

# ROMANIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Romanian Leu

### POPULATION AND GEOGRAPHY

AREA: **238 390** km<sup>2</sup>

POPULATION: **19.913** million inhabitants (2014), a decrease of -0.41% per year (2010-14)

DENSITY: **84** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.4%** of national population

CAPITAL CITY: **Bucharest** (8.7% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO.

### ECONOMIC DATA

GDP: **405.0** billion (current PPP international dollars) i.e. 20 339 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 864** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.793** (high), rank 52

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>3 181</b> LOCAL ENTITIES AVERAGE MUNICIPAL SIZE: <b>6 260</b> INHABITANTS	-	<b>42</b> COUNTIES (JUDETE) INCLUDING BUCHAREST	<b>3 223</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Under the Constitution of Romania of 1991 and the Framework Law no. 195/2006 on decentralisation, local public administration is based on the principles of decentralisation, local autonomy and deconcentration of public services. Romania has a two tier system of SNGs with no hierarchy in between. The county level includes 41 counties and the capital city, Bucharest, which has a special dual status (municipality and county). The municipal level includes 320 towns (*orase*) of which 103 municipalities (*municipii*, the largest towns) and 2 861 communes (*commune*). In addition, there are 12 957 villages. There is also as state territorial administration 41 prefectures and 8 administrative regions for regional development purposes. A new major decentralisation and regionalisation reform is on-going, modifying the previous 2006 decentralisation law. In 2014, a new General Strategy for Decentralisation 2015-16 was drafted to transfer new responsibilities and assets to SNGs and create new autonomous regions. It was rejected in the proposed form by the Constitutional Court, but a new decentralisation project is under preparation, as greater decentralisation and regionalisation remain key objectives.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the 2006 decentralisation law, SNG competences fall into three categories: exclusive, shared and delegated (by the central government). A programme passed in May 2009 gave new responsibilities to local authorities in the sectors of education, healthcare and public order:

- Counties: exclusive competences include the management of local airports, cultural institutions of county interest, public health units and primary and specialised social services (elderly).
- Local authorities' exclusive competencies include the management of local road infrastructure, local cultural institutions, pre-school and primary education (salaries and infrastructure), local public health units, urban planning, water supply and sewerage, waste, social and elderly protection, local public transport, etc.

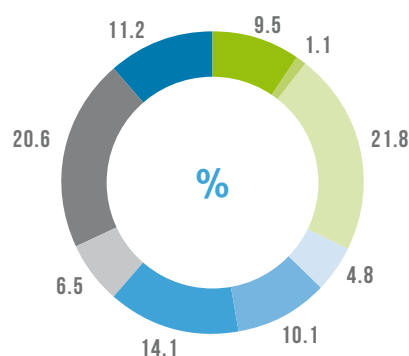
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL EXPENDITURE (2013)</b>	<b>9.2%</b>	<b>26.0%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	6.8%	-	73.9%
<b>STAFF EXPENDITURE</b>	3.3%	40.2%	35.5%
<b>INVESTMENT</b>	2.2%	48.2%	24.0%

Despite the intensive decentralisation process undertaken in 2006, the level of Romanian SNG spending in GDP and public expenditure remains below the EU average (respectively 15.9% and 32.8% in 2013). The share of staff expenditure in SNG expenditure is particularly high corresponding for the large part to teacher wages. Investment is a key function of SNGs representing 24% of their expenditure (compared to 10% in the EU on average) although their share in public investment is below the EU average of 55%.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary sectors of SNG spending are economic affairs (mainly transport) and education (teachers and administrative staff salaries on behalf of the central government, operation and maintenance of school facilities). Since the decentralisation of health in 2010 (hospitals), SNG health expenditure has substantially increased (from 0.5% of SNG spending in 2008 to 14.1% in 2013). Other important spending items are social protection and housing and community amenities (in particular drinking water).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	9.3%	28.0%	100%
TAX REVENUE	1.0%	5.3%	10.8%
GRANTS AND SUBSIDIES	7.6%	-	81.9%
OTHER REVENUES	0.7%	-	7.3%

The 273/2006 Local Public Finances Act and Title IX of the Romanian Fiscal Code (Law 571/2003 and amendments) determine the assignment of revenues to local governments. Despite the decentralisation process, SNGs are still dependant on central government transfers which constitute the bulk of their revenue while tax revenues are still limited.

**TAX REVENUE.** Local taxes include property taxes on building and land from both legal entities and individuals (68% of tax revenue and around 0.7% of GDP), tax on transportation vehicles (8%) and various taxes on stamps, transactions and issue of certificates and licences. Taxes are levied and collected both by the counties and municipalities. The base and reference rates for property tax are fixed by law but each local or county council can adopt a rate up to 50% higher or lower than the reference rates. Shared taxes (PIT, VAT) which were previously considered as local government taxes have been reclassified to the transfers' category since the new 2008 SNA methodology (implemented in 2014).

**GRANTS AND SUBSIDIES.** Intergovernmental transfers aim at equalising SNG revenues. There are two equalisation systems (vertical and horizontal) based on the share of PIT (71.5%) and VAT:

- Vertical equalisation is reached through the sharing of the PIT receipts, of which 41.75% is redistributed to municipalities and 11.35% to counties (except in the area of Bucharest where the share is higher).

- Horizontal equalisation is carried out at the county level, and consists of 18.5% of the PIT collected in a given county. In addition, there is a horizontal equalisation grant funded from the state budget (VAT sums for equalisation) which is split between the county council (27%) and the municipalities (73%) according to a formula.

Besides these transfers, SNGs receive earmarked grants from sectoral ministries (support for disabled people, abandoned children, fuel subsidies, and infrastructure) as well as subsidies from the EU.

**OTHER REVENUES.** Other revenues for local governments include local charges and fees, for instance building fees and public transportation fees, etc. With the decentralisation of hospitals in 2010, hospital fees have also become an important source of own-revenue. They also include income from assets (housing and land rentals, asset sales).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	4.7%	10.1%

SNG budgets, excluding loans to finance investment and debt refinancing, must be balanced (golden rule). From 2013 onwards, each government's budget must be balanced, excluding investment projects financed by drawings on loans contracted before 2013. If an SNG's annual debt service (principal payment, interest, commissions) exceeds 30% of its own revenues, it can no longer contract or guarantee loans. Around 40% of SNG outstanding debt is made up of commercial debts and arrears. Loans contracted in 2013 were used to repay arrears. In 2013, the share of bonds in total SNG debt was 10% while loans represented around 44%.

A joint-study of:



**Sources:** Eurostat (Government Finance Statistics) • Network of Associations of Local Authorities of South-East Europe (2016) "Fiscal Decentralization Indicators for South-East Europe: 2006-2014" • National Institute of Statistics of Romania (2015), Romania in Figures 2014 • IMF (2015), Romania, Selected Issues • Bondar F. (2014), Quality of Government and Decentralization in Romania, International Review of Social Research Vol 4 • European Committee of the Region (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities • Lazin F. (2013): Local Government Reforms in Eastern Europe after the collapse of the Soviet Union: Some Observations • Council of Europe, Congress of Local and Regions authorities (2011), Local and regional democracy in Romania • Dexia (2008) Subnational Governments in the European Union: organisation, competences and finance.