DRAFT Romania Country Strategy

2020-2025

European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment
ASB	Advise for Small Businesses
BAT	Best Available Techniques
BEEPS	Business Environment and Enterprise Performance Survey
CEB	Social Development Bank in Europe
CoOs	Countries of Operation
CVM	Cooperation and Verification Mechanism
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIA	Environmental Impact Assessments
EIB	European Investment Bank
EIF	European Investment Fund
ESCO	Energy service companies
ESIA	Environmental and Social Impact Assessment
ESIF	European Structural and Investment Fund
ETI	Expected Transition Impact
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Institution
FOPIP	Financial and Operational Performance Improvement Programme
GET	Green Economy Transition
H&S	Health & Safety
HR	Human resources
ICA	Industry, Commerce & Agribusiness
ICT	Information and Communication Technologies
IDLO	International Development Law Organization
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labour Organization
MFF	Multiannual Financial Framework
MSME	Micro, Small and Medium Enterprise
NPL	Non-Performing Loans
ODA	Official Development Assistance
PPP	Private-Public Partnership
PR	Performance Requirements
PTI	Portfolio Transition Impact
R&D	Research and Development
SEE	South-Eastern Europe
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TC	Technical Cooperation
TFP	Trade Finance Project
TPES	Total primary energy supply
VCIP	Venture Capital Investment Program
WB	World Bank
WEF	World Economic Forum

Executive Summary

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Romania's commitment to and application of principles set out in Article 1 continued over the period since the adoption of the previous Country Strategy.

Over the last 4 years, the Romanian economy has been developing fast, fuelled particularly by private consumption supported by pro-cyclical fiscal measures. This led to inflation edging up higher, particularly over the last two years, a growing current account deficit, and higher budget deficits, estimated to have widened to about 4 per cent in 2019. General government debt is moderate by regional standards, at around 35.0 per cent of GDP. While labour markets tightened and overall unemployment remains low, emigration and under-investment in infrastructure have tended to preserve significant regional differences.

Romania faces material transition gaps in most sectors of the economy. The state of transport and municipal infrastructure exacerbates regional disparities and limits value chain/market integration. The health infrastructure is below EU standards, due to inefficient operations and financial management, as well as lack of investment. The energy sector benefitted from private sector participation, but further investment is needed to improve efficiency and enhance cross-border connections. The restructuring and privatization of SOEs has stalled since 2014. Hastily adopted legislation at the end of 2018, which would have had negatively impacted the banking, energy, telecom and private pensions sectors if not softened in the meantime, has nevertheless damaged investors' confidence. Improved governance will be needed to improve the business climate and address Romania's transition gaps.

Romania has a vibrant private sector, fuelled by large foreign investments in the automotive, ICT, agribusiness and real estate sectors and supported by a strong SME base. However, it falls short of its potential due to bureaucratic obstacles in doing business and bottlenecks induced by poor national infrastructure. The fall in FDI inflows in recent years (in particular in greenfield investments) has curtailed transfer of modern skills and processes: new investment in high-potential sectors and energy/resource efficient technologies – with a particular focus on decarbonisation – is badly needed. Access to finance remains limited due to demanding bank lending practices, under-developed debt and equity capital markets, and limited alternative financing sources to corporates and SMEs.

EBRD is well positioned to assist with preparation and financing of sustainable infrastructure projects and to support restructuring of SOEs, including by supporting the decarbonisation of the energy sector and its transition from coal to cleaner energy sources. This will reduce transition gaps in governance, inclusion and integration, unlock economic opportunities, and improve the quality of institutions and infrastructure. In the private sector, the Bank will focus its activities on supporting Romanian companies to become more competitive, improve product and process innovation, and increase technological penetration. EBRD will continue to sustain the diversification and sophistication of the financial sector by contributing to the development of local capital markets and local currency financing solutions, and by working with banks and non-bank financial institutions to increase access to finance and financial penetration, including to SMEs.

As a consequence EBRD is well placed to support continued modernization of the Romanian economy. The Bank will pursue the following strategic priorities in Romania in 2020-2025:

- *Promote Investment in Sustainable Infrastructure and Regional Development;*
- *Support Productivity through Corporate Expansion and Skills Upgrade; and*
- *Expand Financial Intermediation and Capital Markets.*

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Romania - EBRD Snapshot

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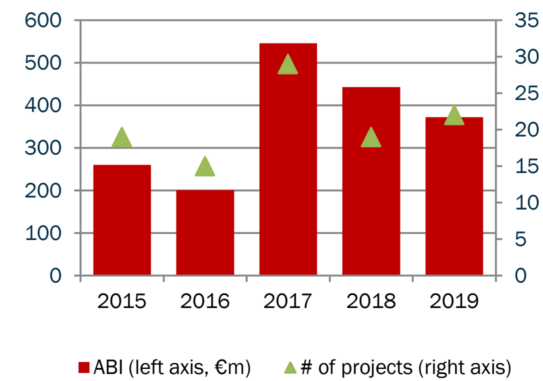
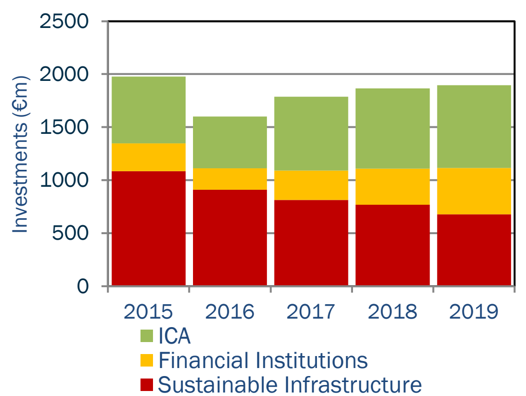
EBRD Investment Activities in Country *(as of December 2019)*

Portfolio	€1,896m	Active projects	165
Equity share	21%	Operating assets	€1,525m
Private Share[1]	76%	Net cum. investment	€8,695m

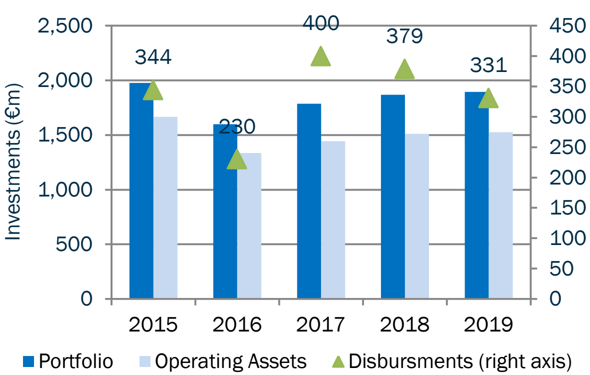
ABI and Operations



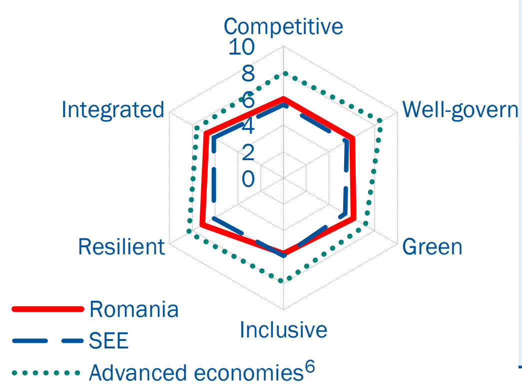
Portfolio Composition



Portfolio Dynamics



Transition Gaps[2]



Country Context Figures

	Romania	Comparators
Population (million)[3] (2018)	19.5	Bulgaria (7.0), Croatia (4.1), Hungary (9.8), Poland (38.0)
GDP per capita (PPP, USD)[3] (2018)	24,544	Bulgaria (19,321), Croatia (23,637), Hungary (28,243), Poland (28,752)
Global Competitiveness Index (WEF) (2019) *(out of 141 economies)*	51st	Bulgaria (49th), Croatia (63rd), Hungary (47th), Poland (37th)
Unemployment (%, ILO est.)[4] (2018)	4.3	Bulgaria (5.3), Croatia (8.9), Hungary (3.7), Poland (3.7)
Youth unemployment (%, ILO est.)[4] (2018) share of youth not in employment, education or training (NEET)	14.5	Bulgaria (15), Croatia (13.6), Hungary (10.7), Poland (8.7)
Female labour force participation (%, ILO est.)[4] (2018)	45.6	Bulgaria (49.2), Croatia (45.5), Hungary (48.7), Poland (48.5)
Energy intensity (TPES/GDP)[5] (2016)	0.16	Bulgaria (0.32), Croatia (0.14), Hungary (0.17), Poland (0.17)
Emission intensity/GDP (kgCO2/10'\$)[5] (2016)	0.34	Bulgaria (0.72), Croatia (0.26), Hungary (0.30), Poland (0.51)

[1] Cumulative Bank Investment: 5 year rolling basis on portfolio. [2] Cf. EBRD Transition Report 2017-2018. [3] World Bank WDI. [4] International Labour Organisation. [5] IEA's Energy Atlas.
[6] Canada, Czech Republic, France, Germany, Japan, Sweden, United Kingdom and United States

1. Implementation of Previous Strategy (2015-2019)

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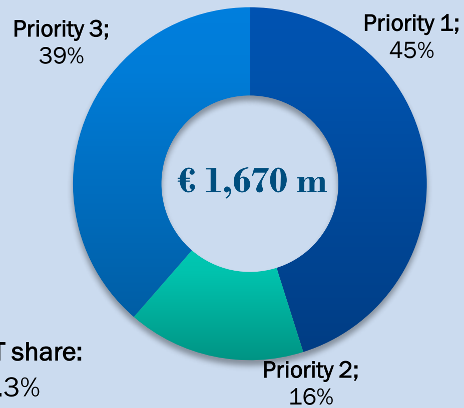
1.1. Key Transition Results achieved under previous Country Strategy

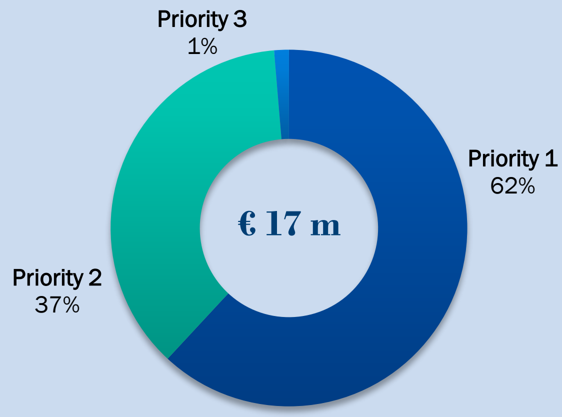
Strategic Alignment 2015-2019

Annual Business Investment (ABI)

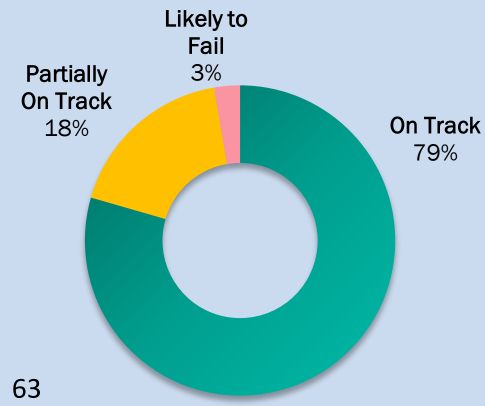


GET share:
33.3%

TC, grants and concessional loans



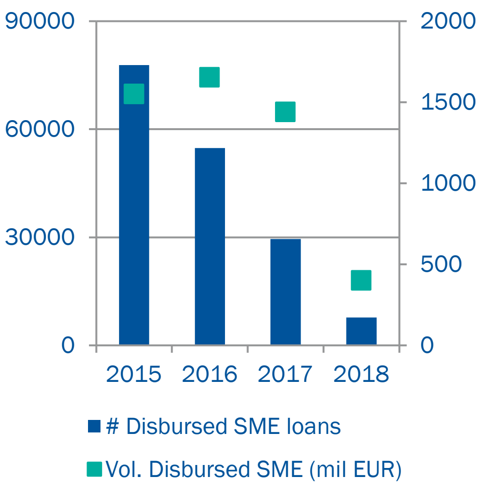
Transition Impact Performance*



ETI: 63
PTI: 70

Priority 1: Broadening access to finance by inducing lending and developing capital markets

Number and Volume Disbursed SME



Key Transition Results

- Provided loans to banks (EUR 30m), leasing companies (EUR 74m) and other non-banks FI (EUR 30m), to support the financing of MSMEs and households' investments in energy efficiency (EUR 100m under GEFF) and for the first non-sovereign SOE in the last 5 years (EUR 60m).
- Supported the first Romanian Blue Ribbon client (advisory services and debt).
- Invested in 12 bonds issues for over EUR 500m, the first covered bond Romanian transaction (EUR 40m), the first senior non-prefered bond issued by a Romanian bank, the first repo eligible municipal bond (EUR 75m) and the first benchmark size Romanian corporate Eurobond (EUR 50m).
- Invested in 3 IPO/SPO transactions for over EUR 80m, including the first local A/B share class IPO in Romania.
- Policy engagement to support adoption of milestone legislation in covered bonds, repo eligibility and ongoing lobbying for upgrading the local capital market from frontier to emerging market status.
- Completed the second phase of the dormant accounts project (with EC SRSS funding), which is ultimately expected to increase the Bucharest Stock Exchange's market capitalization, improve secondary market liquidity, protect small retail investors and expand the investor base. Continue to monitor pension pillar II amendments.
- Supported secondary market liquidity by assisting in framing stock borrowing and lending (SBL) regulations at the central securities depositary.

** Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.*

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1. Implementation of Previous Strategy (2015-2019)

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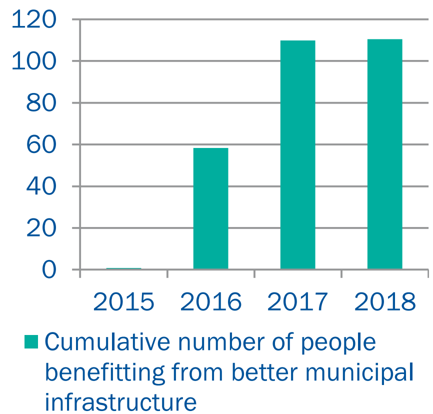
1.1. Key Transition Results achieved under previous Country Strategy

Priority 2: Reducing regional disparities and boosting inclusion through commercialised infrastructure

Access to Infrastructure

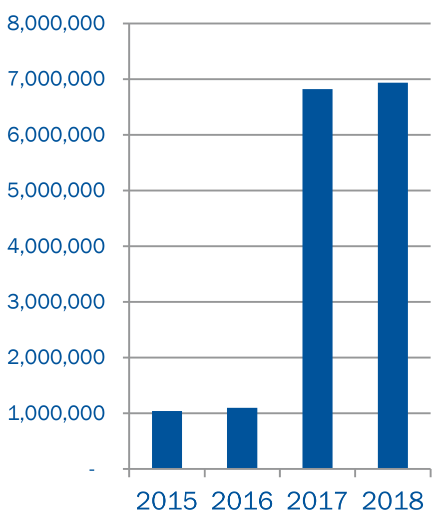


Key Transition Results

- Developed EUR 250m framework (SWIFT) for the water sector, with over EUR 80m deployed and over 10 new transactions expected in the next couple of years. EBRD's financing contributes to compliance with EU water sector standards and mobilises EUR 2bn EU co-financing. The water benchmarking programme has been extended to the national level, coupled with significant cost efficiency reforms in the sector.
- Supported development of Urban Transport and Parking in 6 cities under EUR 110m SMART framework.
- Supported the first city under Green Cities framework to rehabilitate public buildings / bus fleet renewal.
- Policy engagement on the PPP law and organisation of the first PPP trainings for the public sector.
- Signed a MOU with the Government to improve EU funds absorption and assisting on strategic documents and institutional reforms in public sectors including water, public transport, and energy efficiency.
- Initiated development of the first health sector PPP, as part of an ongoing dialogue with the government on hospital PPPs (the Bank is providing EUR 2.5m IPPF support for the project tender preparation).
- Supported development of the first Performance Based Contract in the water sector.
- Supported tender preparation and contracting of 2 private operators of solid waste facilities at county level.

Priority 3: Enhancing private sector competitiveness through targeted investment

Cumulative Energy Saved (GJ/y)



Key Transition Results

- Supported local and regional M&S clients in ground breaking projects such as aluminium extrusion and recycling, pharmaceuticals and automotive, leading to significant technology transfers.
- Contributed to the development of the office, retail and logistic P&T market by financing with debt and equity the local and regional expansion of sector investors.
- Invested in the agribusiness sector alongside private investors in order to develop competition, unlock value creation and level regional disparities.
- Helped over 250 companies, of which 70% outside Bucharest, through advisory services for marketing, corporate governance, strategy, and operations across different industries including ICT, food & beverages, tourism, and wholesale/retail distribution.
- Engaged in policy dialogue on SOEs restructuring and corporate governance improvements.
- Targeted investment in the development of green assets in P&T, the expansion of the recycling sector in M&S, and the qualitative deployment of sustainable energy and resource efficiency investment in agribusiness retail.
- Provided EUR 450k grant to the entrepreneurial network Endeavor Global (funded through the Turkish Grant Fund), alongside two other similar grants from Romanian companies, to fund the opening of the first Endeavor office in Romania, to support the entrepreneurial environment in the country.

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1. Implementation of Previous Strategy (2015-2019)

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1.2. Implementation Challenges and Key Lessons

Context for Implementation

Romania faces material transition gaps in most sectors of the economy, scoring poorly in cross-country competitiveness surveys: despite adoption of the EU *acquis*, its implementation is often well below EU standards. Poor quality of transport and municipal infrastructure, caused by inefficient operations and financial management of SOEs, as well as lack of continuity in decision making, result in severe under-investment, regional disparities and social/economic inclusion gaps adversely affecting the business environment. Romania is one of the most energy and carbon intensive economies in EU. Romania has a strong MSME base employing 67% of workforce, but financing for MSMEs is significantly limited by the bank collateral requirements.

Implementation Challenges	Key Lessons & Way Forward
• Introduction of additional taxes in banking, energy and telecom sectors, and changes in pensions legislation adversely affected the business environment and caused significant concern among investors.	• Proactive portfolio management to minimise potential negative impact of new legislation and regulations and extensive policy engagement with authorities to reverse/soften the adopted measures.
• Lack of continuity in decision making and knowledge of international best practices resulted in infrastructure under-investment and adversely affected the business environment.	• Assistance in strategy making and preparation, in addition to financing of sustainable infrastructure projects.
• Overall low levels of corporate investment resulting from bureaucratic obstacles to doing business, inefficiencies in SOEs, and other bottlenecks induced by poor national infrastructure.	• Policy engagement to improve business environment, support restructuring efforts of SOEs, and deliver sustainable infrastructure in order to encourage corporate investment.
• The fall in FDI inflows in recent years (in particular of greenfield investments) has curtailed the transfer of modern skills and processes.	• Support FDI investors to deliver innovation/knowledge transfer to the local economy. Support Romanian companies to increase business sophistication and skills upgrade, in addition to financing their local and international growth strategies.
• Access to finance remains limited due to under-developed debt and equity capital markets, lacking the depth and variety to provide alternative financing sources to corporates.	• Increased focus on capital market development including through policy engagement, technical assistance and investments.
• Availability of EU grants and below market price financing limits demand for market based financing.	• Constructive cooperation with EU and EIB to limit market distortions. Well designed blending of grants with commercial loans to maximise impact needed.
• Limited progress with privatisations / listings / concessions / PPPs in health, transport and energy infrastructure.	• Policy engagement including through TC for project selection, project preparation, and post signing support, as well as use of in-house expertise. Strong cooperation between IFIs remains important.

2. Economic Context

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2.1 . Macroeconomic Context and Outlook for Strategy Period

Romania - Main macroeconomic indicators	2014	2015	2016	2017	2018	2019
GDP growth (% y-o-y)	3.4	3.9	4.8	7.1	4.0	4.0
HICP inflation (% avg.)	1.4	-0.4	-1.1	1.1	4.1	3.9
Government balance (% of GDP)	-1.2	-0.6	-2.6	-2.6	-3.0	-3.6
Current account balance (% of GDP)	-0.7	-1.2	-2.1	-3.4	-3.5	-3.4
Net FDI (% of GDP)	1.8	1.8	2.6	2.6	2.5	2.5
External debt (% of GDP)	58.5	56.3	52.0	52.3	46.4	47.3
Gross reserves (% of GDP)	21.9	21.7	21.2	20.8	17.5	16.3
General government gross debt (% of GDP)	39.2	37.8	37.3	35.1	35.0	35.5
Unemployment (% pop)	6.8	6.8	5.9	4.9	4.2	3.9
Nominal GDP ($bn)	200	178	188	211	240	244

Economic growth has been strong in the recent years. Following an average growth rate of 4.0 per cent in 2014-16, growth peaked at 7.1 per cent in 2017, moderating back to 4.0 per cent in 2018. Private consumption has been the main driver of growth over the past years, supported by a pro-cyclical fiscal policy, including salary and pension hikes and cuts in consumption and income taxes, and tightening labour market (with unemployment at a long time low of 3.9 per cent). Fuelled by increased absorption of EU funds, the contribution of investment to growth was also positive. Despite growing exports, the trade deficit has been widening since 2015, as rising domestic demand has driven up imports even more.

Fiscal and external imbalances have increased. The current account deficit is estimated to have widened to 3.5 per cent of GDP in 2018, driven by rising imports and dividends outflows from the accumulated FDI stock, remaining on an upward trend from 2014-15 when it was about 1 per cent of GDP. Meanwhile, the budget deficit reached 3.0 per cent of GDP in 2018 (second highest in the EU), and is expected to rise further in the near future as gradual pension increases, enacted in summer 2019, come to its peak. On the positive side, general government debt is moderate by regional standards, at 35 per cent of GDP.

Inflation has accelerated. Following a two year deflation in 2015-16, consumer prices have risen continuously over the past three years, driven by the tightening labour market and rising household consumption, averaging 4.0 per cent in 2018-19 (as measured by HICP change), above the central bank's upper target of 2.5 per cent +/- 1pp. Consequently, the central bank tightened its monetary policy, raising its main policy rate three times in 2018 from 1.75 to 2.50 per cent.

GDP growth is likely to moderate further. Growth is expected at 4.0 per cent in 2019, moderating to 3.2 per cent in 2020, reflecting weakness in major trading partners, not least the euro area, higher perceived investment risks, and growing external imbalances. In the longer term, the diversified economy, large market size, and scope for convergence within the EU (GDP per capita, PPP-adjusted, is ca. 64 per cent of the EU average) should allow growth rates of around 4 per cent to be sustained, provided that reversals in economic transition are abandoned (like legislative measures initiated by EO114) and further structural reforms continue.

Source: Eurostat for GDP growth, HICP inflation, Government balance, Government debt and Unemployment; IMF World Economic Outlook Database April 2019 for Current account balance, Net FDI, External debt, Gross reserves and Nominal GDP.

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2. Economic Context

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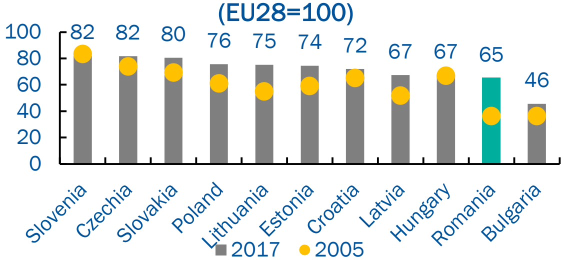
2.2 . Key Transition Challenges

Competitive (6.01)

- **Productivity is still relatively low compared to the EU levels; however it has been catching up fast.** Labour productivity per person employed increased from below 40% of EU28 average in 2005 to 65% in 2017, the largest increase over the same period compared to the regional peers (although from the lowest starting point).
- **Economic complexity has also increased, as the country's export basket has become more diverse.** As of 2016, Romania is ranked 25th in the world, an improvement from being ranked 40th in the early 2000s. This is still below the EU average, but above Bulgaria, Croatia, Greece and Baltic countries.
- **Despite significant transition progress, business environment presents a number of challenges.** Romania ranks 55th/190 in the WB's Doing Business (dropping 18 places compared to 2014). Procedures for getting electricity, dealing with construction permits and starting a business remain burdensome; the country scores well on trading across borders.
- **Competitors' practices in the informal sector remain an issue.** According to EBRD BEEPS survey undeclared activity amounts to almost 30% of national output, putting Romania second only to Bulgaria in the EU for the size of the shadow economy as a proportion of GDP.

Labour productivity (EU28=100)

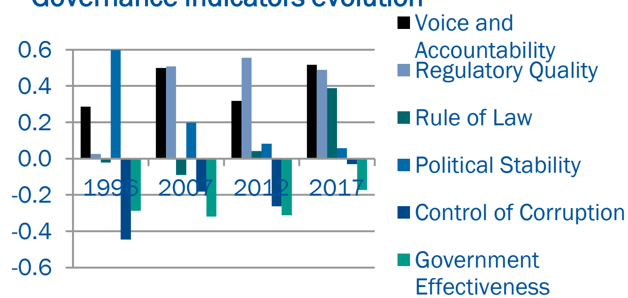


Source: Eurostat

Well-governed (6.04)

- **The underlying problem behind business obstacles are often governance issues.** According to World Bank's Worldwide Governance Indicators (WGI) Romania is at the bottom of the EU table, ahead of only Greece, as an average of all six indicators.
- **Government effectiveness remains particularly low for EU standards** and is the weakest governance dimension as measured by the WGI.
- **Corruption is still reported as a serious problem**, despite significant improvements in the past 10 years. According to 2018 Transparency International Corruption Perception Index, Romania was ranked 61st/180.
- **Even if the rule of law has improved under the EU's Cooperation and Verification Mechanism (CVM), in place since 2007, the progress has not been consistent.** The 2019 CVM report noted reversals in the area of rule of law.
- **Romania's corporate governance standards are mixed.** According to the EBRD's corporate governance assessment (prepared in 2016), areas of strength include the rights of shareholders and transparency and disclosure, while more progress is needed in the areas of the structure and functioning of the boards, internal control, and stakeholders and institutions.

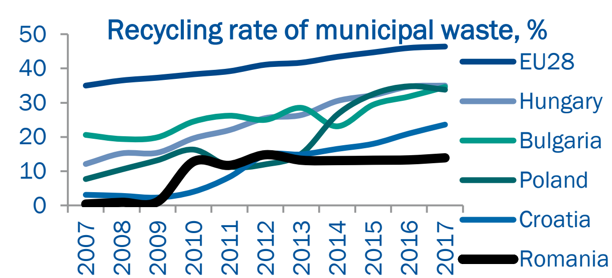
Governance indicators evolution



Source: World Bank Worldwide Governance Indicators
Note: Scores range from -2.5 (weak) to 2.5 (strong)

Green (6.14)

- **Share of renewables (RE) has exceeded the 2020 20% target** (24% in 2017), largely due to the green certificates scheme which was in place; however, investment in RE has been stalling in recent years due to weak ongoing commitment.
- **While prevalence in coal have been slowly decreasing (some replaced by gas), its importance still remains.** Approximately 25% of electricity demand is met by coal-fired power plants, whose competitiveness decreased amid increase of CO2 EU Emission Allowance prices in recent years. While Romania is expected to exploit the opportunities from a green transition, investment and policy support is likely to be needed in regions with significant fossil fuel dependence, as acknowledged by the EU's Just Transition Mechanism.
- **The water sector has made significant improvements, however the development of the sector has slowed down in recent years.** In 2017, only about 70% of the population was served by the public water supply system, with the rural area strongly lagging behind.
- **Waste management continues to be characterised by very low recycling rates** (which have remained flat since 2013, at ca. 14%, the lowest in the EU, below the target of 50% by 2020 as set out in the EU's Circular Economy Directive), **and very high landfilling rates.**



Source: Eurostat

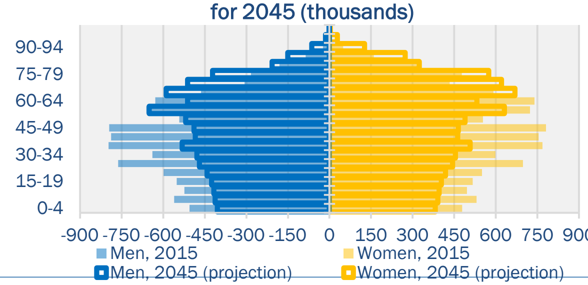
2. Economic Context

2.2 . Key Transition Challenges

Inclusive (5.74)

- **Labour and skills shortages are becoming the paramount challenge facing enterprises in Romania, and can threaten the long-term growth prospects of the country.** The population is both shrinking and rapidly aging (with a median age of 41 years in 2015 is among the oldest in the EBRD region). Over time, this will further exacerbate existing labour shortages.
- **Negative net migration – especially among young adults – impacts further on Romania's negative demographic outlook.** According to Eurostat (2018), almost 20% of Romanian working age citizens (i.e. those aged 20-64) were resident in another EU member state.
- Romania performs relatively well on most of the indicators under EBRD's **Gender Inclusion ATQ**
- On the indicators measured under the **Youth Inclusion ATQ,** Romania demonstrates a mixed performance. The quality of the education system is perceived poorly by the country's employers; this combined with the brain drain hinders innovative capacity, and the country's overall long-term productivity growth.
- Romania performs relatively badly on most indicators captured under the **Regional Inclusion ATQ.** Big regional disparities in access to heating, water, computers and the internet place it among the worst performers in the EBRD region.

Population estimates for 2015 and projections for 2045 (thousands)

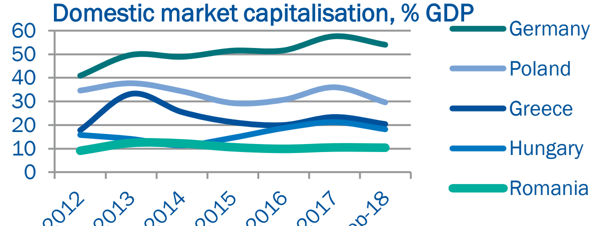


Source: UN, Department of Economic and Social Affairs, Population Division, World Population Prospects

Resilient (7.11)

- **Financial intermediation remains low.** Credit to private sector to GDP and banking sector assets to GDP are well below both the regional and EBRD average.
- **The banking sector is gradually consolidating.** The top five banks account for 61% of assets, roughly in line with the regional average. While Romania's largest commercial bank by assets (Bank Transylvania) hails from Romania, the majority of the banks are owned by large Western European banking groups.
- **Share of state-owned banks is low**, and is significantly below both the regional and EBRD average, although there has been a slight uptick in recent years.
- **Banks are well-capitalised.** Liquidity ratio is extremely high, and can be seen through the lens of low credit to private sector and holdings of government securities. NPLs have come down significantly (to ca. 5%).
- **Capital markets are still not a sufficiently viable funding alternative.** Domestic market capitalisation stands at ca. 10% of GDP, and is lower than in most of the regional peers. The reclassification of Romania from Frontier to Emerging Market status by MSCI is still in process, after FTSE has recently upgraded the status.
- **Legal and regulatory environment of the energy sector is unstable.** EO 114, adopted in Dec 2018, radically changed the rules on the gas and electricity market overnight, undoing previous progress on market liberalisation.

Domestic market capitalisation, % GDP

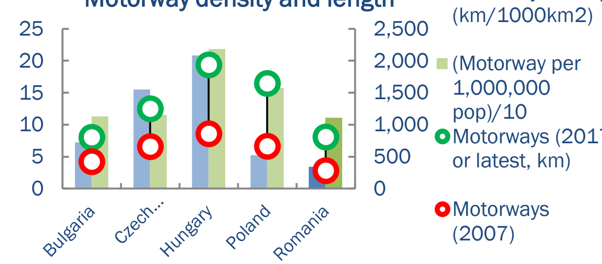


Source: The Financial Supervisory Authority of Romania (ASF)

Integrated (6.75)

- **Romania's foreign trade to GDP ratio (at 85%) is the lowest among the regional peers.** The EU is by far the country's most important trading partner, which is a natural result of the country's 2007 EU membership, and the free trade agreements which preceded.
- **Romania's level of FDI stock per capita,** at about 4,500 USD per capita, **is the lowest compared to its regional peers.** FDI stock is highly concentrated, with Bucharest-Ilfov region having 60% of it; export oriented manufacturing sectors attracted the largest share of FDI stock (about one third).
- **Quality of infrastructure, and especially of the roads, exacerbates regional disparities, limits value chain integration and is considered to be among the top bottlenecks to the country's economic growth.** The road network lags behind EU standards both in terms of quality and coverage (as of end-2018, the motorway network was 807 km, on par with two times smaller Bulgaria). The low average annual motorway construction of ca. 40-50km per year in the post-EU accession situation with large available funding is problematic.
- **The quality of electricity supply** in Romania is above EBRD average, but getting electricity connection is difficult: nine procedures and 174 days needed compared to three procedures and 18 days in the best performing economies.

Motorway density and length



Source: Eurostat and National statistics

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3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

The 2019-20 government programme aims at delivering the necessary reforms to prepare Romania for a new development stage, based on well-functioning modern institutions and public services, in line with its EU's standards, and re-focus on public and private investments.

- The first step is the reform of the public administration based on transparency, integrity, professionalism and efficiency criteria, in order to restore its capacity to implement structural reforms.
- The reform of the judiciary is aimed at re-aligning it with the EU standards, in line with the recommendations of the Venice Commission and GRECO and based on ample public consultation.
- The improvement of the quality standards in Education is a pre-requisite for developing competencies which will change the economic model with a focus on productivity and innovation.
- In the health sector, the focus is on building infrastructure (regional hospitals) and improving the quality of health services provided by the state but also to strengthen the institutional framework.
- The transport infrastructure needs acceleration of delivery for ongoing projects in roads/railways and investment in priority projects (ports and airports). New investments will be alongside EU transport corridors and link Romanian regions through motorways, ring roads and upgrade/rehabilitate rail tracks and signalling, under financing structures including PPPs and IFI and / or EU Funds co-financing.
- In the energy sector, the priority is to speed up investment in the Black Sea off-shore gas fields and corporate governance in SOEs, as well as the decarbonisation of the sector and development of RES.
- Support for SMEs – through fiscal incentives and access to financing, to support SMEs internationalization and vocational training.
- EU funds absorption – given the low (32%) absorption rate since 2014, the full absorption of EU funds by 2023 is a mandatory target. Measures aimed at simplifying processes and increasing speed of approval will be implemented, creating pre-requisites for better performance under the future MFF.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- The improvement of local and regional connectivity, through expanding key national and municipal physical infrastructure and facilitating innovative ways to finance infrastructure projects, including through PPPs.
- Progress with privatisation, in particular through SOE listings; thereby improving corporate governance and deepening financial systems.
- Strengthening the sustainability of the energy sector on a decarbonisation path and promoting energy efficiency.
- Continued engagement to improve labour force skills and education, in line with the Bank's P&T Strategy; exploring investments in Cultural Heritage.

3.3. Key Messages from Civil Society to EBRD

- CSOs have pointed out low levels of competitiveness for SMEs and entrepreneurship opportunities, skills shortages for future of work and digital transformation, as well as weak financial inclusion. They believe these are the main barriers to enable healthy business environment in the country.
- Bank's support for economic diversification, SMEs and entrepreneurship opportunities is very welcome as is greater focus on regional development and closing the gap in regional differences.
- There is noticeable dissatisfaction with the fossil fuel investments in Romania. Green New Deal for Europe is on CSOs agenda and therefore it's important that EBRD's investments in Romania are aligned with the greater sustainability agenda and strengthening of the efforts towards transition to more green and sustainable energy resources.

4. Defining EBRD Country Strategy Priorities

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What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Institutional Capabilities)	Strategic Priorities *(2020-2025)*	What We Want to see (Key Objectives)
•Romania's transport infrastructure remains in a precarious condition. The slow development of the road network is linked to the poor institutional capacity coupled with high political pressure. •Despite progress, Municipal infrastructure, including water, solid waste, urban transport and district heating, remain underdeveloped. •The state of transport and municipal infrastructure exacerbates regional disparities and limits value chain and market integration. •Carbon intensity is above EU average and coal remains a major source of energy. Thus, Romania's de-carbonisation, and more broadly the green economy transition, will need to focus on just and fair transition away from carbon intensive sectors.	•There is consensus in the country regarding key policy priorities. •Strategic planning in policy-making is one of the important challenges in the area of governance. •Public procurement reform is ongoing. •The rail sector has gone through comprehensive reforms. •The water sector has made significant improvements, but the reform efforts have recently slowed down. •Restrictions on municipal debt limit extent of investments that can be implemented.	•Continued engagement with the public sector, including at sub sovereign level to support efficient sustainable infrastructure. •Where traction with sovereign, apply EBRD's successful track record on disbursements and implementation at the sub-sovereign level to challenging sovereign projects. •Assist with identification, preparation, tendering and implementation of PPPs in sustainable infrastructure. •Apply blended finance to achieve transition impact.	*Promote Investments in Sustainable Infrastructure and Regional Development*	• Improve the quality of institutions • Improved quality of sustainable infrastructure for effective/efficient economy interactions • Increased access to municipal infrastructure unlocking economic opportunities
•Productivity has been catching up fast, but further productivity growth is hindered by many factors, including low capacity to innovate and limited business sophistication. •Inadequate access to finance constrains private sector led knowledge economy. •Labour and skills shortages threaten the potential growth prospects. •Business environment is weakened by governance issues.	•Romania's industrial base is among the largest in CEE region and the country is highly integrated in regional value chains with the EU, yet foreign trade openness is the lowest among regional peers. •Significant progress was made in tax administration reform in recent years. •The government has initiated a number of policy initiatives to address labour shortages, and companies are visibly hiring from among marginalised groups.	•Strong focus on supporting the private sector through a combination of financial Investment and policy engagement to enhance the environment for business, combined with technical assistance. •Support bank lending and advice to innovative companies. •Increased capacity to identify and invest in high quality equity transactions. •Investment-focused approach to skills development	*Support Productivity through Corporate Expansion, Innovation and Skills Upgrade*	•Expansion of competitive companies; strengthened role of SMEs in economy •Improved product and process innovation and levels of technology penetration (including ICT) •Improved business skills, standards and business sophistication; access to skills development
•Financial intermediation in Romania is low even by regional standards. •Romania's capital market infrastructure is fragmented and equity market has still to reach Emerging Market status by MSCI, after the FTSE's recent upgrade •Systemic excess liquidity impairs money and bond markets development. •Bond market is dominated by government bonds, while local corporate and municipal bond markets are still in their infancy and lack liquidity and depth.	•Successful NPL resolution should set the stage for more robust credit growth going forward. •Regulatory framework is in line with EU directives, but implementation is sometimes lagging. •A new law on covered bonds enabled a first covered bond issuance in Romania and may encourage further issuances by the banking sector.	•A variety of tools consisting of policy dialogue, technical cooperation, risk management, and funding to support capital markets development. •Strategic focus on enhancing legal and regulatory environment, improving capital market infrastructure, and expanding product range and investor base. •Capital markets policy framework including design of action plans and support by targeted technical assistance.	*Expand Financial Intermediation and Capital Markets*	•Diversified and deepened financial system •Strengthened resilience of financial sector including capitalisation, funding structure and risk management practices •Develop local capital market and local currency financing solutions; increase variety and sophistication of non-banking financial products and services

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5. Activities and Results Framework

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Priority 1: Promote Investments in Sustainable Infrastructure and Regional Development

Key Objectives	Activities	Tracking Indicators (Outcomes)
Improve the quality of institutions	• Improve business climate by supporting improved governance, such as for prudent policy formulation, project preparation and implementation, and strengthening of regulatory frameworks and regulatory bodies. Enhance cooperation with other International Financial Institutions in this effort. • Support commercialisation / privatisation, restructuring and corporate governance resulting in improved transparency and effectiveness of SOEs. • Policy engagement to facilitate innovative ways to finance infrastructure projects, including through municipal bonds and PPPs (e.g., healthcare sector), supported by catalysation/mobilisation of funding from donors, authorities, international financial institutions and investors.	• Policy recommendati-ons accepted by relevant authorities and stakeholders
Improved quality of sustainable infrastructure for effective/efficient economy interactions	• Support reduction of regional disparities and boosting inclusion through improved transport networks, incl. urban transport. • Invest in both electricity and gas transmission and distribution networks to increase efficiency. Work with utility companies to develop smart networks, promote demand-side energy efficiency, and reduce losses in networks. • Finance power / gas interconnection projects, as well as ICT infrastructure. • Policy engagement and finance for investments on renewable energy sources and their integration in the power system. Support Romania in green transition, including achieving its nationally determined contributions. • Support decarbonisation and transition from coal (Just Transition), leverage on the country's potential in bio-economy to produce advanced biofuels and biochemicals, and support the financing of renewables and climate resilience projects (e.g. infrastructure in coastal areas), including policies / activities under European Green Deal. • Policy engagement and investments to support off-shore gas fields development and responsible and sustainable mining, including potential privatisation of viable assets to reputable investors. • Finance infrastructure investments (e.g., ports, airports, roads, railways), including through PPPs and other innovative financing alternatives (both debt and equity, InvestEU guarantees) and co-financing alongside EU Structural Funds. Consider support for safety improvements of operating plants as well as for radioactive waste management and decommissioning of nuclear facilities.	• Number of people benefitting from improved/increased access to transport services, as targeted • Total CO2 reduced/ avoided (ton/yr) • Total Energy Saved (GJ/y)
Increased access to municipal infrastructures unlocking economic opportunities	• Expand Green and Smart Cities Action Plans, including expanding number of participating municipalities and range of activities (including urban energy efficiency, green buildings, anti-seismic projects). • Support property and tourism development, inclusive urban regeneration, energy efficiency improvements of buildings, and holistic development of culture and heritage rich regions. • Support regional development and reduction of urban/rural disparities through expanding access to sustainable water, wastewater, solid waste and other municipal services (urban transport, district heating, recycling), including co-financing EU structural funds, and ensuring inclusive, gender responsive design of key services.	• Number of inclusion target groups) with improved access to municipal services • Number of Green and Smart Cities Action Plans adopted

Impact Indicator: Motorway density and length *(Baseline: Density 3.4km/1000km^2, Length 806km)*
Governance indicators evolution *(Baseline: Rule of Law = 0.4; Regulatory Quality = 0.5; Political stability = 0.06; Government effectiveness -0.2; Control of corruption = 0; scale of [-2.5 – 2.5])*

Inclusive *Integrated* *Well-Governed*

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5. Activities and Results Framework

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Priority 2: Support Productivity through Corporate Expansion, Innovation and Skills Upgrade

Key Objectives	Activities	Tracking Indicators (Outcomes)
Expansion of competitive companies; Strengthened role of SMEs in economy	• Provide both debt and equity financing for corporates, including SMEs and enterprise restructuring, to help them grow, create jobs, and improve corporate governance. • Support globalisation of local companies, including integration into global value chains. • Finance entry and expansion of corporates in targeted local markets. • Provide advice and indirect finance for SMEs (including risk sharing, Invest EU) to support their sophistication and growth. • Support green and sustainable operations to enhance competitiveness of local companies, across all sectors and including green and sustainable buildings. • Support SOEs reform, including commercialisation and corporate governance improvements.	• Number of advisory clients reporting increased employment, turnover • Total number of clients with improved corporate governance
Improved product and process innovation and levels of technology penetration (including ICT)	• Direct and indirect finance as well as advice for the introduction of innovative products and the knowledge economy. • Support enhanced business sophistication and value added products and services. • Support expansion of early stage tech companies, including through venture capital and advice / technical assistance. • Improve resource efficiency, by financing the Circular Economy (e.g. in the industrial and construction materials sector). • Promote investment in green technologies and green value chains, especially in the SMEs sector leveraging on EBRD specific programs (e.g. Green Innovation) or EU funds (e.g. Modernization Fund and Innovation Fund).	• Number of clients introducing innovative/new technology
Improved business skills, standards and business sophistication; Access to skills development (incl. skills mismatch reduction)	• Support foreign direct investments and help enhancing linkages to local suppliers. • Support improved skills and training opportunities, including vocational education and links to local educational providers, especially for disadvantaged groups. • Provide advice for small business as well as assistance with improvements to corporate governance and making capital structures more robust. • Promote equal opportunities for women, young people, those living in under-served parts of the country and other disadvantaged groups (including people with disabilities, elderly workers and the Roma community).	• Total number of individuals receiving new/improved skills and/or employment opportunities as a result of training provided with Bank's assistance

Impact Indicator: Labour Productivity *(Baseline: ROU = 65.1, EU28 = 100)*;

Competitive Inclusive

5. Activities and Results Framework

European Bank
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Priority 3: Expand Financial Intermediation and Capital Markets

Key Objectives	Activities	Tracking Indicators (Outcomes)
Diversified and deepened financial system	• Provide specialized credit lines (e.g., women in business, energy efficiency, innovation) • Provide support for development of municipal bonds. • Support broadening investors base, including for sustainable infrastructure investments. • Engage in funded and unfunded risk sharing. • Support expansion of equity funds investments, including venture capital and co-investments with equity funds.	• Number of new financing instruments or methods introduced or expanded
Strengthened resilience of financial sector including capitalisation, sustainable funding structure and sound risk management practices	• Policy engagement and financing of innovative / structured financial products (e.g., covered bonds, green bonds, green credit lines, REITs), as well as fintech and other innovative financial companies. • Policy engagement and investment to support resilience and competitiveness of the financial sector, including financial inclusion, financial literacy, and support for NPLs if needed.	• Legal, institutional or regulatory improvements in target areas related to banking sector's resilience
Develop local capital market and local currency financing solutions; Increased variety and sophistication of non-banking financial products and services	• Policy engagement supported by investments to encourage the liquidity and the depth of the capital market (including both bonds and equity, and derivatives market development). • Policy engagement, advisory and investments in debt and equity issues (including IPOs, SPOs, and privatisations). • Support leasing and other nonbank financial instruments. • Promote broadening access to finance and specifically capital markets via innovative and sustainable products. • Policy engagement on dormant accounts / mass privatisation accounts. • Support local currency financing solutions, including policy advice, technical cooperation and participation to deepen the local market of hedging instruments.	• Total number/volume of outstanding non-bank lending of partner financial institutions in target segment • Total volume of local currency and capital market transactions facilitated

Impact Indicator: Domestic market capitalisation, *(Baseline: 10.4% GDP)*

Competitive *Resilient*

6. Mapping of International Partners' Complementarity in EBRD Business Areas

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EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative annual investment/ grants (2015-2019 average unless otherwise specified, excluding budget support)		Agribusiness	ICT	Manufacturing & Services	Natural resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business
EU	4,406		€	€P	€P		€	€P			€P	€P		€
EIB	731	€		€			€	€P				€P		€
World Bank	278			€				€P				€P		
IFC	100			€				€	€	€				€
CEB	76							€						€
EIF	51	€								€P	€P			€
EBRD	332	€		€P	€	€		€	€	€	€P			

€	Area of significant investments	●	Focus mostly on private sector
P	Area of significant policy engagement	○	Focus mostly on public sector

Potential Areas of Cooperation

Competitive: Leverage on Invest EU instruments to support the development of the SME sector, the expansion of innovative companies and increase the level of technology penetration.

Integrated: Work together with the EU to foster better access to municipal infrastructure, Green and Smart Cities Action Plans, as well as national energy & communications infrastructure.

Resilient: Collaborate with the WB/IFC on policy engagements to develop and strengthen the banking sector and the local capital markets.

Inclusive: Partner with WB and EU to support the development of local skills, training opportunities and vocational training.

Well-governed: Cooperate with EIB and IFC on capacity building, preparation and financing of PPPs, and leverage on EU instruments to deliver transport infrastructure projects.

Note: IFI activity mapping based on publicly available information.
Significant IFI investment defined as projects in a sector exceeding 5% of total investment and signed from 2015. The exchange rate used is of 21 June 2019.

7. Implementation Risks, Environmental and Social Implications

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Risks to the Strategy Implementation	Probability	Effect
Political volatility may undermine decisive leadership necessary in promoting and delivering public sector investments.	Medium	High
Limited access to grant resources for providing technical cooperation and policy advice is a challenge for the Bank's ability to support investments in sustainable infrastructure.	High	High
Growing macroeconomic imbalances make Romania increasingly vulnerable to external shocks including prolonged weakness in the Eurozone and changes in global investor sentiment, thus posing a risk for the continued convergence with EU.	Medium	High
Unpredictable business environment, where measures are introduced without prior consultation with relevant stakeholders, cause considerable concern from the business community and limit the Bank's ability to support private sector development.	High	High
Labour and skill shortages driven by increased emigration limits growth prospects and increases regional disparities.	Medium	High

Environmental and Social Implications

Assessment and Management of Environmental and Social Impacts*:* Ensure that direct, indirect and cumulative impacts of projects and their associated facilities are appropriately assessed in accordance with the EU EIA Directive, SEA Directive and EBRD PRs. Support clients to strengthen E&S management capacity and disclose E&S reports, where needed.

Labour and Working Conditions: Ensure clients' and relevant third party employers' HR policies and practices comply with EBRD and EU requirements promoting equal opportunities and economic inclusion, respecting labour rights, managing impacts of large scale retrenchment and preventing potential discrimination towards minority and other vulnerable groups.

Resource Efficiency and Pollution Prevention and Control:. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with Best Available Techniques. Aim to promote projects that support Green Economy Transition with the focus on industrial emissions prevention, sustainable transport, wastewater treatment, solid waste management and circular economy.

Health and Safety: Aim to improve occupational and community H&S standards across all sectors. The water and wastewater modernisation projects and road and traffic safety are priorities. Support for clients and key stakeholders may require TC funds to develop the capacity in these areas.

Land Acquisition, Involuntary Resettlement and Economic Displacement: Ensure that effective livelihood restoration and meaningful engagement is carried out with people affected by projects requiring involuntary resettlement caused by physical and/or economic displacement in accordance with EBRD requirements, including those with no legal title.

Biodiversity Conservation and Sustainable Management of Living Natural Resources: Challenges remain concerning the need to adequately consider the potential risks and impacts of project related activities to sensitive flora, fauna, ecosystem services and/or legally protected and internationally recognised areas of biodiversity value, including Natura 2000 sites. TC funds to raise awareness concerning Good International Practices with both public and private sector partners are required.

Cultural Heritage*:* Ensure appropriate assessments are carried out and clients consult with key stakeholders to protect cultural heritage.

Financial Intermediaries*:* aim to support FI partners to strengthen E&S risk management capacity and systems, and to diligently apply relevant E&S requirements to projects financed under EBRD FI instruments and credit lines.

Stakeholder Engagement: Support clients in developing and implementing stakeholder engagement plans and ensure transparent participatory consultation carried out as part of local permitting and ESIAs.

Monitoring and supervision: Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio.

High *Medium* *Low*

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8. Donor Co-Financing Assessment

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8.1. Donor Co-Financing Needs Assessment

Donor funding will be required to achieve the strategic objectives of the Country Strategy, including for:

- Project preparation and implementation support for investments which improve quality and access to sustainable infrastructure, including support for PPPs in the health sector and expanding the Green Cities Framework
- Advisory services and training to enhance innovation and skills development in SMEs, as well as blending donor funds with EBRD investments to unlock new financing opportunities
- Co-investment grants and implementation support for new financing facilities and credit lines offered through financial intermediaries
- Policy engagement and legal reforms which strengthen local capital markets and the resilience of the financial sector

8.2. Potential Sources

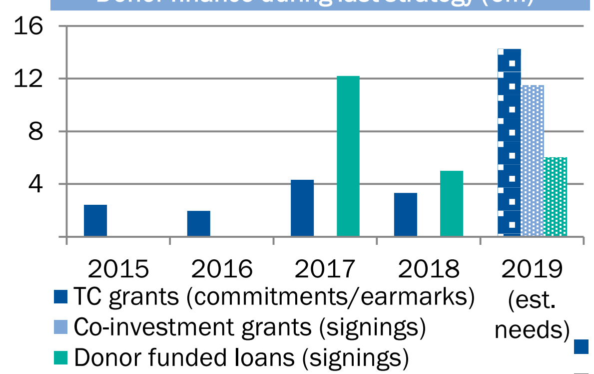
- The **EU** is an important source of potential donor funding, notably via the **European Structural and Investment (ESI) Funds.** Other EU funds can also be drawn upon, including the **EU Horizon** programme for initiatives promoting research and innovation, the **Structural Reform Support Programme** for reform and capacity building projects in the public sector, as well as EU funds channelled through the **European Investment Advisory Hub** for business advisory programmes. Further opportunities including the use of guarantees, may also be explored under the new proposed Invest EU programme.
- Several advanced transition economies have established bilateral funds to help contribute towards donor funded projects in their countries. In this respect, EBRD will also explore the possibility of obtaining **bilateral funding from Romania.**
- Funding may be available through the **Small Business Impact Fund (SBIF)** for supporting SME development and growth
- The **EBRD Shareholder Special Fund**, via its window for non-ODA countries of operation, will remain an important complementary facility to donor resources

Selected Affordability Indicators

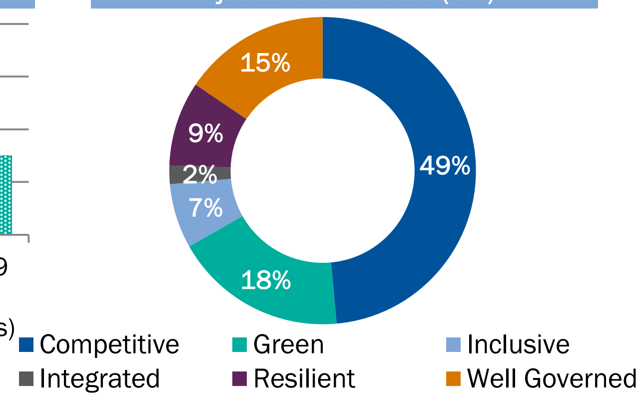
		EBRD regional percentile rank[1]
GDP per capita (PPP, current. $)[2]	26,447	67th
ODA Country	No	N/A

Source: [2] IMF (2018)

Donor finance during last strategy (€m)[3]



Projected Grant Needs (€m)[4]



1. Simple percentile rank reported as the share of EBRD countries that are represented below Romania.

3. The 2015 TC data is based on commitments as at the end of March 2016 (the latest available date before data migration to a new Donor Funds System). 2016-2018 TC data is based on earmarks at the project level. Co-investment grants and donor funded loan amounts are based on client signings.

4. Estimated grant funding needs are based on the operational needs reported by banking teams for projects to be started in 2019. Estimated funding needs generally exceed actual grant use as some needs may not materialise, may be delayed, or may be split into several years of fundraising efforts due to operational needs and realities.

Annexes

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Annex 1 – Political Assessment in the Context of Article 1

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Romania's commitment to and application of principles set out in Article 1 continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities, and for a meaningful role of civil society, are largely in line with international and European standards, as assessed by the Council of Europe. Elections are conducted in a manner deemed by the Organization for Security and Co-operation in Europe (OSCE) and the Council of Europe to be free and in line with international standards. Romania has made further progress in certain areas of democratic reform, facilitated by the deepening of its integration into the European Union (EU), which the country joined in 2007. At the same time, certain challenges remain in the area of the rule of law, as assessed by the European Commission (EC) in the latest reports under the Cooperation and Verification Mechanism (CVM), and by the Council of Europe. The CVM, which was established when Romania joined the EU in 2007, focuses on the areas of judicial reform and the fight against corruption.

Free Elections and Representative Government

Free, fair and competitive elections

Under the Constitution, the parliament of Romania has a bicameral structure comprising the Chamber of Deputies (lower house) and the Senate (upper house). Deputies and Senators are elected for a four-year term. The number of Deputies and Senators elected in each constituency is determined on the basis of the representation norm. Previous elections in the country were assessed as "free and fair" by observers from the Organization for Security and Co-operation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR), as well as by other competent international observers. Last general elections took place in December 2016, under a new electoral law adopted the previous year. Although OSCE did not issue a report following the outcome of these elections, there have been no reports of major irregularities by other domestic or international observers.

The existing legal framework provides a sound basis for democratic elections, as assessed by the OSCE/ODIHR. The legal framework has benefited from a series of reforms over the years, including the Electoral Law of 2015, which -among other provisions- introduced postal voting for citizens abroad. However, and despite positive changes, certain elements of the legislation could benefit from further refinement, while insufficient number of polling stations for the large diaspora community is often reported as a problem.

The President is directly elected for a five year-term by an absolute majority. According to OSCE/ODIHR, the legislation provides a basis for equitable campaigning conditions for all contestants, with specific and extensive campaign rules.[1]

1. OSCE/ODIHR, Presidential Election 2019, Romania, ODIHR needs assessment mission report, 26 July 2019.

Annex 1 – Political Assessment in the Context of Article 1

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well established procedures of legislative oversight in prescribed domains of decision-making – is in place in Romania and is in line with international and European standards. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards. An appropriate system to ensure the accountability of elected officials is in place. The functioning of the parliament is in line with democratic practices. The government participates in Q&A sessions with members of parliament.

Effective power to govern of elected officials

Romania has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, which are not constrained by any non-democratic veto powers or other undue influences.

Civil Society, Media and Participation

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs). The National NGO Register includes just over 100,000 officially registered non-profit organisations where 80% of registered CSOs are associations and the remaining 20% are foundations (which are relatively small). It is estimated that only half of registered CSOs are active. Dozens of CSOs act as resource centres and provide support on a wide range of topics. Most are located in the capital and other large cities; as a result, organisations in the rest of the country have limited options to access their services. The functioning of CSOs is governed by Decree 26/2000 (amended by Law 246/2005). The system of public consultations is legally in place, although it is not always effectively implemented.

CSOs' financial viability seriously deteriorated in the recent years, due to their reduced access to funding programmes, combined with limited funds from the national and local governments and foreign sources. In addition, legal changes affecting part-time labour taxation, corporate sponsorships, and incentives for purchases from protected units have reduced CSOs' options for ensuring their financial sustainability. Legal advice for CSOs remains limited compared to the needs of the sector, with the CSOs in rural communities most affected by this situation.

The right to form trade unions and their freedoms are enshrined in the law and respected in practice.

Annex 1 – Political Assessment in the Context of Article 1

Independence and pluralism of media operating without censorship

Romania has a pluralistic media environment, which includes a number of nationwide public and private broadcasters and which offers citizens a wide range of political views. A legal framework, ensuring balanced, fair, and equitable coverage, is largely in place and in line with international standards. Romania guarantees through its Constitution and international treaties to which it is a signatory, the freedom of expression and the freedom of press. At the same time, the difficult financial situation in the media market has increased the susceptibility to political interests, especially at the local level. Printed press has been in free-fall and television has remained a primary source of information. The broadcast media are supervised by the National Audio-visual Council, an autonomous body accountable to the parliament and mandated to impose sanctions on outlets that violate its regulations. The 2019 CVM report of the European Commission mentions the difficult media environment and the personal attacks judges and prosecutors have faced in the press.[2]

Growth of internet access is increasing consistently. According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew from 3.61 per cent in 2000 to 55.76 per cent in 2015 and to 70.68 in 2018. Social media is playing an increasingly important role and by the end of 2017, 45.7 per cent of Romanians were active users of Facebook. [3]

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. The system of public consultations is largely in place, although its rules are not always enforced.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice, as highlighted by the existence of a significant and diverse opposition able to campaign freely and oppose government initiatives.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The Constitution recognises the right of any individual to have recourse to the judicial system to defend their rights. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention.

2. European Commission, Report from the Commission to the European Parliament and the Council on progress in Romania under the Cooperation and Verification Mechanism, published on 22 October 2019.

3. ITU Statistics and Internet World Stats, https://www.internetworldstats.com

Annex 1 – Political Assessment in the Context of Article 1

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Independence of the judiciary

Independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality. Following the last general elections, debates about changes in the judicial system and judicial accountability mechanisms took place. The adoption of large-scale reforms of the legal framework of the system was criticised by the Superior Council of Magistracy, CSOs and some international allies. According to the 2019 CVM report of the European Commission, changes to justice laws did not correspond to CVM recommendations and contain measures, which ultimately undermine the independence, efficiency and quality of the judiciary.[4] The new Romanian authorities have recently expressed their vision to comply with all remaining recommendations fulfilling CVM benchmarks.

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law and it is generally upheld in practice. Since the EU accession, there has been progress in access to justice for citizens, which is guaranteed by Article 21 of the Romanian Constitution. Successful investigation, prosecution and trial of a significant number of high-level corruption cases have been important achievements.

Effective policies and institutions to prevent corruption

The latest (2018) Transparency International Corruption Perception Index (CPI), ranked Romania 61st out of 180 countries.[5] While placing it among the best one-third of the EBRD recipient countries, Romania's latest CPI score is at the same time among the lowest in the EU region.

When Romania joined the EU in 2007, the EC established a Cooperation and Verification Mechanism (CVM) designed to help the country address shortcomings in the areas of justice reform and the fight against corruption. The CVM, initially envisaged to run for three years after Romania joined the EU, is still in place. In 2012, the EC produced a comprehensive assessment of the country's performance during the first five years of the mechanism, concluding that Romania had achieved significant progress, including establishing the necessary legislative and institutional frameworks. Particular improvements were noted in the prosecution and trial of high-level corruption cases. In 2017, the EC undertook a similar assessment of the progress made by Romania over the ten years since the establishment of the mechanism outlining twelve key recommendations considered sufficient to close CVM – except if developments were to clearly reverse the course of progress. In the 2018 CVM report, the EC noted that the course of progress has been reversed on issues which had been positively considered in previous years. The report mentioned a pattern of pressure on the key-anti corruption institutions and in particular the National Anti-Corruption Directorate (DNA), which has been an energetic and efficient prosecutor of high-level cases.[6] Similarly, in 2019 the CVM report confirmed the backtracking from the progress made in previous years and as set out in the 2018 report.

4. European Commission, Report from the Commission to the European Parliament and the Council on progress in Romania under the Cooperation and Verification Mechanism, published on 22 October 2019.
5. Transparency International, Corruption Perception Index 2018
6. European Commission, Report from the Commission to the European Parliament and the Council on progress in Romania under the Cooperation and Verification Mechanism, published on 13 November 2018.

Annex 1 – Political Assessment in the Context of Article 1

Romania has been a member of the Council of Europe's Group of States against Corruption (GRECO) since 1999. According to GRECO's Interim Compliance Report on corruption in respect of members of parliament, judges and prosecutors, adopted in June 2019, Romania has implemented satisfactorily or dealt in a satisfactory manner with four out of the thirteen recommendations contained in the Fourth Round Evaluation Report, while three recommendations have been partly implemented. [7]

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall civil and political rights continue to be well respected in Romania. The current assessment of Romania's track record in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) started in 2018. According to the envisaged timeline, the current cycle will end in 2023. In the previous cycle, the top three recommendations for Romania included: rights of the child (28.3 per cent of recommendations); minorities (25.79 per cent); and racial discrimination (13.84 per cent). Romania accepted 83.65 per cent of the recommendations made in course of the review process. [8]

Romania is a signatory to major international human rights instruments. The Constitution guarantees basic freedoms and rights of citizens recognised in international law. Freedom of speech, information, religion and conscience, movement, association and assembly are therefore fully guaranteed. The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. Property rights are generally respected and protected.

Political inclusiveness for women, ethnic and other minorities

According to the Romanian Constitution, the State recognises and guarantees the right of persons belonging to national minorities to the preservation, development and expression of their ethnic, cultural, linguistic and religious identity. Minorities also enjoy the right to learn and to be educated in their mother tongue; the ways to exercise these rights shall be regulated by law. According to the last census, conducted in 2011, among minorities the largest groups are ethnic Hungarian (6.5 per cent of the population), and Roma (3.2 per cent according to the census, although it is widely assumed that the actual share of Roma is significantly higher). The current President of Romania is the first to come from an ethnic minority of the country.

According to the Council of Europe (CoE), the Romanian authorities have made efforts to promote minority cultures and education, and particular steps have been taken to facilitate representation of national minorities in parliament. However it notes that the existing legislation regulating different aspects of national minority protection may benefit from further harmonisation, closing remaining

7. Council of Europe, GRECO, Fourth Evaluation Round, Interim Compliance Report, Romania, adopted 21 June 2019, published 9 July 2019.
8. United Nations, Universal Periodic Review (UPR) Statistics

gaps, and preventing contradictory interpretations. According to the CoE's Opinion, Roma continue to face various problems and their general living conditions and level of inclusion is below the national average. [9] Efforts have been made in various areas in recent years in order to improve the situation. The Revised Strategy for the Inclusion of Romanian Citizens Belonging to the Roma Minority - 2012–2020, adopted in 2015, sets specific targets in key areas, such as education, employment and health.

The key legislative elements for gender equality are in place in Romania. Women are active at the grassroots level and have a few high-profile representatives at the national level. The share of women in the national parliament has significantly increased from 13 per cent in 2012 to 21 per cent in the current parliament, elected in 2016. The previous Prime Minister had been the first ever female PM to hold the post, while the current Romanian Cabinet (ministerial level) includes three women. On average women in Romania earn less than men with equal level of professional qualifications, but the gap has been closing. According to Eurostat, in Romania the gender pay gap stands at 3.5 per cent; the smallest in the EU region. [10]

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice.

A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) carried out a periodic visit to Romania in February 2018 to assess the extent to which the Committee's previous recommendations had been implemented. The CPT noted the excellent cooperation during the visit from the Romanian authorities, but also the lack of action taken in respect of certain recommendations, in particular as regards the situation of maximum security regime prisoners, the operation of the prison intervention teams and the provision of healthcare in prisons and arrest detention centres. The report comments on the importance of establishing proper reception procedures for newly admitted prisoners and recommends initial and in-service training for prison staff. Specific cases of physical ill-treatment in prisons were reported; however the majority of persons interviewed by the CPT's delegation stated that they had been treated correctly by police officers. [11]

9. Council of Europe, Advisory Committee on the Framework Convention for the Protection of National Minorities, Fourth Opinion on Romania –adopted on 22 June 2017, published on 16 February 2018.
10. European Commission, Eurostat (2017), Gender pay gap statistics, available at https://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics
11. Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Report on the visit to Romania from 7 to 19 February 2018, published on 19 March 2018.