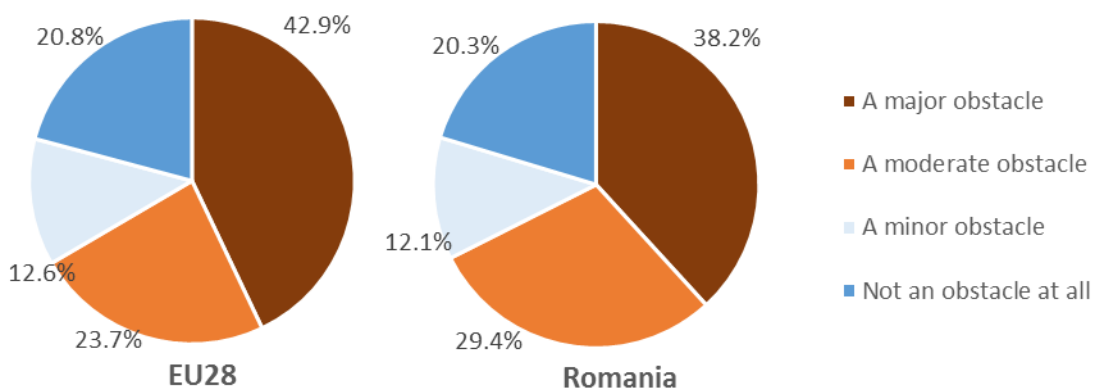
Source: Flash Eurobarometer 417, European Commission.

Figure 6.8 – Lack of predictability and stability of legislation is an obstacle to the activities of enterprises in Romania, 2015



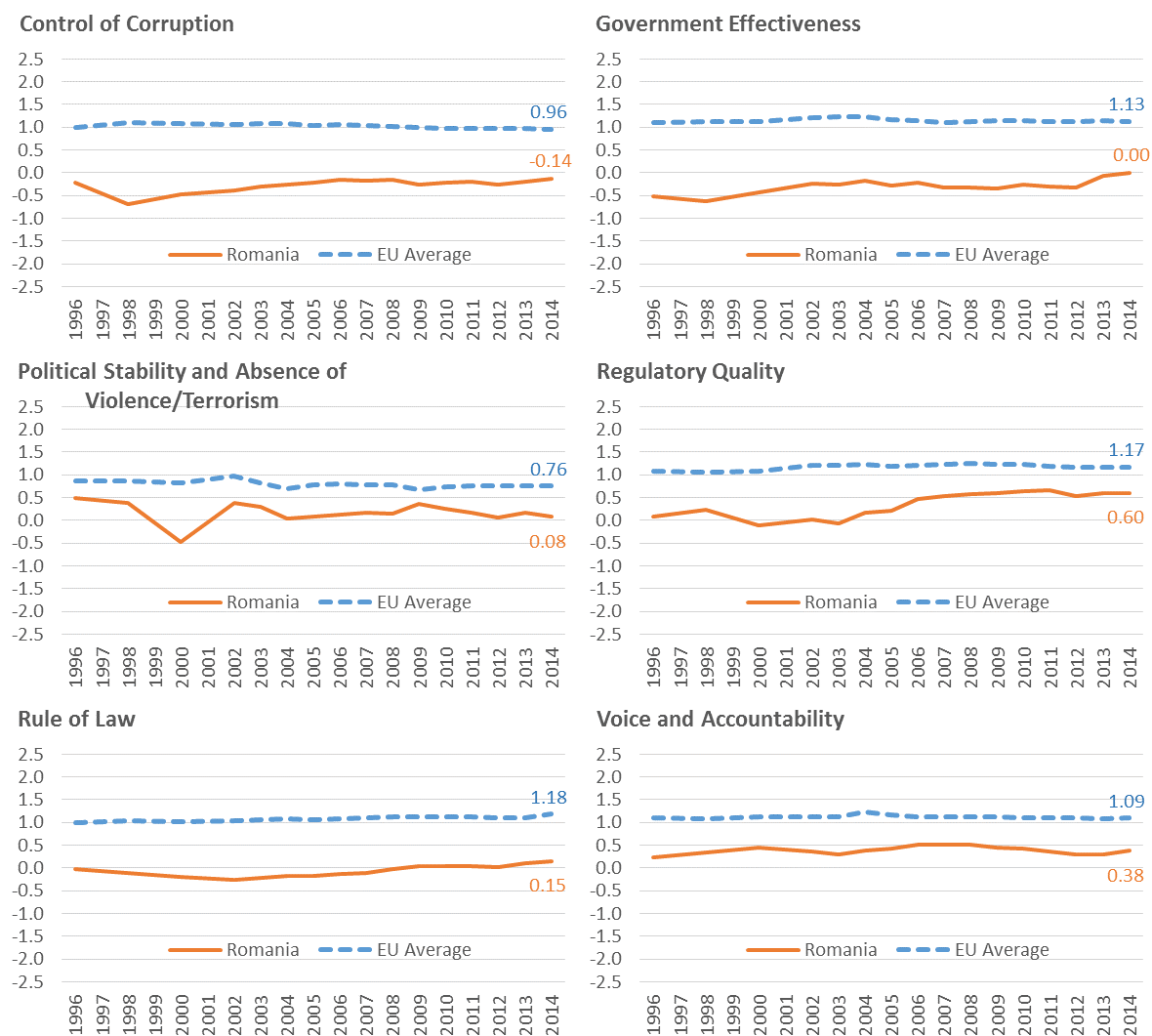
Source: Flash Eurobarometer 417, European Commission.

Figure 6.9 – The existence of an informal economy is an obstacle to the activities of enterprises in Romania, 2015



Source: Flash Eurobarometer 417, European Commission.

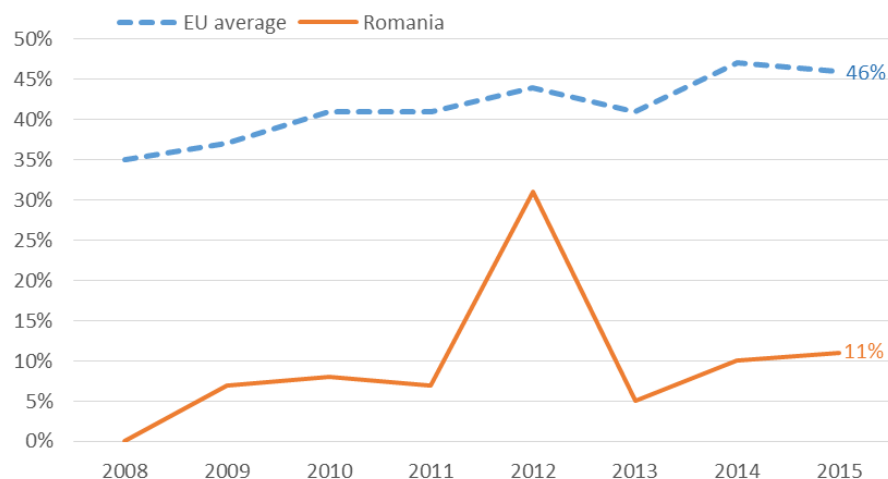
Figure 6.10 – Worldwide Governance Indicators in Romania, 1996-2014



Source: Worldwide Governance Indicators, World Bank.

Note: The scale ranges from -2.5 to 2.5, higher values corresponding to better governance.

Figure 6.11 – People aged 16-74 using the internet for interaction with public authorities in Romania, 2008-2015 (% total)



Source: Eurostat ([tsdgo330] for years 2000-2010; [tin00012] afterwards).

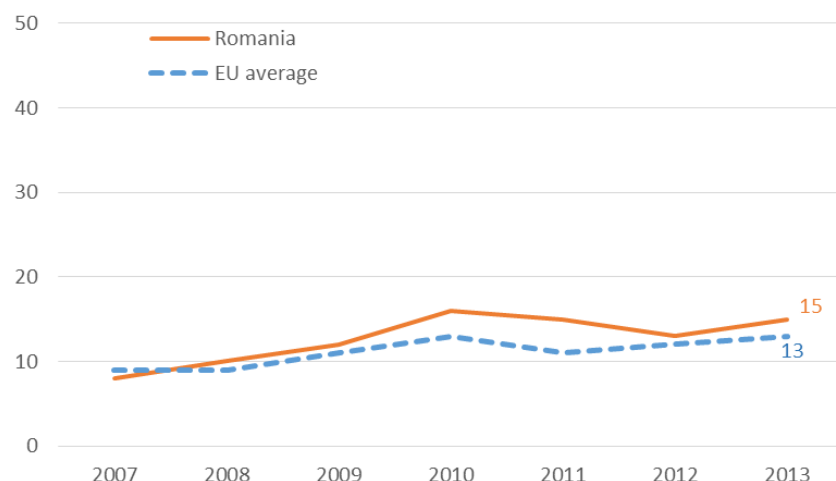
Table 6.1 – People aged 16-74 using the internet for interaction with public authorities in Romania, 2015

Region	% of individuals 16-74, 2015
Nord-Vest	10.0
Nord-Est	6.0
Sud-Est	8.0
Sud-Muntenia	7.0
Sud-Vest Oltenia	12.0
Romania	11.0
EU average	46.0

Source: Eurostat [isoc_r_gov_i].

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

Figure 6.12 – Enterprises using the Internet to submit a proposal to public authorities in Romania, 2005-2013



Source: Eurostat [tin00109].

Table 6.2 – European Quality of Government Index in Romania, 2010 and 2013

Region	European Quality of Government Index (0-100)	
	2010	2013
Nord-Vest	18.9	41.7
Nord-Est	18.1	21.7
Sud-Est	13.4	21.2
Sud-Muntenia	21.7	27.1
Sud-Vest Oltenia	18.4	33.9
Romania	18.5	24.7
EU average	51.2	61.7

Source: N. Charron, L. Dijkstra and V. Lapuente, 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'.

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

In 2013, Romania was ranked 27th among the EU countries.

The scale ranges from 1 to 100 range, higher values corresponding to a better quality of government.

GOVERNANCE in Romania	
Country-specific recommendations, 2011-2015	
2011	-
2012	<p>Modernise and streamline the relations between different levels of government and between the government and the citizens/businesses by greater reliance on electronic data exchanges and online interfaces.</p> <p>The legal framework on public-private partnerships needs to be reviewed in order to ensure full compliance with the EU public procurement Directives. And a review of the public procurement environment shall be completed.</p>
2013	<p>Strengthen governance and the quality of institutions and public administration in particular by increasing the professionalism of the public service through improved human resource management and by strengthening the mechanisms for coordination between the different levels of government.</p>

	<p>Step up efforts to accelerate the absorption of EU funds in particular by strengthening management and control systems and improving public procurement.</p> <p>Fight corruption more effectively.</p> <p>Step up efforts to improve the quality, independence and efficiency of the judicial system in resolving cases.</p>
2014	<p>Set up efforts to strengthen the capacity of public administration in particular by improving efficiency, human resource management, decision-making tools and coordination within and between different levels of government and by improving transparency, integrity and accountability.</p> <p>Fight corruption at all levels.</p> <p>Tackle persisting shortcomings in public procurement.</p> <p>Continue to improve the quality and efficiency of the judicial system. Ensure the effective implementation of court decisions.</p>
2015	-
Structural reforms carried out, 2011-2015	
2012	Preventing corruption in public administration was one of the key priorities of the <i>National anti-corruption strategy 2012-2015</i> .
2013	An <i>e-government strategy</i> was adopted in December 2013, and a <i>National Strategy on the Digital Agenda</i> and a <i>Next Generation Access</i> network plan were developed.
2014	A <i>Public Administration Strategy</i> , adopted in October 2014, seeks to encourage the reform of the public administration in five areas: public policies and regulation, reduction of red tape, human resources, public services and local public administration. Romania aims to improve the predictability and the transparency of public administration through the recent adoption of new mechanisms for improved and coordinated decision-making at government level and for consulting the civil society, including the setting-up of a dedicated ministry.
2014	The National Integrity Agency signed in February 2014 a Memorandum of Understanding with the aim to ensuring an effective ex-ante verification of conflict of interest in the award process of public procurement contracts. 2015: The authorities adopted a <i>National strategy on public procurement 2014-2020</i> and an implementation action plan to tackle the deficiencies of the public procurement system. A new <i>Public Procurement Authority</i> was created. Moreover, an <i>Inter-ministerial Committee on public procurement</i> was established. The technical working group operating within this Committee established the pillars of the strategy: quality of the legislative framework; global coherence and efficiency of the institutional system; regularity and quality of the public procurement system; strengthening the administrative capacity of the contracting authorities; strengthening the capacity of the public procurement system to stimulate effective competition.
2014	The <i>2015-2020 strategy for the development of the judiciary</i> was approved in 2014 and aims at modernizing judiciary by setting up the strategic management in the field of justice, at increasing transparency, integrity and accessibility of the judiciary for each citizen. The action plan to implement the strategy still needs to be adopted.
Outstanding challenges	
	The public administration's unstable organisational structure and weak administrative capacity reduce the capacity of public institutions to develop and implement policies in a strategic and coordinated manner.
	The particular weakness of local public services, with insufficient quality of municipal services, affect competitiveness in many regions.
	The perceived low quality of regulation and the lack of stability and predictability of legislation affect the business climate.
	Corruption persists as a systemic problem.
	Concerns about the high workload in courts, the predictability and proper enforcement of court decisions and external pressure on the judiciary impact negatively on investment.
	The lack of stability and fragmentation of the legal framework related to public procurement, the degree of competition in public procurement and the insufficient administrative capacity of public purchasers hamper investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 91 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

According to the World Economic Forum survey, the judiciary in Romania is perceived to be less independent of Government and other sources of influence than the EU average and that the difference with the latter has widened over recent years. The Transparency International indicator also shows that Romania is perceived to be more corrupt than the EU average, though the difference has narrowed appreciably over recent years. On the other hand, the Eurobarometer survey in 2015 of business views on corruption indicate that this is seen as more of a problem in Romania than in the EU both in terms of doing business in the country and in relation to public procurement.

In addition, a larger proportion of businesses in Romania surveyed by the Eurobarometer in 2015 considered the lack of predictability and stability of legislation as a major obstacle to their activities than in the EU. However, the procedures for enforcing contracts and the presence of an informal economy were seen as obstacles by a lower proportion of respondents in Romania compared to the EU.

The World Bank Worldwide Governance Indicators show that Romania is viewed less favourably than the EU average in terms of control of corruption, government effectiveness, political stability, quality of regulations, rule of law and accountability over the period 1996-2014. For most of these indicators, the difference however seems to have narrowed in recent years.

The extent to which the internet is used by people to communicate with public authorities in Romania is significantly lower than the EU average though the difference has tended to narrow over the last 2 years. In the lagging regions, the extent is even less except in Sud-Vest Oltenia where the proportion is higher than the national average, but still well below the EU average. By contrast, a slightly larger proportion of enterprises in Romania used the internet to submit a proposal to public authorities in 2013 (the latest year for which there are data) than in the rest of the EU.

The quality of government index, based on a survey of residents, shows government in Romania to be assessed less favourably than that in other parts of the EU on average, the difference in 2013 being wider than in 2010. In 2013, Romania was ranked 27th out of 28 EU countries. It also shows, however, higher values for the index than the national average in all the lagging regions apart from Nord-Est and Sud-Est in 2013, though ones which were still well below the EU average.

Over the years 2011-2015, the country-specific recommendations in respect of governance highlighted the need to strengthen governance and the capacity of public administration, to fight corruption, to improve public procurement as well as the quality and efficiency of the judicial system. Various national strategies were adopted to on public administration, corruption, public procurement, judiciary, e-government and digital agenda. Nevertheless, at the end of 2015, most of these issues were still identified as outstanding challenges to be addressed.

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