The Crisis and Policy Responses in the Labour Market in Eastern and Central Europe

Romania

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Economic Context

The year 2000 marked in Romania the beginning of a period of economic prosperity. This is clearly visible in Figure 1, in 2000, positive GDP growth came after three successive years of economic recession, along with a significant cut in inflation rate (Figure 4). The recovery was possible thanks to the good performance of domestic consumption and domestic and foreign investment. The improvement in business environment, incentives and economic stability, contributed to increase investor's confidence. Foreign Direct Investment (FDI) as a percentage of GDP presented very high volumes starting with 2004, tendency maintained until 2008. Likewise, gross capital formation as share of GDP presented a growing trend in the period 1999-2008. Domestic consumption, a key component of GDP growth in Romania, also supported economic recovery (see Figure 8). However, general government deficits and large current account imbalances accompanied this investment-led growth. Current account deficit as percentage of GDP went from 3.6% in 2000 to 11.5% in 2008 (Figure 13). These wide macroeconomic imbalances, made the fast GDP growth unsustainable and the economy vulnerable to international economic crisis.

During the years of economic prosperity, the government adopted a series of reforms aimed at making Romania a European Union (EU) Member State. In 2007 Romania's accession to the European Union led to an improved economic outlook, the GDP continued to grow at rates of 6.3% in 2007 and 7.3% in 2008, well above the European average. Moreover, the accession to the European Union speeded up the process started in early 2000s to modernise the country's economy and society.

On the supply side, the main contribution to the outstanding economic performance came from services and construction; both sectors increased their participation in the GDP as Figure 2 shows. This is in line with the attempt to make the sectoral structure of the economy similar to that of the EU, namely lower agriculture and higher services contribution in the gross value added.

In comparison with other countries of the region, as Slovakia, Estonia, Bulgaria, Czech Republic and Hungary, international trade has not played a relevant role in the Romanian economy. As percentage of GDP, exports were around 28% throughout the period 2000-2007 (Figure 13). Nonetheless, is worth to mention that exports structure presented positive changes: share of high value-added products such as transport means, machinery, and equipment increased considerably (National Bank of Romania, 2007:17).

Economic growth translated into lower unemployment rates. As Figure 14 displays the breakpoint was 2004, when after reaching a pick of 8.0% the series came in a downward path until 2008. The decline was even greater in long-term unemployment as seen in Figure 16. Unemployment rate decreased in the same proportion for women and men between 2004 and 2008, as a result the two percentage point gap in favour of women, remained unchanged. By contrast, good economic performance had limited impact on youth population. In the period of analysis, while adult unemployment rate decreased, youth unemployment rate remained at the same level. As a result, in 2008 youth unemployment rate was more than four times higher than adult's rate. According to Kolev and Saget (2005), this situation can be explained by labour market mismatches, namely over-supply of highly educated youth labour relative to actual demand. As a result, increase in tertiary enrolment in Romania has failed to translate into improvement in young people's employment prospects. Demographic factors can also contribute to explain the persistent youth high unemployment rates; compared with the countries of the region Romania has a relatively larger youth population (Ibid).

Coupled with job creation; both, labour productivity and real wages improved, as shown in Figures 18 and 21, respectively. The faster increase in labour productivity compared with that of real wages created a favourable frame for inflation decline and strengthened the domestic currency. However, in 2007 wage increases started to overtake productivity gains, mainly as a result of the pursuit of a loose wage policy (National Bank of Romania, 2008:15). In 2008, the downward inflation rate path broke with an increase of 3 percentage points compared to the previous year (See Figure 4).

Regarding the participation rate, the evolution from 2002 has presented minor changes (Figure 15) despite the improved labour market panorama and higher wages. This can be explained by the acceleration of the migration phenomena in the previous years of the accession to the European Union (Cindrea, 2007, p. 26), reducing the pressure in the national labour market. However, it has led to a labour deficit in sectors such as construction, agriculture, tourism and clothing and leather goods industry (Cindrea, 2007:26; Boboc, 2011:59).

About collective bargaining, the coverage was high prior to the crisis and trade unions had a relatively high mobilization power. The comprehensive industrial relations system, allowed widespread collective bargaining at national, sectoral and company levels. Moreover, the industrial relations system included a legal system supporting bipartite and tripartite consultation and negotiation between trade unions, employers and the government (Trif, 2013).

In short, the economic crisis found Romania with high economic growth rates and decreasing unemployment rates, but serious macroeconomic weaknesses: rising current account deficits, high government budget deficit, an economic expansion driven mainly by domestic consumption and FDI accompanied by a limited contribution of exports, and an increasing inflation rate.

Political Context

The end of the communist era came to Romania in 1989, when an uprising brought the execution of the communist leader, Nicolae Ceausescu. In 1990, right after Ceausescu execution, Ion Iliescu, one of the leaders of the 1989 revolution, was elected as President of Romania. The period 1990 – 1996 can be described as a gradual transition to democracy and a functioning market system. The transition included the adoption of a democratic constitution in 1991, a semi-presidential parliamentary system, regular elections accompanied by a multi-party system, and the establishment of a legal framework for the protection of political and civil rights. In the economic front, it was set a basic legal framework for a market economy. State companies begun a privatization process along with the creation of thousands of small and medium size private enterprises, and some foreign capitals flew into the country. The economy responded positively to these reforms, the GDP variation was positive between 1993 and 1996 (Figure 1) and inflation reduced significantly (Figure 4). Iliescu's government achieved improvements on economic and political stability and the country's accession to the NATO.

In 1996, a centrist government came to power. The candidate of the Romanian Democratic Convention, representing the largest coalition of opposition parties, won the elections. Deterioration of economic situation revealed the absence of deep structural reform, needed following the fall of the communist regime. Reduction in exports marked the beginning of current account deficits and inflation peaked in 1997 to 154.8%. The left returned in 2000 when Ion Iliescu, running as the Social Democratic Party candidate, was re-elected president. The economy recovered the growth path, and the attempts to adhere the EU resulted in the signature in 2005 of the EU accession treaty, paving the way for eventually join the union in January 2007.

In 2004, the candidate of the opposition party (Democratic Liberal Party) Traian Băsescu won the presidential elections. The possibility of joining the EU gave Băsescu's government the necessary incentives for change. The accession of Romania to the EU was obtained in April 2007. Some reform progress was evident in the country, better conditions for foreign investors were created, banking system competition strengthened considerably, and privatization process saw some progress. The financial international market turmoil in 2008 coincided with Parliamentary elections, which occasioned an unprecedented easing of income and fiscal policies (National Bank of Romania, 2008:11). As a result, government deficit offset the external adjustment in the private sector and contributed to the current account deficit. Additionally, pro-cyclical nature of fiscal policy prevented the adoption of measures aimed at prepare the economy for a possible recession in 2009 (Ibid). Furthermore, full capital liberalization undertook with EU Accession Treaty, had the positive effect of contributing to economic growth, but at the same time would later facilitate the spillover of the global financial crisis.

2. The crisis

The outbreak of the financial crisis in Romania at the end of 2008 marked a turning point for the strong economic growth. In 2009 GDP decreased by 6.6% (Figure 1), the financial market turmoil initiated in the US caused foreign investors to shift away from East European economies. As Figure 3 shows, in one year FDI net inflows as a percentage of GDP dropped from 6.9% to 3.1% in 2009. Unfavourable domestic conditions accompanied the hostile external environment. As mentioned in the last section, despite strong economic growth, Romanian economy was suffering from serious macroeconomic weaknesses: rising current account and government budget deficits, an economic expansion driven mainly by domestic consumption and FDI accompanied by a limited contribution of exports, and an increasing inflation rate. This combination of factors forced Romanian authorities to make structural adjustments, as it will be seen in the next section.

Given Romania's poor export-orientation, the main transmission channel for the crisis was the capital market. Full capitals liberalization in 2006 attracted considerable amounts of FDI. However, in times of crisis, investors' increased risk aversion combined with wide current account imbalances, make Romanian economy extremely sensitive to external instability. Massive capital outflow and the depreciation of the domestic currency in 2009 caused a pronounced reduction on the current account deficit (4.2% of GDP, from 11.5% of GDP in 2008 – Figure 13), and also a modest decrease on inflation rate. Another channel of transmission of the crisis was the decrease in external private credit lines that affected both private consumption and investment. As Figures 7 and 8 shows, both gross capital formation and household's consumption expenditure as share of GDP, decreased in 2009.

The problems derived from the pro-cyclical fiscal policy came to the fore with the crisis. Public deficit as percentage of GDP reached 9.0% in 2009 (Figure 11), social security and health budgets became unsustainable in terms of relevant revenues. Moreover, in the pre-crisis period the pro-cyclical fiscal policy had contributed to overheat the economy that was already growing due to the massive private capital inflows (National Bank of Romania, 2009:11,12).

After 2009, the economy has slowly recovered. In the same year Romania obtained a EUR20 billion rescue package from the IMF, the EU and the World Bank, in exchange for steps to cut public spending, which helped it emerge from recession. Nonetheless, in the following years, government's drastic public-spending cuts caused violent protests. Based on the agreement signed with the EU, IMF and World Bank, the Romanian government adopted a series of measures aimed at recovering economic stabilization, those will be described in the next section.

Negative economic performance had adverse consequences on the labour market. Unemployment rate decreasing from 2004 increased in 2009 to 6.9%, the growing trend was kept until 2011 when peaked to 7.4% (Figure 14). Long-term unemployment that significantly improved since 2006, increased consecutively in 2010, 2011 and 2012. Youth unemployment, already a problem before the crisis, increased faster than adults' unemployment rate. The difference of 14.2 percentage points in 2008 increased to 17.1 percentage points in 2012. However, this is not only a problem in the Romanian labour market; although high, the levels of youth unemployment are not far from the EU27 average. Labour productivity stalled, after posting an average annual growth rate of 8% in the 2000-2008 period (Figure 21). The most dynamic sectors before the crisis, services and construction registered productivity losses, only industry reported productivity gains (National Bank of Romania, 2009:21). Additionally, industry was the only sector that increased its participation in the total gross value added as is visible in Figure 2. This is in line with the devaluation of the Romanian Leu and the consequent increase in exports throughout the post-crisis years (Figure 13). As productivity, real wages also stagnated with the crisis after continuous increase since the late 1990s.

Romania has the second highest at-risk-of-poverty rates in the EU, surpassed only by Latvia. Nonetheless, during the years of high economic growth the country presented significant improvements. All through and after the crisis this trend has been kept, GINI coefficient decreased from 37.8 in 2007 to 33.3 in 2010, closing the gap with the EU average (Figure 5). At-risk-of-poverty rate measured by Eurostat as the percentage of total population below the 60 of median income decreased 2.6 percentage points between 2007 and 2011, from 24.8% to 22.2%, still significantly above the European average. In 2011, however this indicator increased one percentage point compared with the previous year.

3. Policy responses

The global financial crisis forced Romanian authorities to adopt a series of policies to adjust the economy. These policies have been mainly based in the agreement signed with the EU, IMF and World Bank in exchange of a EUR20 billion rescue loan in 2009 and a further EUR5 billion in 2011. The agreement covers three main areas: fiscal, banking and monetary reform (International Monetary Fund, 2009). Although a group of policies were opportunely adopted, the uncertainty about the elections at the end of 2009 shifted the attention from the most pressing economic problems. Some of the most unpopular measures agreed with the lenders, as the ones related to social security, were taken only after the elections. On December 2009, Băsescu was re-elected as a President, wining with a narrow majority over the opposition Social Democrats' Mircea Geoana.

First, **fiscal reform** includes measures to improve fiscal budgeting, streamline public wages and pensions, and make public enterprises more efficient to ensure that the deficit will remain low in the future. In 2009, the government announced the cut by 25% all salaries of state employees (civil servants, including teachers and doctors, and military personnel), the measure was applied from July 2010. Additionally, the VAT was increased from 19% to 24%, and unemployment benefits reduced by 15% as well as several other non-contribution based social benefits. A planned cut of 15% of the value of the state pension was declared unconstitutional by the Constitutional Court, a ruling that could not be appealed. Nonetheless, after the Constitutional Court declaration, a new law was accepted allowing state pension and salary only for pensions amounting at most to the national gross average salary RON1.680 (about EUR405).

Second, to ensure that the **banking system** remains sound, the government committed to strengthen deposit insurance system and improve bank resolution laws, so it can be more responsive in times of crisis. Banks agreed to provide additional capital as a cushion against future losses, and foreign banks in Romania agreed to keep their money in the country. In 2009, the government in cooperation with the IMF and the World Balk conducted a stress test exercise[2] on different macroeconomic scenarios and an interbank contamination risk assessment. The stress exercise results showed a stable banking system, with capitalisation, solvency and liquidity levels in line with prudential requirements. The potentially affected credit institutions raised their share capital. The results of the interbank contamination risk assessment highlighted a marginal impact of a possible default of a credit institution on the other banks via the interbank exposure channel (National Bank of Romania, 2009:29, 30). In 2009, the National Bank required capital injections for saving banks. In 2010 the National Bank of Romania, again required bank shareholders to raise endowment capital by 9.1% in real terms, increasing the solvency ratio to 15% (over the 10% required by the National Bank). Liquidity ratio has also remained above the minimum requirement equal to one.

Third, in the **monetary front**, National Bank of Romania committed to bringing inflation down within its target range, aiming at greater financial stability and a gradual reduction of interest rates in order to stimulate economic growth. Already in late 2008, the National Bank took measures to improve financial stability. Between September 2008 and February 2009, guarantees to bank deposits for private persons increased to 50.000 Euros; interest rate was cut by 25 basic points; tighter lending regulations were introduced for banks, especially on foreign currency lending; reserve requirements decreased from 20% to 18%; and as already mentioned endowment capital for saving banks increased. In the current year, the National Bank has decided to maintain the existing levels of the minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions, while also turning to the firm management of liquidity in the banking system.

Apart from the mentioned policies, in an attempt to reactivate construction, one of the sectors that most suffered with the crisis, the government launched the 'first home' programme. As part of this programme, the banks expressed their willingness to provide loans to people for the purchase or construction of a first home up to a total of EUR1.5 billion, and the government promised to guarantee each loan up to a maximum of EUR60.000.

Labour Market

At the beginning of 2010, the government adopted a set of measures aimed at increase labour demand. The Fiscal Code was modified to restrict the contribution base for all the publicly administrated social protection schemes (pensions, health, unemployment, risks and accidents) to the equivalent of 5 average gross wages at national level. In addition, employees and employers obtained and exemption from social security contributions for three months, in case of technical unemployment (temporary interruption of employment); furthermore, unemployment insurance provide 75% of the salary. As an attempt to lower the long-term unemployment rates, the government established an incentive to hire persons that have been unemployed for at least three months, by exempting six months of payments from all

[2] Measures Bank's capacity to absorb a reasonable amount of loss and complies with statutory Capital requirements. In Romania, Banks are required to maintain a capital adequacy ratio of at at least 10 percent in an adverse macroeconomic climate.

contributions to the publicly financed social protection schemes. This is conditional upon the employer providing a minimum of 12 months employment for the respective employee.

Despite budgetary restrictions, the government also adopted active labour market policies to fight unemployment. In 2009, it established wages subsidies for employers of vulnerable groups as unemployed for more than six months, single earners, persons over the age of 50 and disabled. Besides, the administration increased financial support to employers offering trainings. In 2013, the government adopted a new Bill to modify and complete Act No. 279/2005 on apprenticeship at the work place. The changes aim, inter alia, at financing apprenticeship activity; employers can receive funds from the unemployment insurance budget on a monthly basis if they hire apprentices.

Two pieces of legislation of major importance for industrial relations in Romania were passed in 2011, an amended version of the Labour Code, and the Social Dialogue Act. The Social Dialogue Act abolished the national collective agreement, which served as a reference point for collective bargaining at all levels. Additionally, branch collective agreements were replaced by sectoral collective agreements. This implied that existing employer and trade union organisations that had been representative for their sectors until May 2011 will now have to prove that they meet the requirements for representativeness set out in the new legislation for the relevant sector (European Industrial Relations Observatory, 2012). The Act also brings other changes; the government is no longer represented on the Economic and Social Council (CES), and the CES has been deprived of any role in collective bargaining. For the purpose of promoting good practice in tripartite social dialogue, a committee, composed of union and employers' representatives, as well as representatives of the financial and banking industry, will be set up and coordinated by the Prime Minister, but will act only in an advisory capacity (Clauwaert & Schömann, 2012; European Industrial Relations Observatory, 2012)

On September 2011, Romania's five trade union confederations – Cartel Alfa, BNS, CLSR-FRatia, the Democratic Trade Union Confederation of Romania and the Meridian National Trade Union Confederation – sent Prime Minister Emil Boc an open letter stating their decision to suspend themselves, for an indefinite period, from all social dialogue committees in ministries, prefectures and the CES. Their decision to withdraw from all social dialogue bodies was caused by a number of factors, including the government's failure to define, by that date, the sectors of economic activity, and its failure to form the National Tripartite Council for Social Dialogue (CNTDS). This effectively abolished tripartism, blocked collective bargaining, and obstructed social partners from following the necessary procedures to regain their representativeness. The open letter ended with a request from the unions for an urgent meeting of the CNTDS, to find solutions to the issues raised and take immediate action to remedy them. At the end of September 2011, 4 out of the 13 national employer confederations (Conpirom, UGIT-1903, UGIR-1903, and the National Union of Romanian Employers), joined the five national trade union confederations to demand that the prime minister urgently call a meeting of the CNTDS. The four employer confederations and five trade unions signed an agreement to lay down the foundations for bilateral cooperation and the rules for the tripartite social dialogue. The signatory employers and unions also decided to leave the Social and Economic Council until the government replaces its representatives with civil society representatives, as provided for in the new Social Dialogue Act (Clauwaert & Schömann, 2012; European Industrial Relations Observatory, 2012).

In May 2012, the new administration of Mihai Razvan who replaced the Prime Minister Emil Boc, initiated and published in the Romanian Official Gazette a bill to modify the contested Act on Social Dialogue No. 62/2011. It is unclear the current status of the amendments proposed on this bill; so far, is known that a draft to amend Law 62/2011 was presented to the European Commission and IMF at the end of August 2012, the Romanian government wanted to bring the contested law more in line with ILO conventions (Clauwaert & Schömann, 2013). Is also known that the first collective agreements at the sector level were concluded on November 2012 in the pre-higher education sector and, on December 2012 in the higher education and research sector and in the public utility community services sector (European Labour Law Network, 2012). The first meeting of the CNTDS was held on November 2012. At this meeting, the prime minister informed social partners of the central budget for 2012. However, it was too late for the social partners to have any say, because the state budget act had already been submitted to Parliament (European Industrial Relations Observatory, 2012).

Regarding the amended version of the Labour Code, it was adopted via Law 40/2011 of 1 May 2011. The law was adopted by emergency procedure; namely, through the government assuming responsibility for the law. The opposition unsuccessfully submitted a censure motion to prevent the adoption of this law and later contested it at the Constitutional Court, but the contestation was rejected (European Labour Law Network, 2011). The main amendments made to the labour code were (Lupu & Petrisor, 2012):

1. Extension of the probation period for newly hired employees, to 90 days in the case of managerial functions and 120 days in the case of executive functions
2. Entitled the employer to establish appropriate tasks for each employee, and fix individual performance objectives and assessment criteria for achieving it
3. Established harsh penalties for "black work"
4. Increased the period of notice for resignation or dismissal from 15 to 20 days for function workers, in order to provide employee with a longer time to find another job
5. Removed the article that forbids employers hiring for 90 days after collective redundancies; so, the firms can recruit from the day after the layoffs
6. It made much easier to conclude fixed-term individual employment contracts for a longer maximum duration period
7. Gives to the companies more freedom in terms of reducing working hours and corresponding salary
8. Employment contract is terminated as a result of employer death and dissolution of the company

9. The working time, with all overtime, may be extended beyond 48 hours per week, with the condition that average working hours, calculated over a reference period of 4 calendar months, three months from now, not exceed 48 hours per week
10. Eliminated a number of protective norms for union leaders, including the ban on dismissing them within two years of the end of their mandate or during their mandate for reasons not specific to the employee in question

Social Security

In 2010, the government implemented austerity measures to cut its budget deficit so as to meet the agreed terms with the EU, IMF and World Bank in 2009 in exchange for loans. The measures include cuts in public sector wages by 25% and public pensions by 15% as well as reductions in unemployment benefits. As already mentioned cuts in public wages were implemented in 2010 and cut in pensions was declared unconstitutional. The austerity package drew criticism from the opposition parties and the trade unions. Teachers and public servants frequently protested for the next two years. In 2012, after almost a month of daily protests and demonstrations, Mihai Razvan Ungureanu replaced Prime Minister Emil Boc on 6 February 2012. Public sector wages have gradually returned to their pre-cut level.

With respect to unemployment benefits, as one of the emergency measures to diminish the budget deficit, they were reduced by 15%. Furthermore, the government tightened the eligibility conditions for unemployment benefit removing the possibility to repeat claims in the span of 24 months through the cumulative use of contribution periods used by the same beneficiary for an earlier benefit claim. While justified in terms of financial sustainability and prevention of abusive practices, this condition however creates a considerable disadvantage for workers in temporary or seasonal jobs as well as for young people (European Commission, 2012).

4. The consequences of the policies

After the crisis, despite having received the EU, IMF and World Bank rescue loan, recovery of Romanian economy has been slow. The county's economy plunged by 6.6% in 2009, felt another 1.1% in 2010; it slightly recovered in 2011, but felt back again in 2012 with a growth close to zero (Figure 1). Thus, GDP growth is still below the pre-crisis level. Nonetheless, the economy has shown some signs of recovery. According to the European Commission (EC), in 2013, GDP growth should recover modestly to 1.6%, to 1.2% according to the World Bank; more optimistic, the IMF forecasts 2.5%. The current account balance that peaked to 13.5% of the GDP in 2007 has remained at moderate levels, between 4.0% and 4.5% during the period 2009-2012 (Figure 13). Government's deficit as percentage of GDP also felt, from 9.0% in 2009 to 2.9% in 2012. Inflation rate registered in 2012 the lowest level since the 1990s, coming close to the central point of the inflation target (3 percent ±1 percentage point). On the supply side, this recovery was upheld primarily by the industrial sector, where gross value added has continually grown since 2008 (Figure 2). On the demand side, gross fixed capital formation has contributed every year to the real GDP increase since 2009 (Figure 7). Consumer demand has also remained at high levels and government expenditure as percentage of GDP increased in 2012 respect to the previous year. Exports have increased; however, imports growth has been slightly faster, so contribution of net exports to real GDP has been negative. It is difficult to say how much of this recovery is due to the policies adopted by the government; undoubtedly, austerity measures help to restore market confidence, to keep banking system stability and lower inflation. However, foreign investors one of the main engines of economic growth before the crisis, have not returned to Romania; FDI as percentage of GDP remain well below pre-crisis levels (Figure 3), and domestic demand might be not enough to keep the modest recovery.

Labour market recovery has also been slow. After three years increasing, in 2012 despite cuts in public sector employment, unemployment rate declined. However, overall job creation was limited as the improvement in regular employment was counterbalanced by a negative job trend among the self-employed (European Commission, 2013). Moreover, labour productivity stagnated and long-term unemployment increased. Consequently, employment is expected not to recover significantly in the short-term. Active labour market measures have been criticized for being small and neither well designed nor well targeted. For instance, labour inspectors have discovered that exemptions from the payment of social security is widely used as a cover for undeclared work with employers accessing the scheme and then calling workers to their workplaces on a regular basis (International Labour Organization and World Bank, 2010). Regarding incentives to hire more workers, it is unclear as to what extent the measure has found application given both the state of public finances as well as the limited generation of new jobs (Ibid). Youth unemployment, currently at around 23%, is expected to be somewhat reduced but is to remain high. In 2013, public sector wage increases are expected to outstrip private sector wage growth due to the restoration of public wages following the 25% wage cut occurred in 2010 (European Commission, 2013).

As for changes in the labour code, some analyst says that they were necessary since the old regulation no longer met the economic and social realities of Romania. By making working relationships more flexible, the new labour code seeks to stimulate business environment and make Romanian economy more competitive. According to Lupu and Petrisor (2012) the old labour code of socialist origin, was rigid and unbalanced in favour of the employee; the new labour code is more balanced and responsive to market changes By contrast, social partners (employers and employees) opposed the changes. Alliance of the Employer Confederations of Romania (ACPR) – an umbrella organisation that brings together seven of the 12 employer organisations with national recognition – said that not even the employers could agree to some of the provisions of the new draft Labour Code. They claimed that it was drawn up under pressure from the Romanian–American Chamber of Commerce (RACC) and the Foreign Investors Council (FIC). In addition, the five national trade union confederations expressed in an open letter to the Prime Minister, Emil Boc that they will exclude themselves from all social dialogue committees, or from any other type of consultations in ministerial and county committees, including the Economic and Social Council (CES) until the government stops treating the social partners like extras in a cast, with complete disregard for their proposals and demands. Both unions and employers shared the view that instead of making further amendments to the Labour Code, if the government wishes to improve the labour market of Romania, it should focus on amending the legislation governing employer and trade union issues, collective agreements, labour conflicts, the Labour Inspection Office and the labour courts (European Industrial Relations Observatory, 2011). In fact, employment generation has been limited under the rules of the new code; however, taking into account the poor performance of the economy and the delays in its implementation, is precipitated to draw conclusions about its effectiveness.

The failure to communicate with social partners largely explains why the Labour Code as well as the Act on Social Dialogue have been met with such resistance. The intricate tripartite dialogue has delayed collective bargaining and obstructed social partners from following the necessary procedures to regain their representativeness.

Not only labour market policies have been met with resistance, spending cuts, the condition for the EU/IMF/World Bank rescue, have been very unpopular among the population. As mentioned above, wave of protests followed cuts in public sector wages by 25% and other austerity measures, bringing on Prime Minister Resignation in 2012. The perception of the Romanian population about economic situation is still deteriorated. According to Eurobarometer survey form spring 2012, 90% of Romanians judged that the situation of the national economy was bad, and 57% that their financial situation was bad. Nonetheless, expectations about the future were more optimistic in Romania than in the EU average. On average 37% of Europeans considered that economic situation on the next year will be worse, compared to 25% in Romania. Despite inflation rate reduction, 48% of Romanians thought that the most important issue they are facing is inflation, above others like unemployment, financial situation, health and social security, this has been a usual concern in Romania since the communist regime fall. Regarding national institutions, 67% of respondents said that tend not to trust in the Government, this figure was 76% for the parliament.

5. Conclusion

The economic crisis found Romania with serious macroeconomic weaknesses that contributed to the fast spill over to the real economy, among them big current account imbalances and government deficits. The crisis arrival coincided with Parliamentary elections; therefore, the adoption of the most unpopular measures was delayed until 2010. Moreover, the pro-cyclical nature of Romanian fiscal policy prevented the adoption of measures to prepare the economy for the crisis. Accordingly, during the crisis the government was unable to cushion the economy downturn properly. The negative consequences for the labour market were reflected on higher unemployment and long-term unemployment rates, and the stagnation of productivity and real wages.

The policy responses were largely influenced by the agreement signed with the EU, IMF and World Bank in exchange a rescue loan in 2009. Fiscal reforms focused on improving fiscal budget streamlining public wages and pensions, and making public enterprises more efficient. Monetary reform objective was bringing the inflation down to achieve financial stability and the gradual reduction of interest rates to stimulate the economy. In the labour market, the government adopted at the beginning of 2010 a set of measures aimed at increase labour demand. Moreover, despite budgetary restrictions, the government adopted active labour market policies. In addition, in order to make working relationships more flexible, two pieces of legislation of major importance for industrial relations in Romania were passed in 2011, an amended version of the Labour Code, and the Social Dialogue Act.

In the crisis aftermath, recovery of Romanian economy has been slow. It is difficult to assess the impact of the policies adopted. Certainly, austerity measures help to restore market confidence, to keep banking system stability and lower inflation. However, the modest recovery has been mainly driven by domestic demand, while FDI the main engine of economic growth before the crisis, remains at low levels.

Likewise, labour market recovery has been slow. Employment creation in 2012 was counterbalanced by a negative job trend among self-employed. Moreover, labour productivity stagnated and long-term unemployment increased. Within this panorama, employment is expected not to recover significantly in the short-term. The new Labour Code and the Social Dialogue Act have been place of heated debate between the government, employers and employees. Both pieces of legislation have been met with strong resistance. The failure of the government to communicate with social partners largely explains this situation. The intricate tripartite dialogue has delayed the implementation of the measures proposed by these laws. Therefore is precipitated to draw conclusions about its effectiveness.

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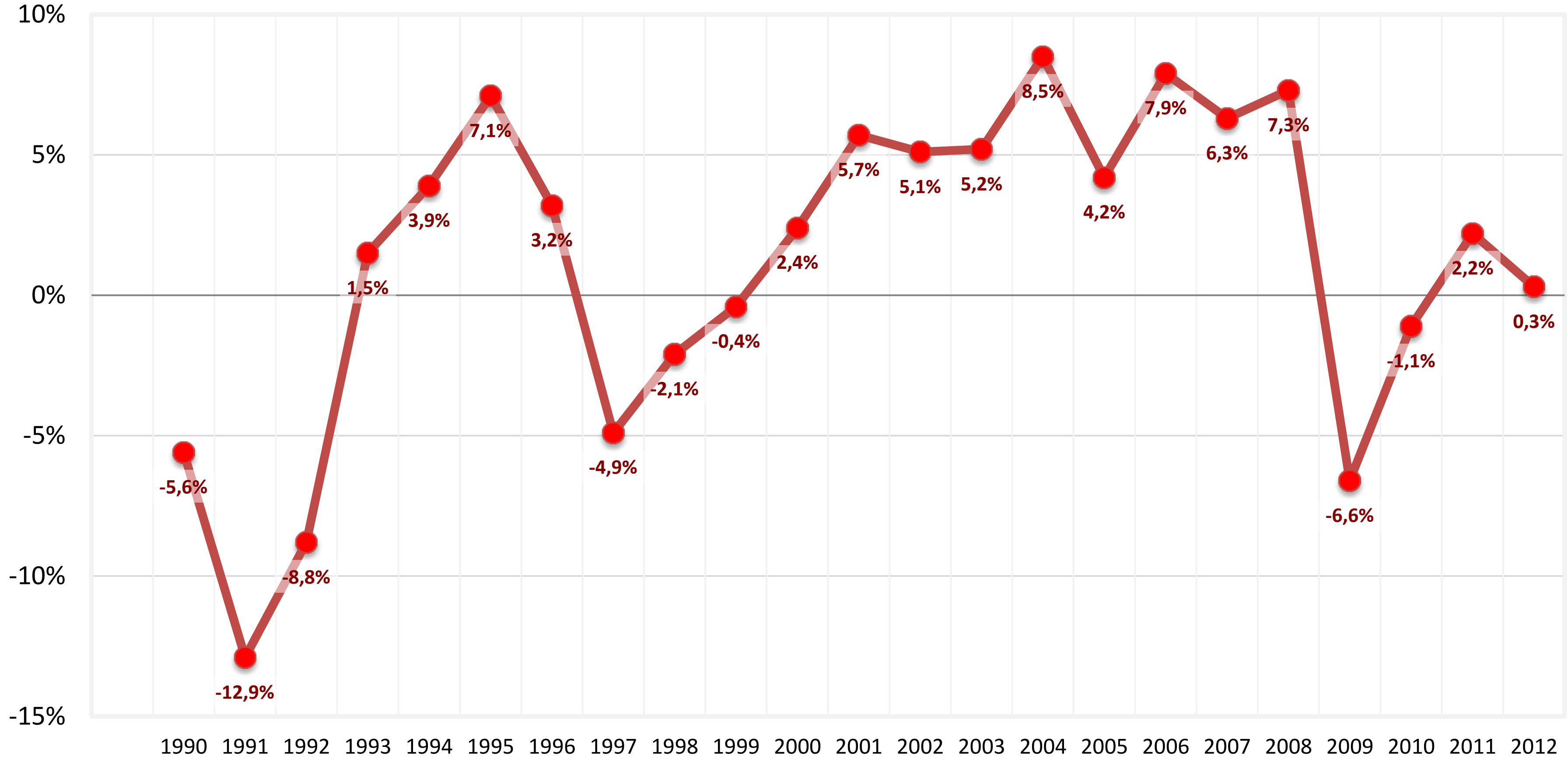
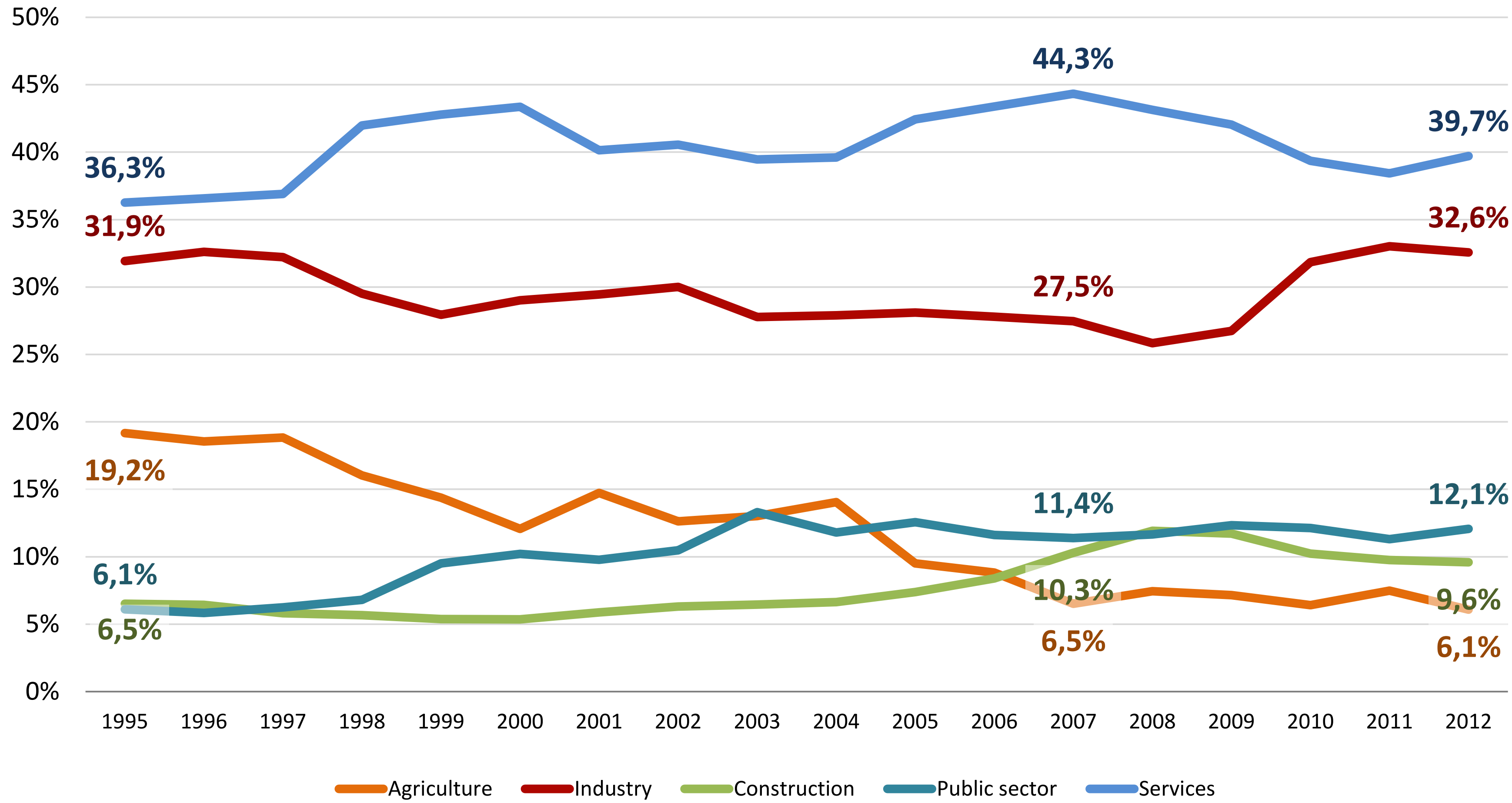
6. Data Appendix

Figure 1: GDP Growth



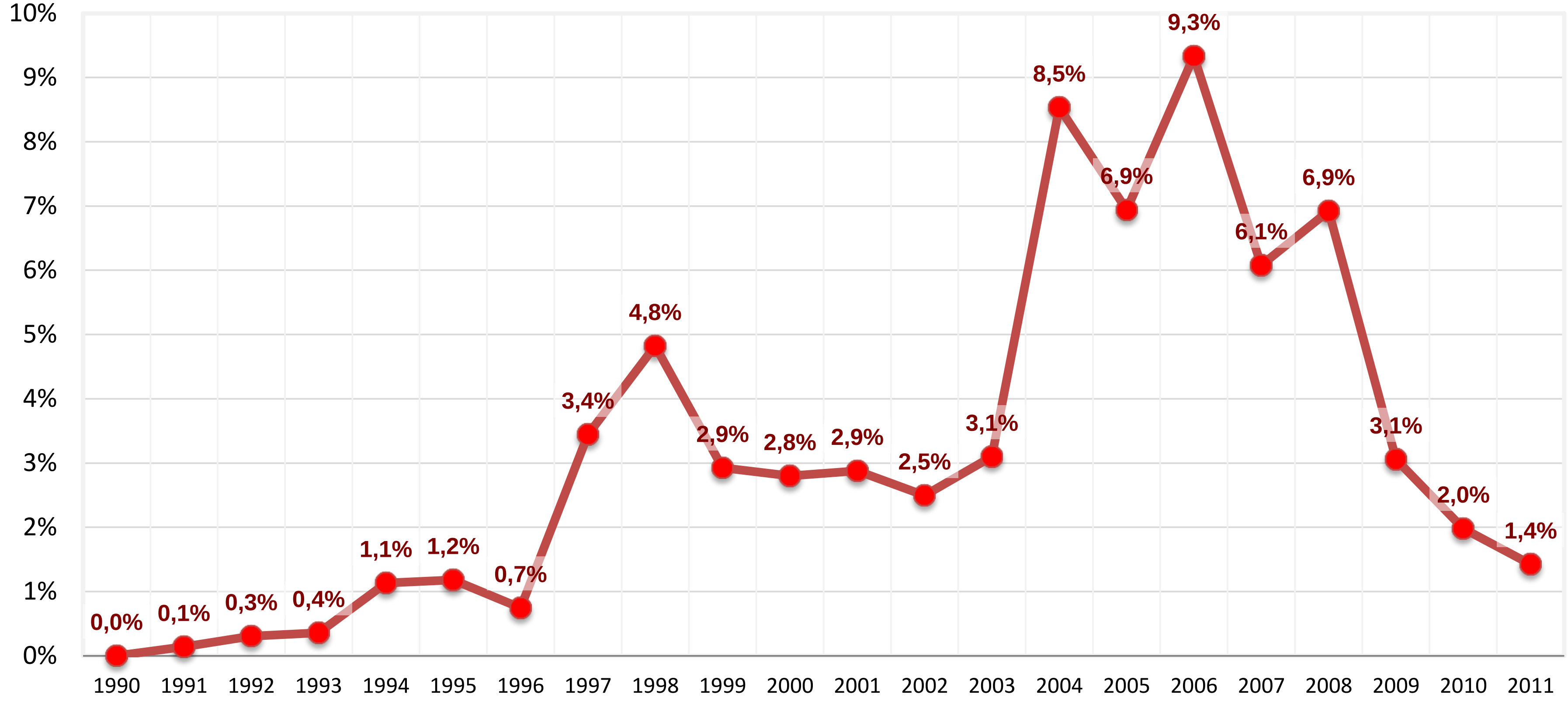
Source: Romanian National Institute for Statistic

Figure 2: Evolution of the GDP Distributions by Sector



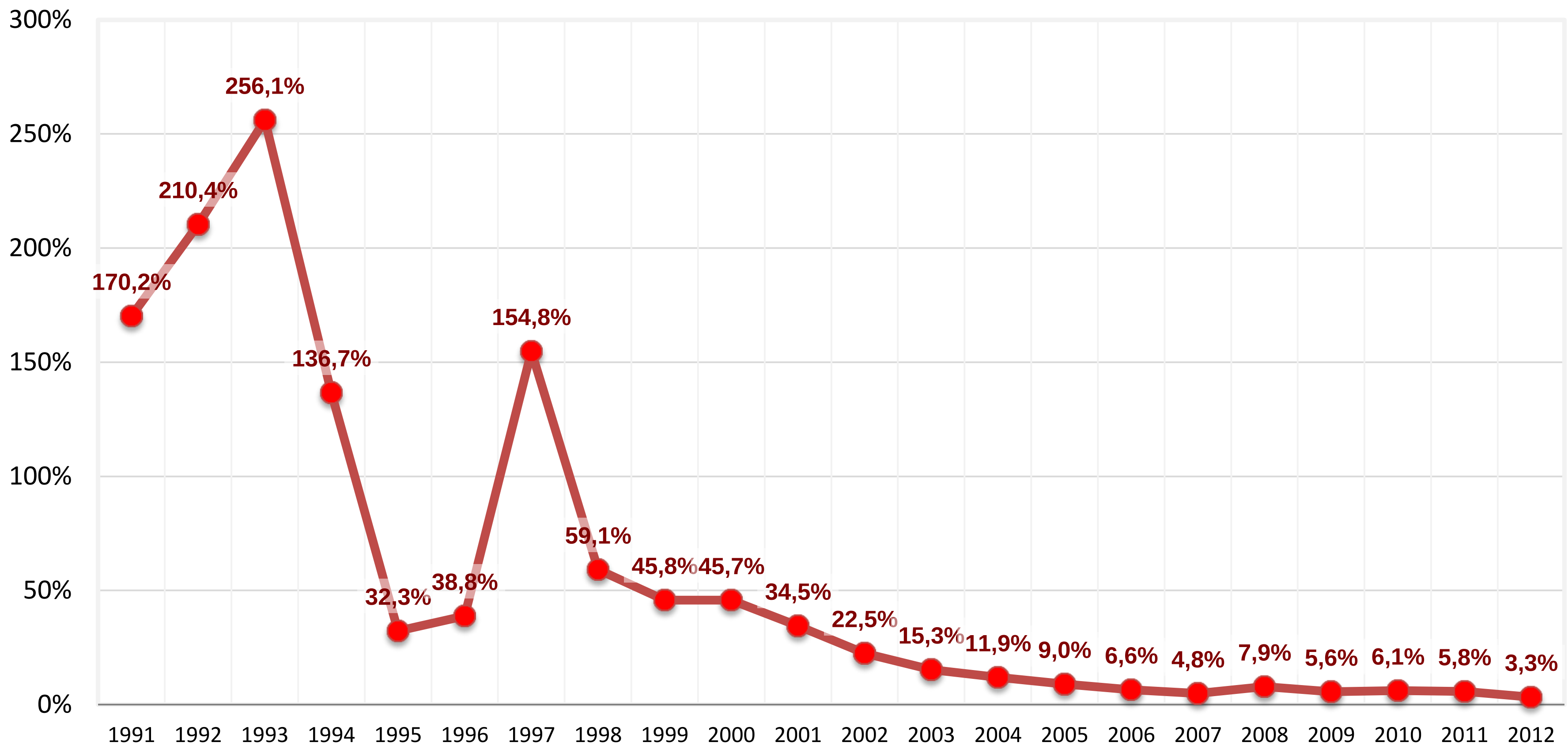
Source: Romanian National Institute for Statistics

Figure 3: Foreign Direct Investment net inflows, as a Percentage of GDP



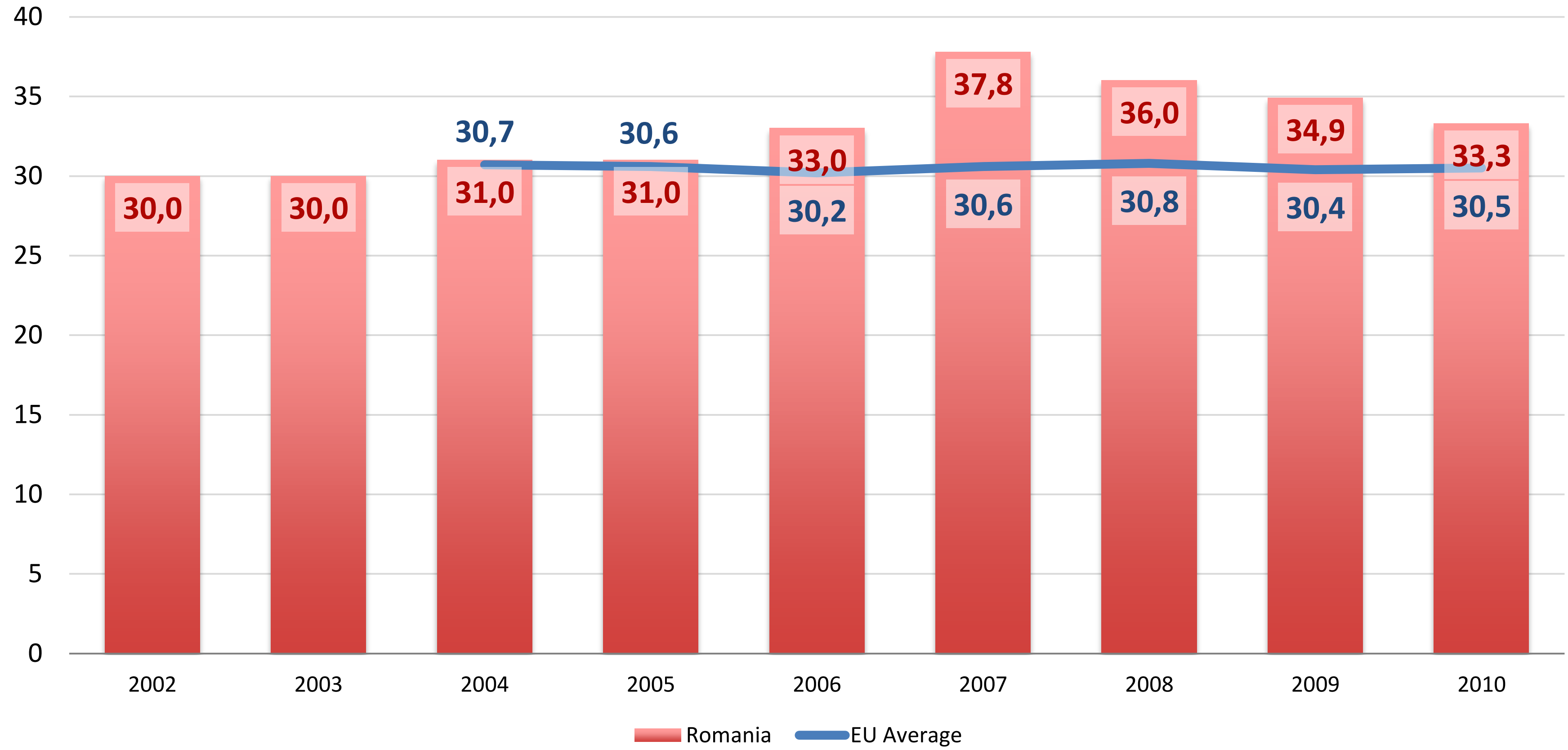
Source: World Bank

Figure 4: Inflation Rate



Source: Romanian National Institute for Statistics

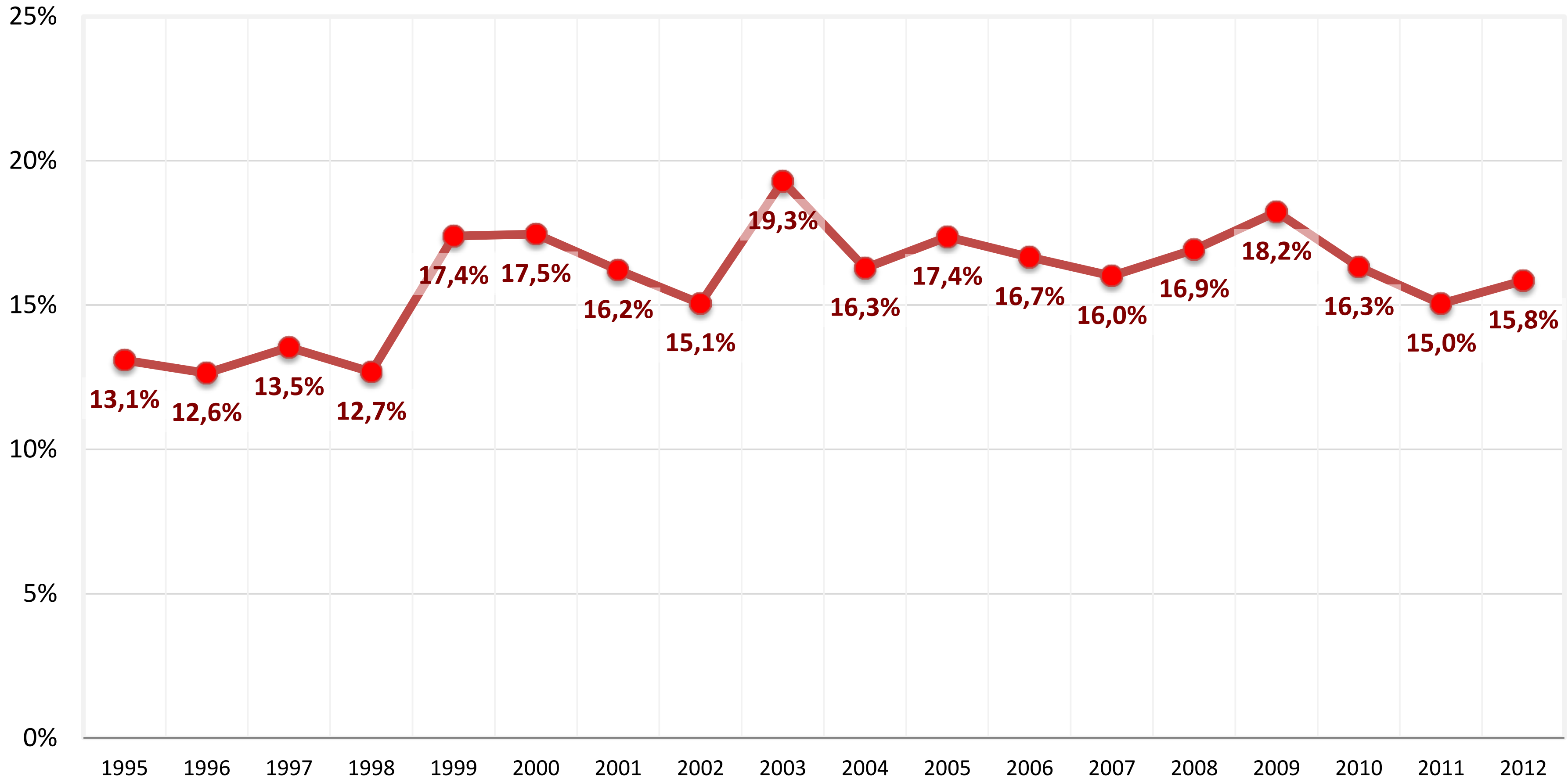
Figure 5: Gini Coefficient



Source: Eurostat

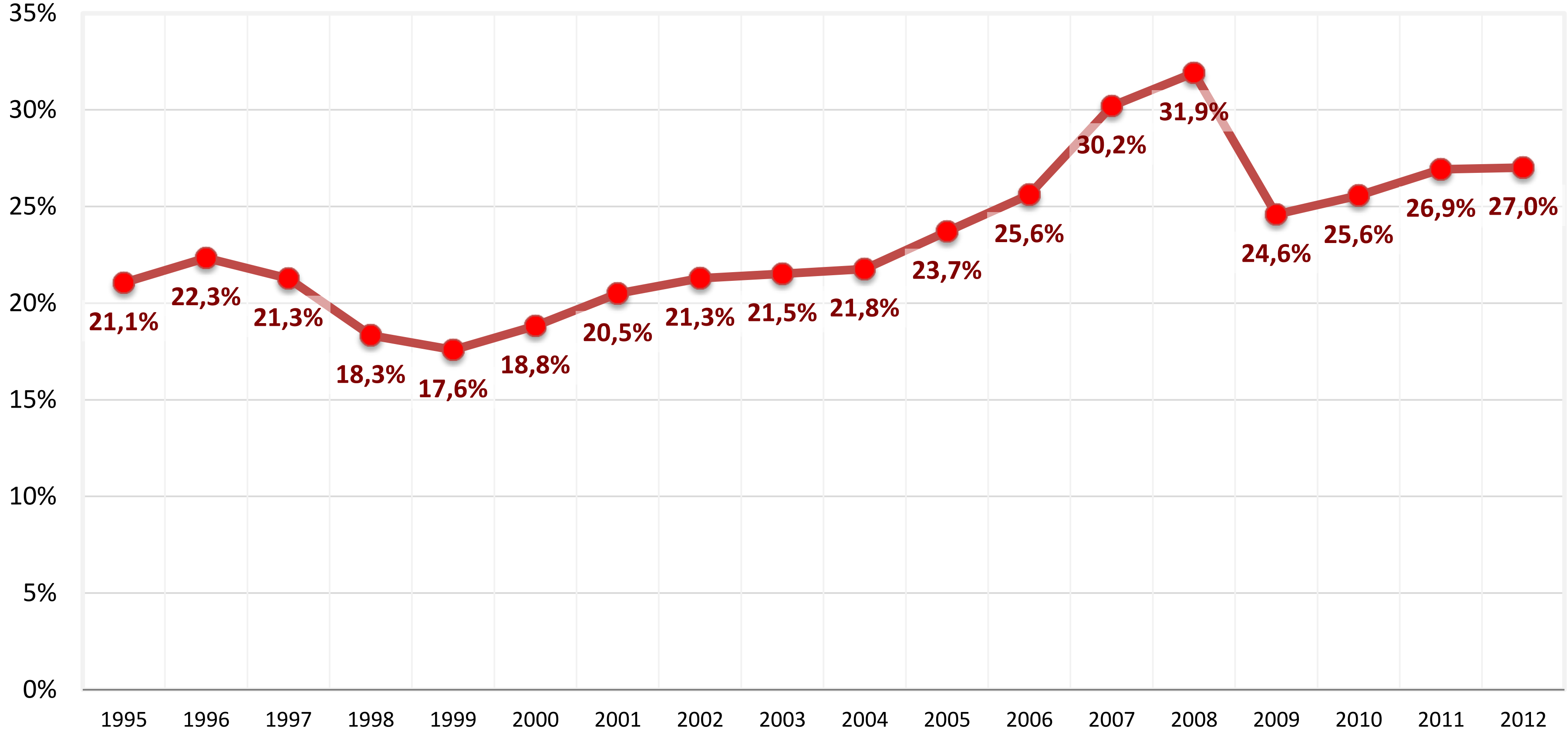
Note: break in time series Romania in 2007

Figure 6: Government Final Consumption Expenditure as a Percentage of GDP



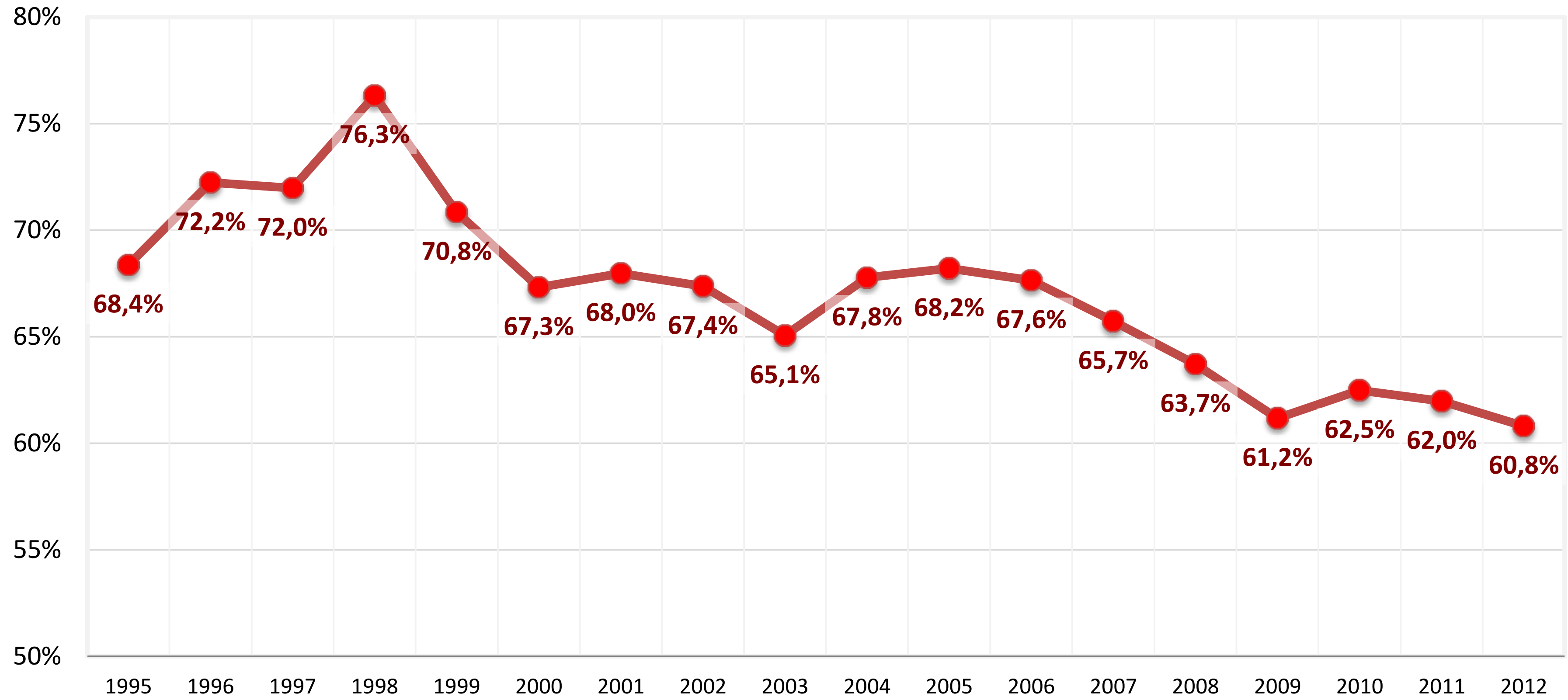
Source: Romanian National Institute for Statistics

Figure 7: Gross Capital Formation as a Percentage of GDP



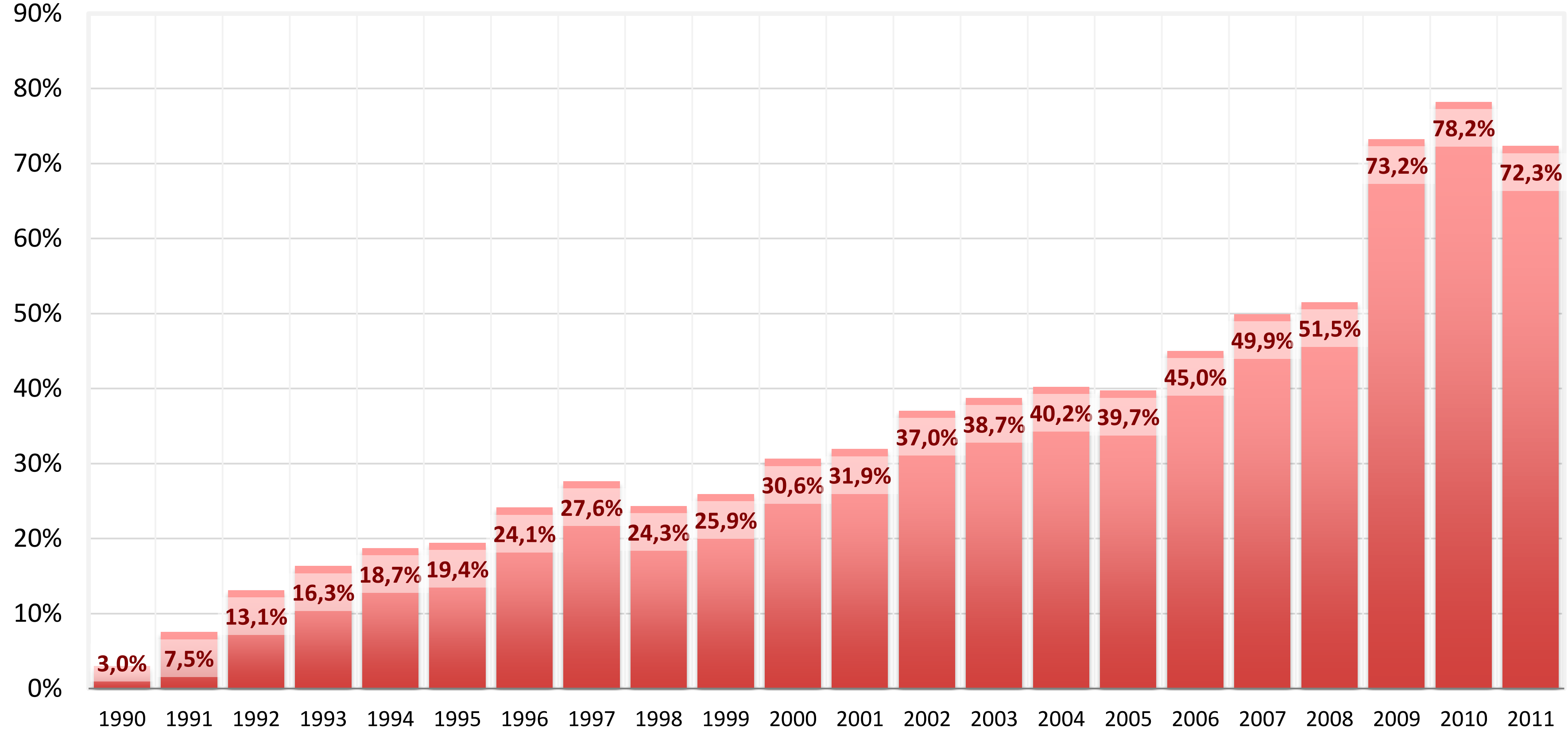
Source: Romanian National Institute for Statistics

Figure 8: Household Final Consumption Expenditure as a Percentage of GDP



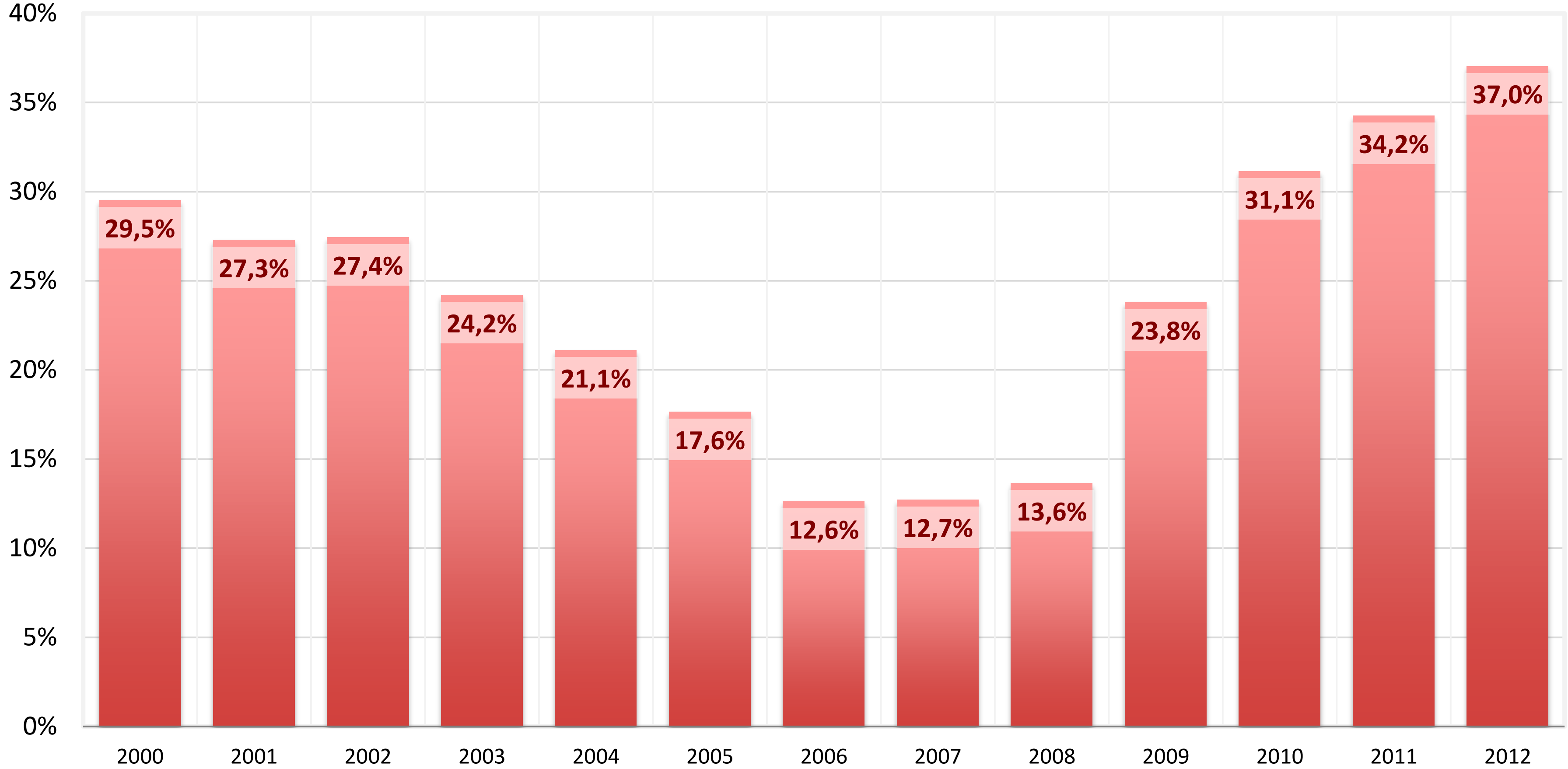
Source: Romanian National Institute for Statistics

Figure 9: External Debt Stock as a Percentage of GNI



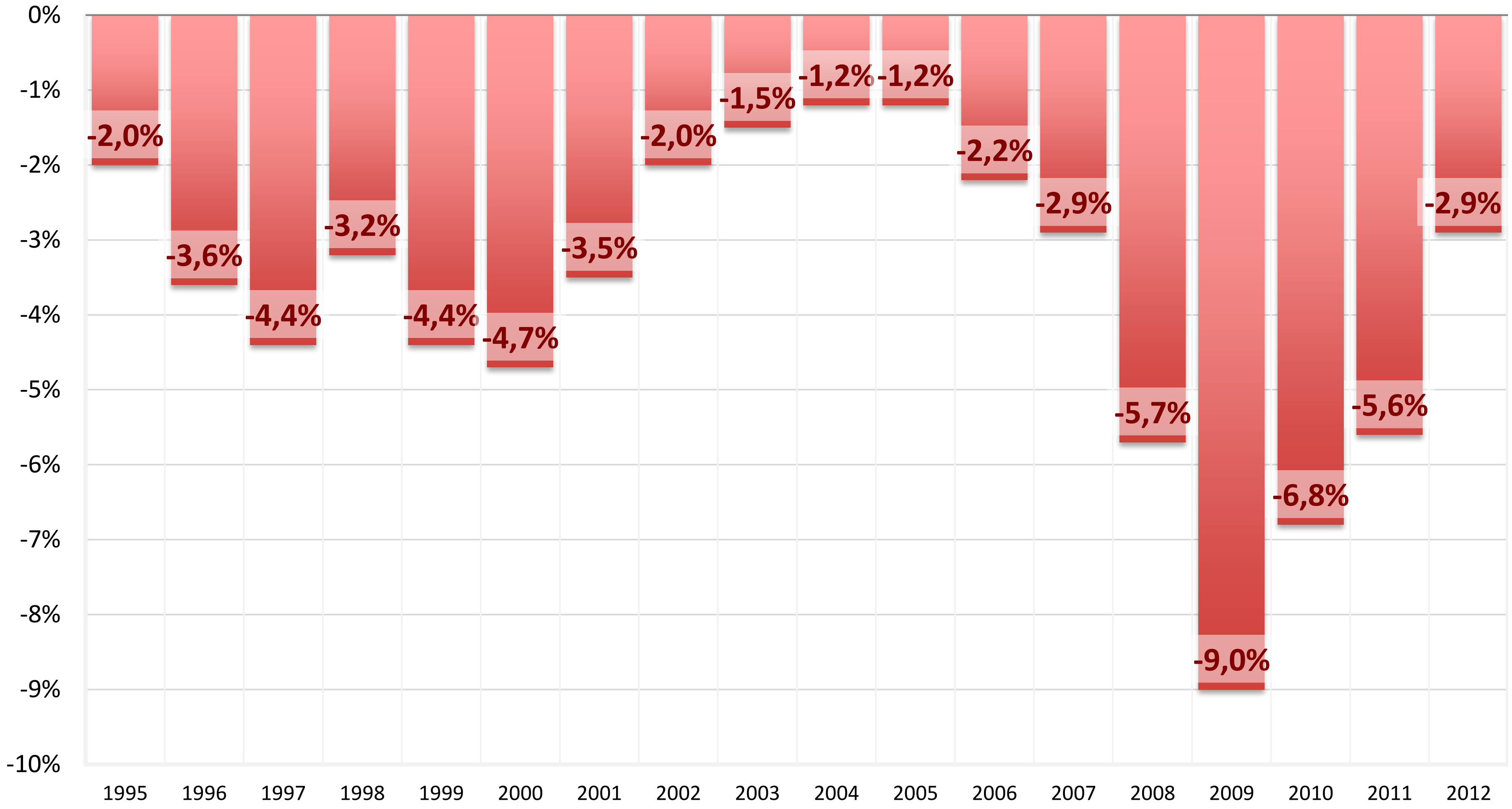
Source: World Bank

Figure 10: Government Debt as a Percentage of GDP



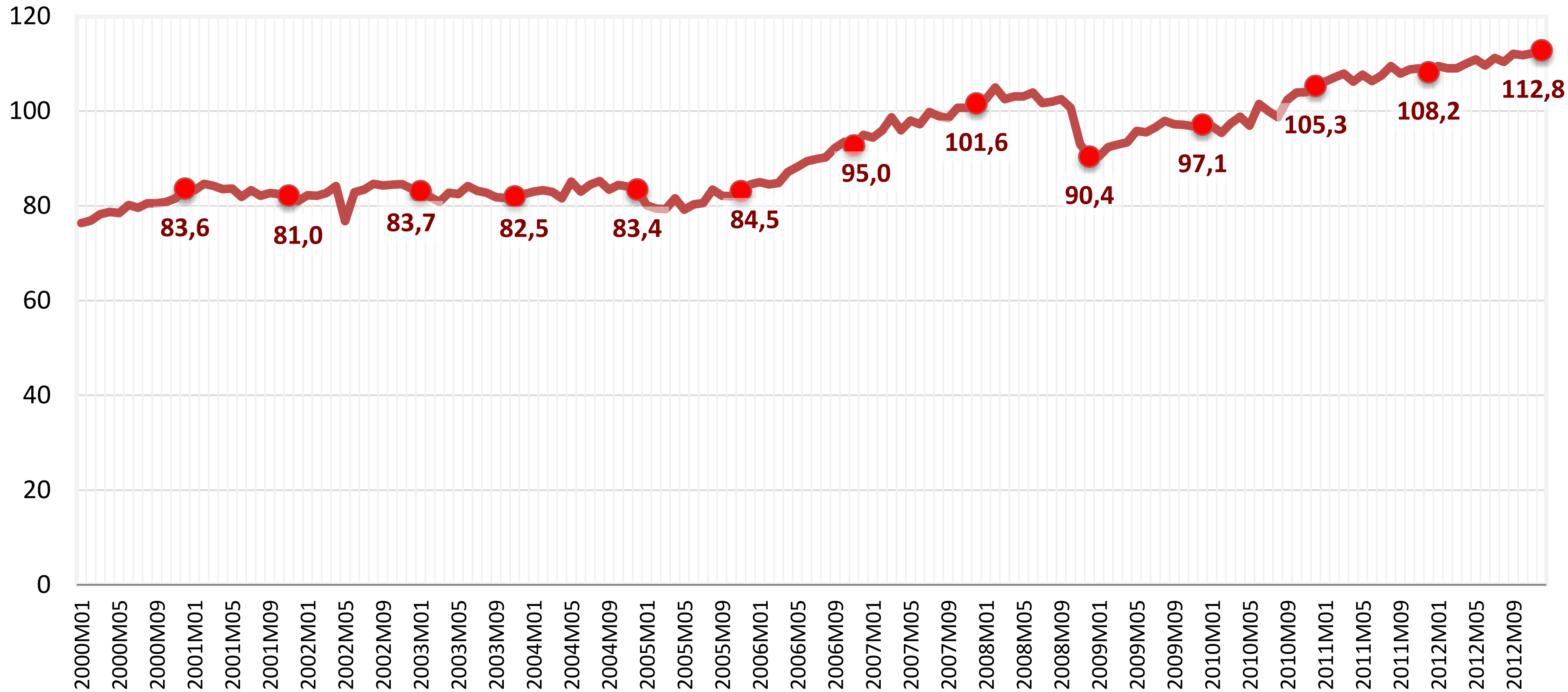
Source: International Monetary Fund

Figure 11: General Government Deficit as a Percentage of GDP



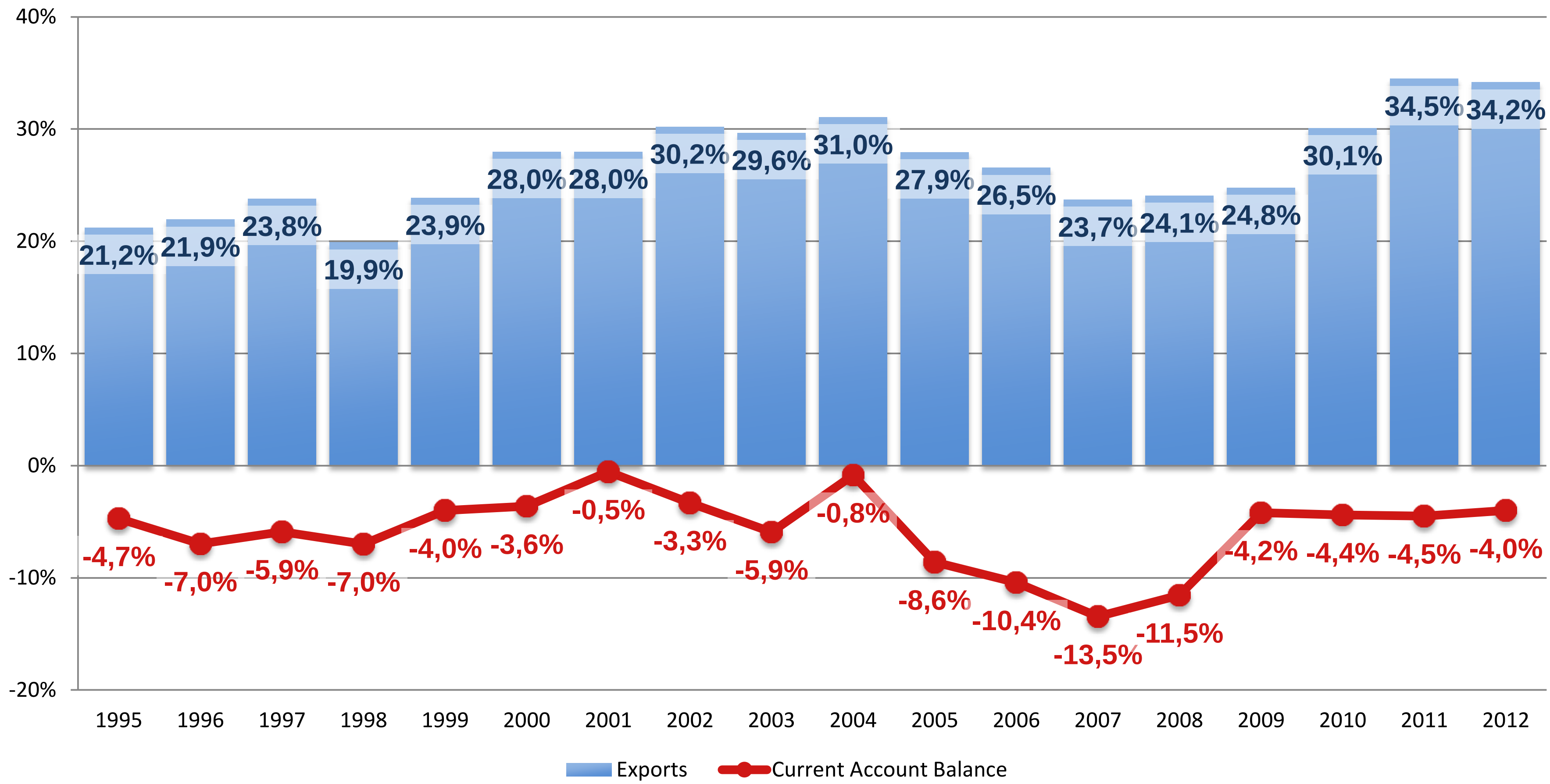
Source: Eurostat

Figure 12: Production in industry, Monthly Data (2010 = 100), Seasonally Adjusted



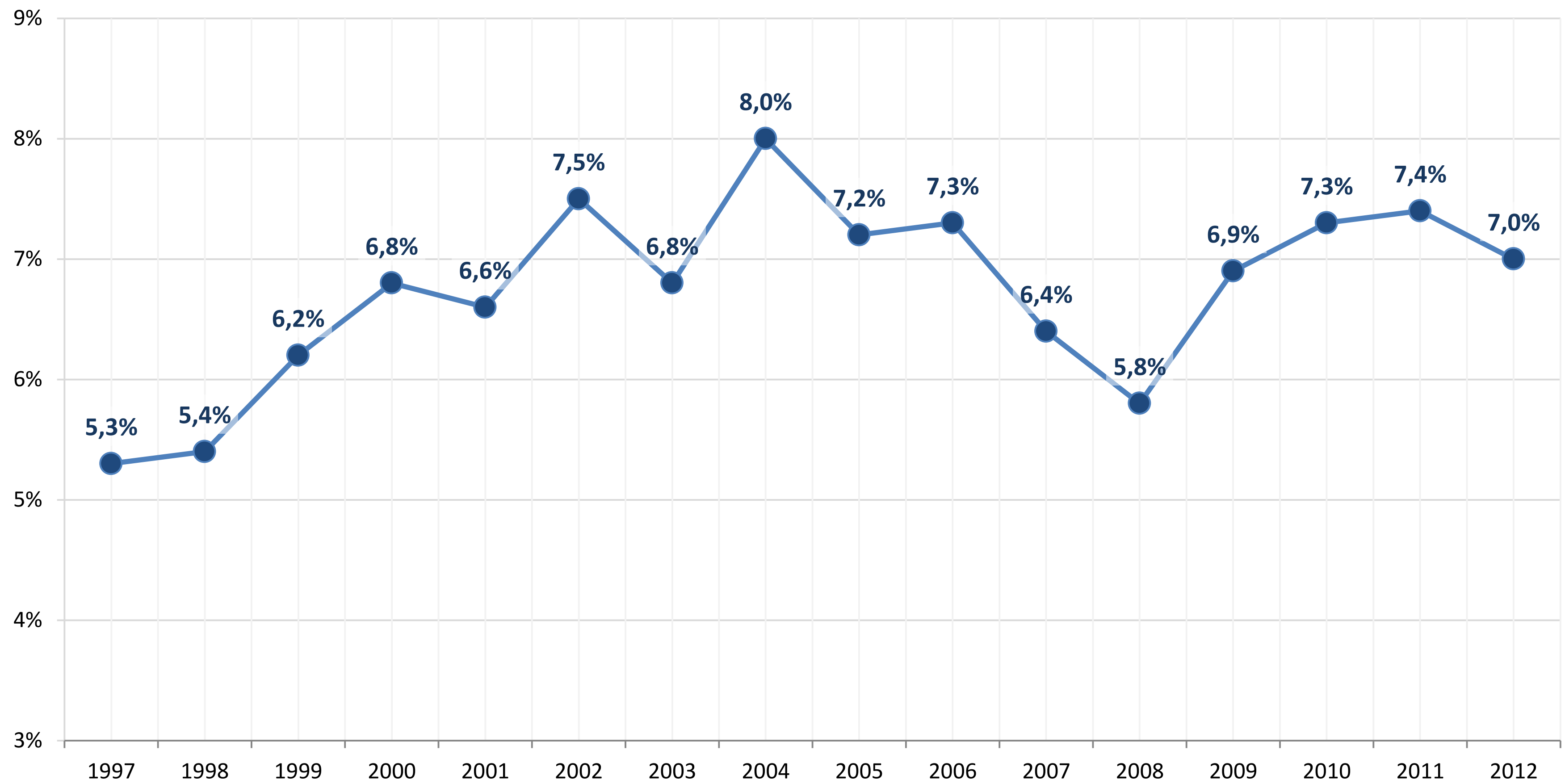
Source: Eurostat

Figure 13: Exports (as a percentage of GDP) and Current Account Balance



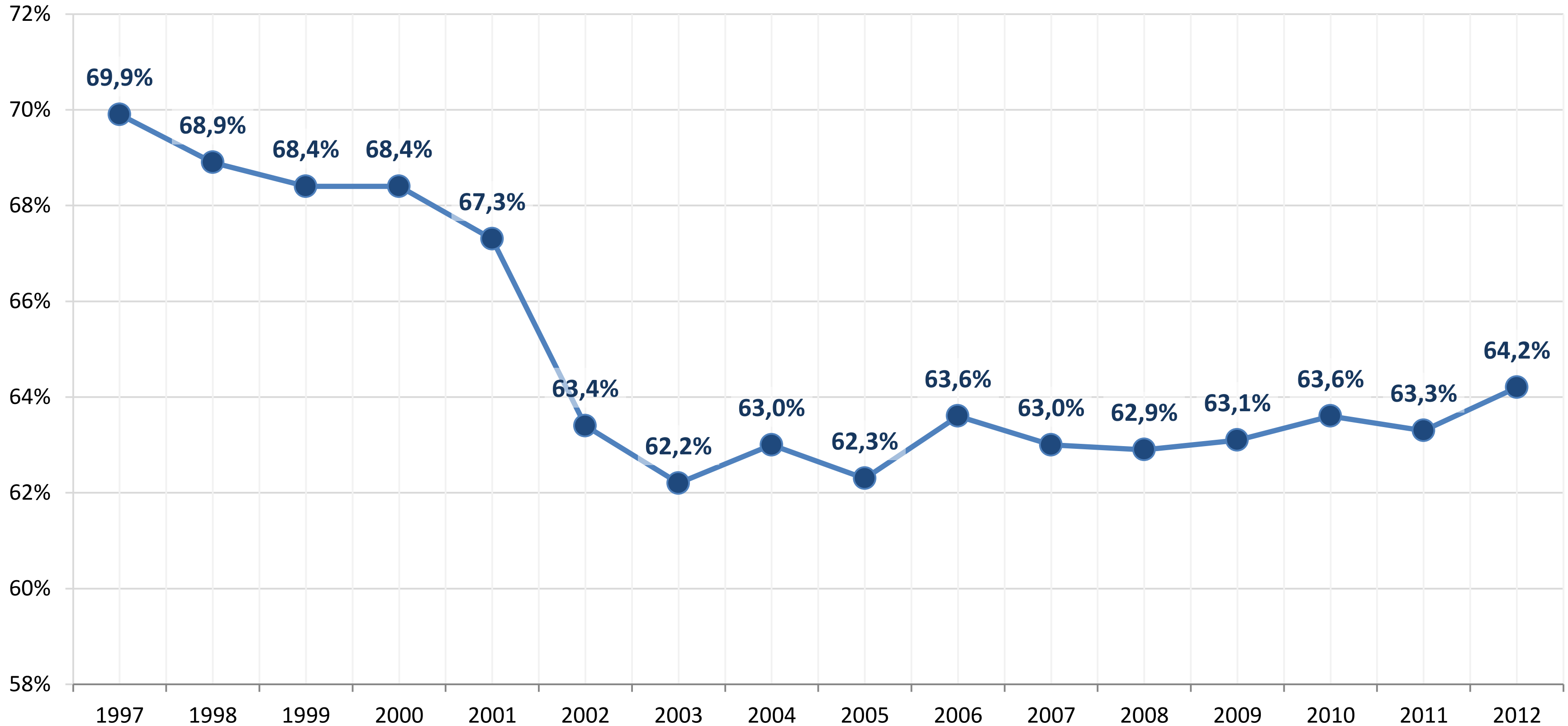
Source: Romanian National Institute for Statistics for exports and GDP, Eurostat for current account balance

Figure 14: Unemployment Rate



Source: Eurostat

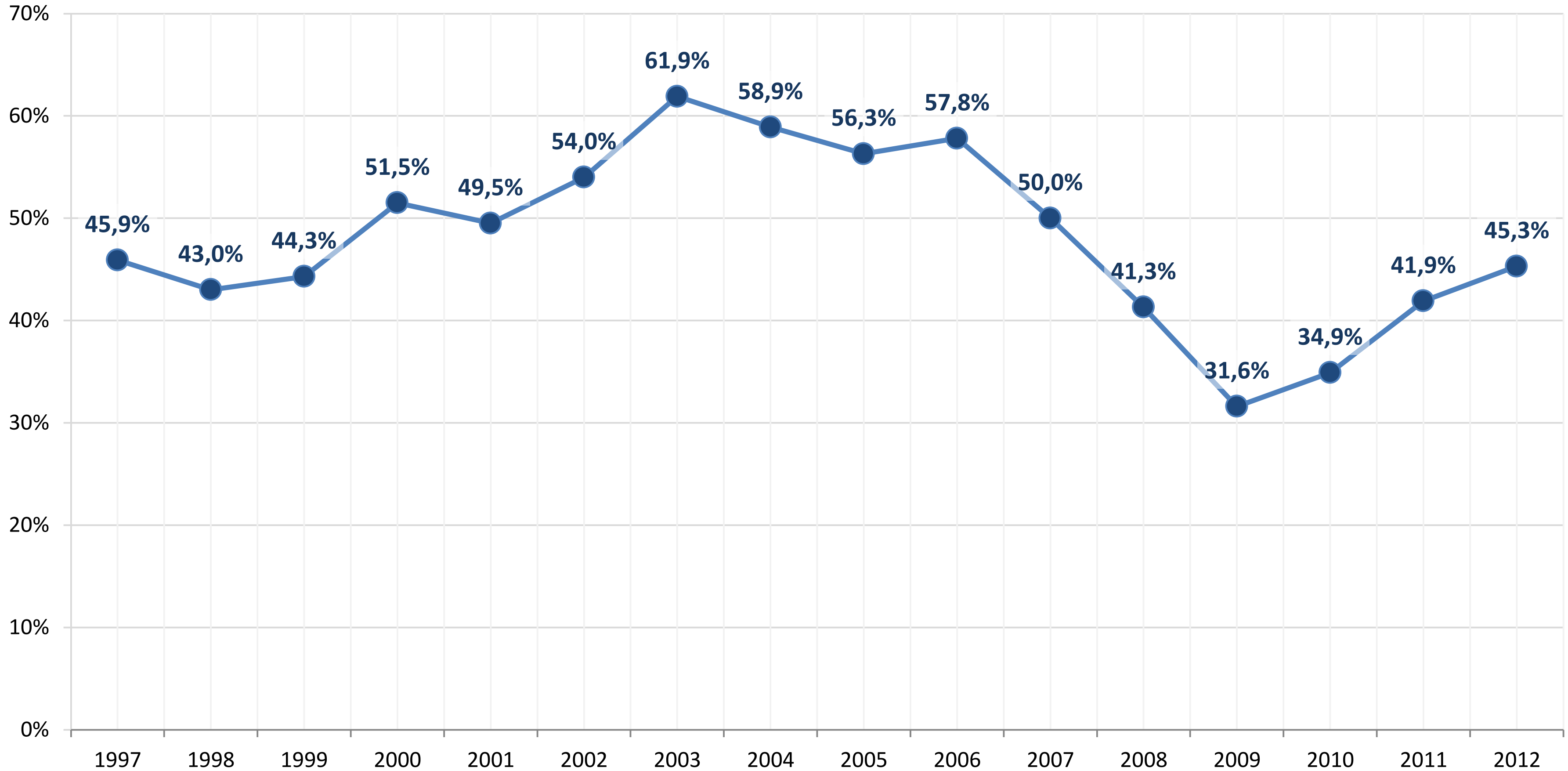
Figure 15: Labour Participation Rate



Source: Eurostat

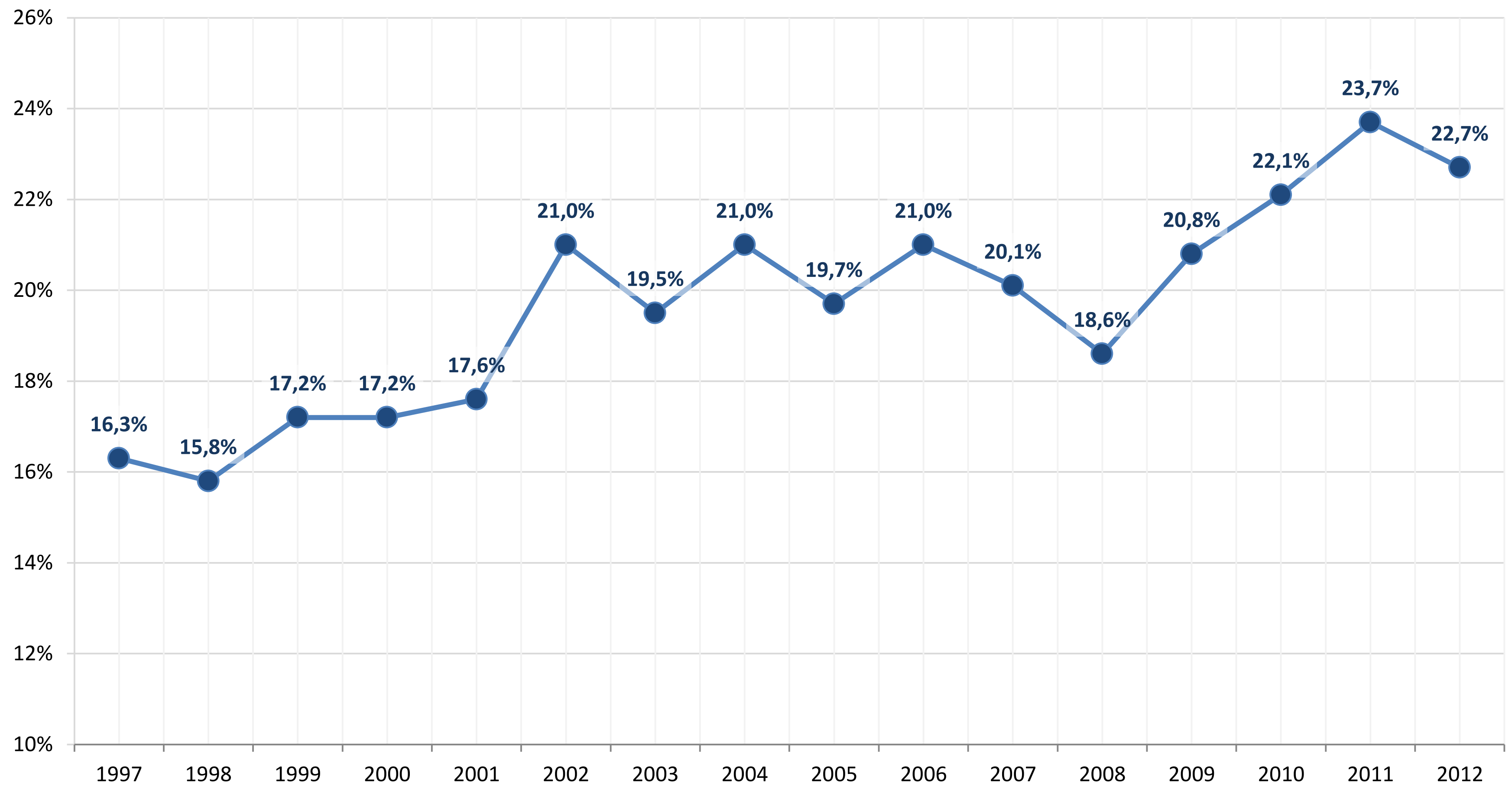
Note: break in time series in 2002

Figure 16: Long-Term Unemployment as a Percentage of Total Unemployment



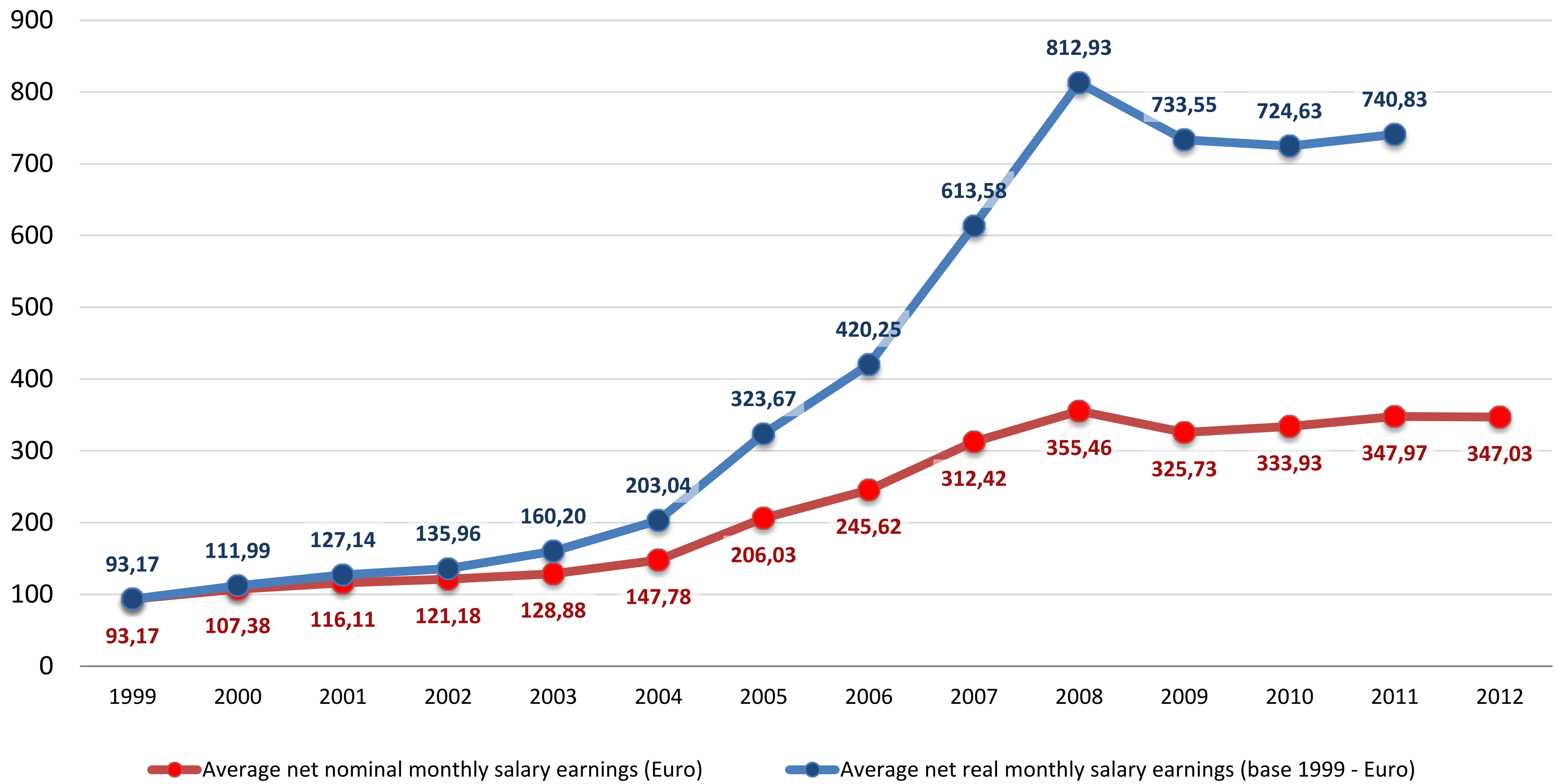
Source: Eurostat

Figure 17: Youth (15-24) Unemployment Rate



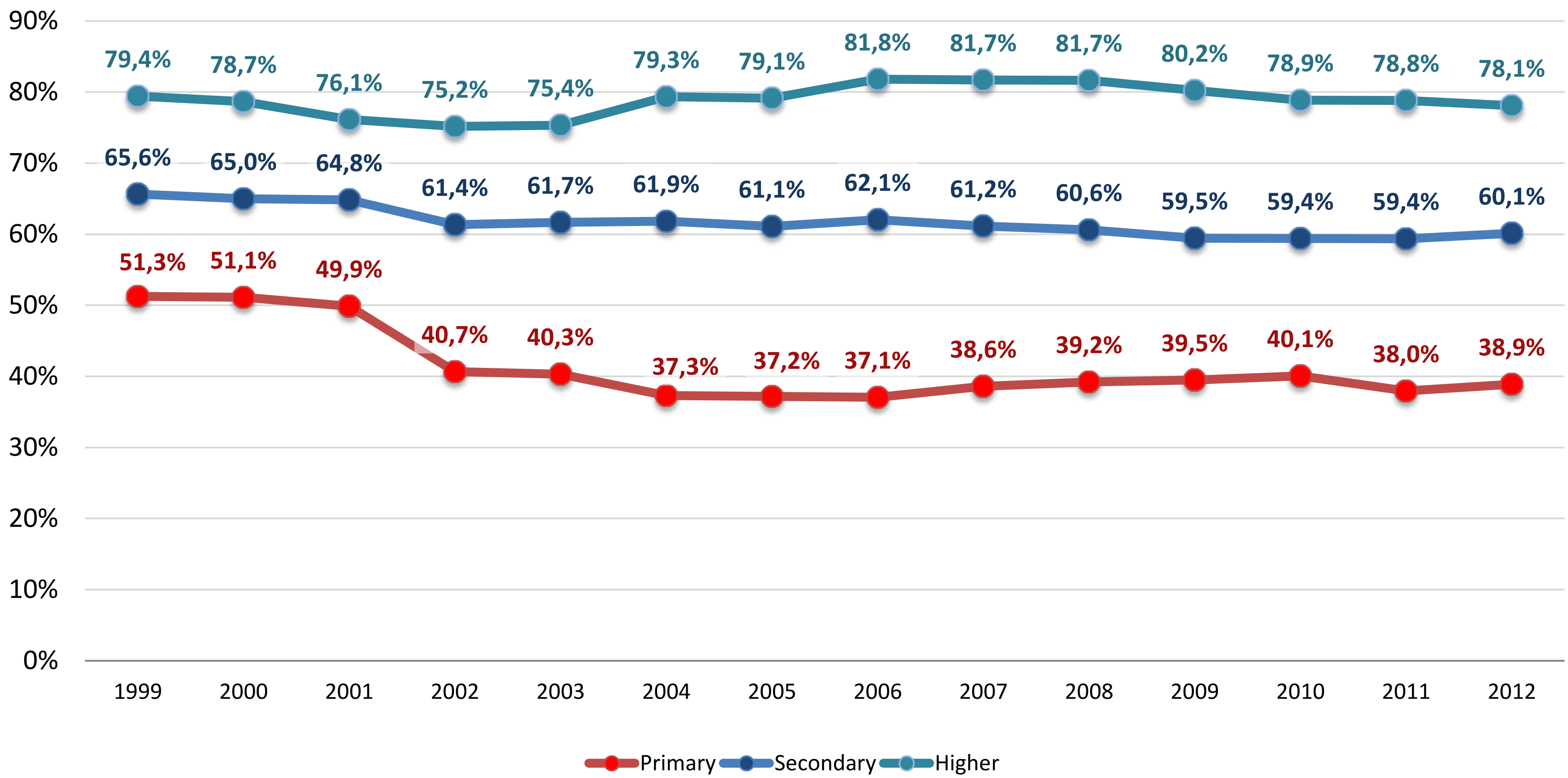
Source: Eurostat

Figure 18: Evolution of Real and Nominal Wages



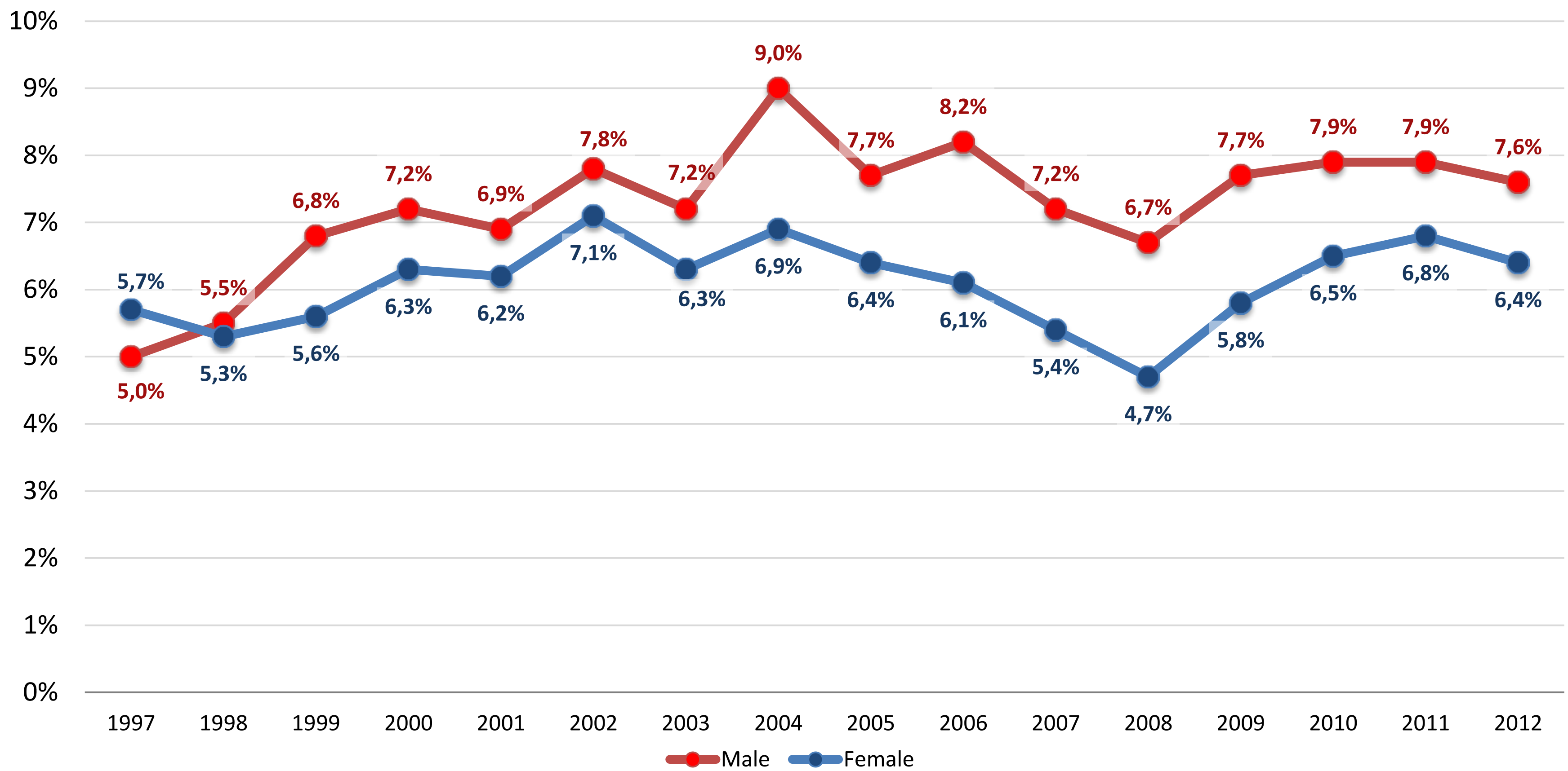
Source: Romanian National Institute of Statistics, Eurostat for RON/EUR exchange rate

Figure 19: Employment Rate by the Highest Level of Education Attained



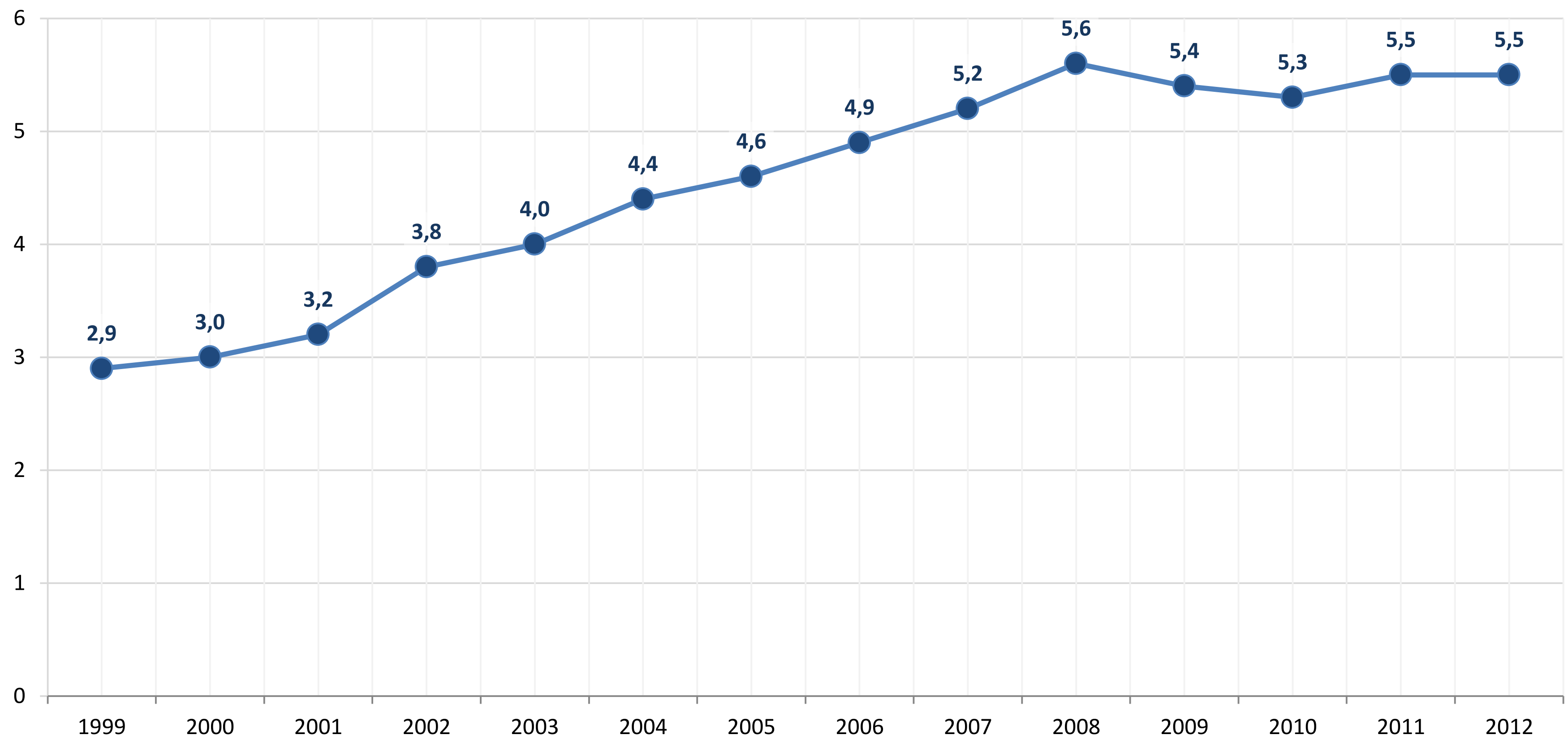
Source: Eurostat

Figure 20: Unemployment Rate by Sex



Source: Eurostat

Figure 21: Labour Productivity (Euro per hour worked)



Source: Eurostat