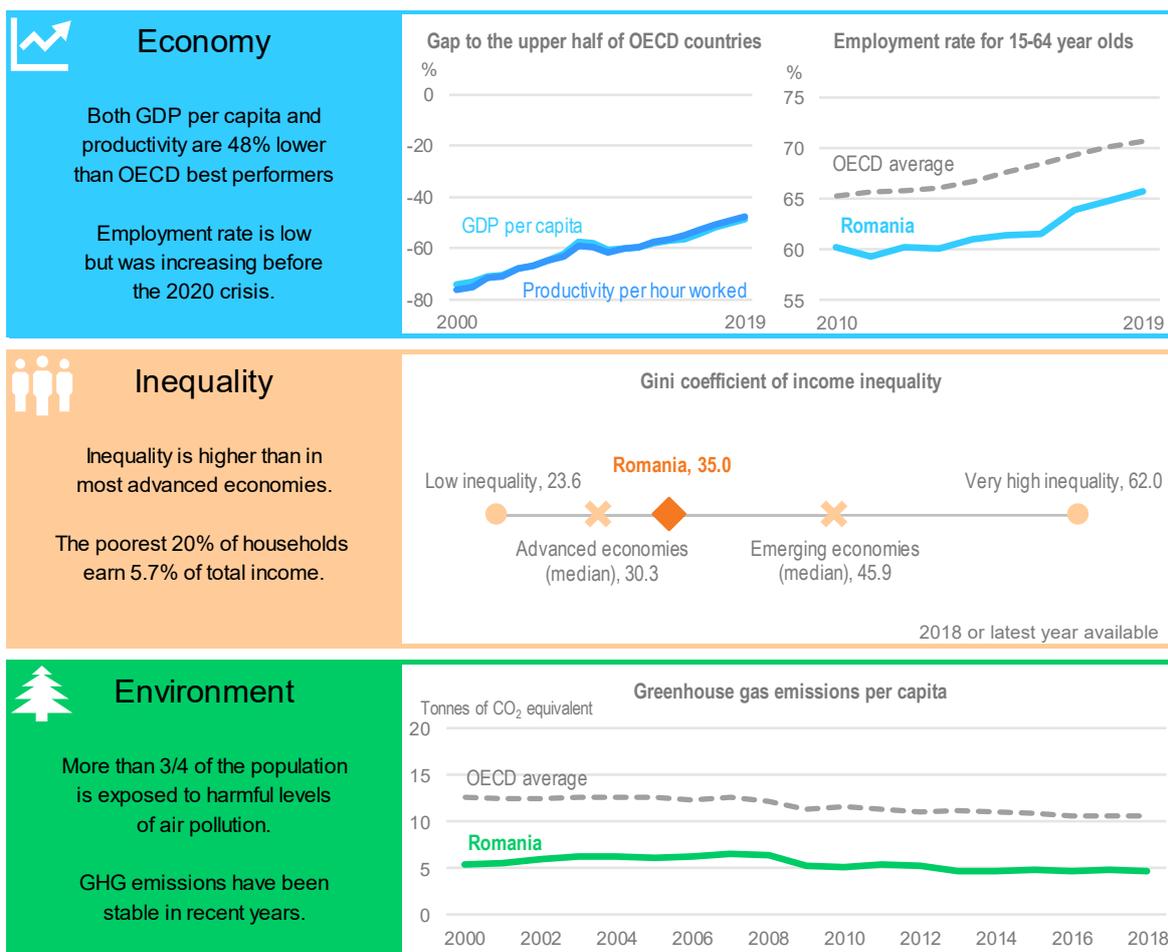


Romania

The COVID-19 pandemic risks putting a halt to past strong improvements in living standards and aggravating poverty, especially among marginalised communities, informal workers, and working poor, who are more vulnerable to economic shocks and insufficiently protected by a weak social security system. The crisis also raises concerns about low capacity in the healthcare sector and a lack of resources in deprived schools.

Performance prior to the COVID-19 crisis



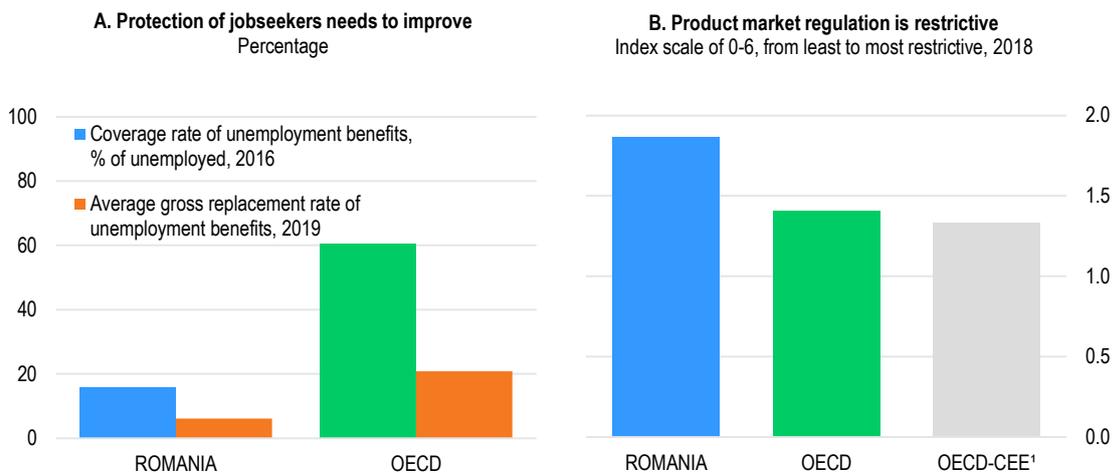
Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Improving social protection and access to quality education and healthcare for a more inclusive and resilient recovery

Despite a high risk of poverty, Romania's social safety net remains weak (Panel A). **Strengthening the protection of job seekers can reduce poverty risks** and cushion the negative impact of the pandemic. Cushioning income losses in large macroeconomic shocks would improve the resilience of the economy and can contribute to higher job matching quality. Increasing the coverage and the generosity of the unemployment insurance benefits system from the current low levels - while maintaining work incentives - would strengthen automatic stabilisers. It can also provide a means to invest in training, thereby improving the employability of people in a fast changing labour market.

Vulnerabilities and areas for reform



1. Average of Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovenia and Slovak Republic.

Source: Panel A: OECD, Tax-Benefit Models and Social Benefit Recipients Database; Panel B: OECD, Product Market Regulation Database 2018.

Combining the reform of social assistance with measures to **improve equity and outcomes in education** can make growth stronger and more inclusive. Devoting resources to schools in disadvantaged areas can significantly improve educational outcomes and prevent dropouts, in particular when schools are closed because of the virus outbreaks. In response to the pandemic, additional resources have been provided to schools and teachers, including in rural areas and these efforts need to continue.

Giving all citizens access to quality healthcare will also make growth more inclusive and resilient. **Addressing acute shortages of medical staff, coverage gaps of the public health insurance, and widespread informal payments** can reduce unmet medical needs. More resources to prevention and primary care can contribute to reducing high death rates from preventable and treatable causes. Accelerating investment in hospital infrastructure can address capacity issues that became more pronounced during the pandemic. At the same time, **improving air quality in cities**, which are among the most polluted in Europe, would reduce the elevated number of premature deaths, especially among low-income households who are usually more exposed to pollution, and would improve citizens' general health and resilience to pandemics.

Romania has made impressive progress in improving the business environment over the past two decades, yet more can be done (Panel B). **Addressing restrictive product market regulation, red tape, and inefficiencies in the insolvency regime** that continue to impede business dynamism can effectively boost growth while supporting the recovery. The pandemic is likely to trigger numerous bankruptcies, so

early warning and out-of-court mechanisms can reduce the workload of courts and allow successful restructuring of distressed but viable firms.

Romania: Summary of *Going for Growth* priorities and recommendations

Recommendations on the Top Five Reform Priorities

Social protection: Providing adequate support to those out-of-work can reduce poverty risks

- Ease eligibility criteria and increase the replacement rates of the unemployment benefit system, especially of low wages.
- Consolidate social assistance benefits, increase their level, and index them to inflation.
- Expand counselling and training services targeted at vulnerable jobseekers and marginalised communities.

Education and skills: Adapting skills to the fast changing environment can foster competitiveness and increase job quality

- Ensure all have access to quality online education when schools are closed. Offer free online training on digital tools and digital security.
- Allocate more resources to deprived schools. Revise the funding formula for schools, making it more transparent and taking into account the socio-economic vulnerabilities of schools.
- Introduce training allowances for low-skilled workers.
- Expand information dissemination on adult learning, through awareness campaigns, online information on available training courses and career guidance services.
- Strengthen engagement with employers and social partners in the design of education programmes further. Improve capacity and use skills forecasting for school network planning.

Healthcare: Improving health outcomes is a prerequisite to strong, resilient, and inclusive growth

- Increase spending on healthcare and give all residents full access to prevention and primary care services.
- Accelerate investment in hospital infrastructure.
- Strengthen performance, accountability and governance mechanisms in hospitals. Increase sanctions on corruption in the healthcare sector.
- Expand hiring of health mediators and community nurses to provide health education, prevention, and basic care in marginalised communities.

Environmental policy: Reducing air pollution can improve health and economic performance

- Develop a national action plan to reduce air pollution, which would include supporting households to transition away from polluting stoves and to improve the isolation of buildings.
- Set tax rates on vehicle and energy use at a level that better reflects the environmental damage they generate. Introduce CO2-based vehicle taxation.
- Progressively ban old polluting cars from city centers.
- Accelerate the closure of coal power plants.

Competition and regulation: Addressing barriers to competition and inefficiencies in the insolvency regime can spur business dynamism and productivity

- Streamline the licence and permit system, and reduce the number of restrictions in some professional services.
 - Envisage a centralised ownership model of State-owned enterprises to strengthen accountability and improve corporate governance.
 - Introduce second chance programmes, early warning tools and out-of-court mechanisms including specific fast track proceedings for SMEs in financial distress.
 - Revise the new amendment that gives tax creditors a super-priority rank to claim their assets over other creditors.
 - Reduce court involvement for insolvency and pre-insolvency proceedings, except where it is absolutely necessary.
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* Romania is covered for the first time in *Going for Growth*, therefore by definition structural reform priorities are all new, which implies that there is no stocktaking of actions taken on those priorities.