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Weekly Briefing

Romania Social briefing:

Outlook for 2018 in the Social Field

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Outlook for 2018 in the social field

Social developments in 2018 are placed under the sign of increases of wages and pensions. The support for citizens is doubled by the funds allocated for encouraging the entrepreneurial activity. Although it sounds promising, the challenges raised by the fiscal changes, the depreciation of the national currency and increasing inflation risk to endanger the well-being of the citizens.

Increases of the wages are hampered by changes in taxes

The year of 2018 started with the increase of the minimum gross wage with 31%, from 1,450 lei (311.8 euro[1]) to 1,900 lei (408.6 euro) for a complete work program. The decision of the Government was based on the aim of reducing the number of people at risk of poverty and social exclusion. In addition, the tax revenue dropped from 16% to 10%, which should be good news for the Romanians. Still, given the transfer of the social contributions from the employer to the employee, the gross increase will be translated into a net increase of only 9.1% (97 lei, meaning 20.86 euro). If the raise in the wages would not have been followed by the change of the legislation in the labour field, the increase in the net wage would have been higher, more the triple the actual increase (almost 65 euro).

The fiscal changes will also bring a growth of the total costs per employee, which must be supported by the employer. In addition, with the increase of bureaucracy due to all these and other legislative changes, it is possible that the effect to be just the opposite of the expected one, materialized in layoffs and illicit work, and the most affected will be the young people and the unskilled workers. This will put further pressure on the Romanian efforts to combat the underground economy, estimated at 28% of GDP by the European Commission, the second highest level in the EU, while the illicit work represents between 15% and 20% of GDP.

Under these circumstances, the fight against poverty reduction will not provide the expected results especially that very poor households in Romania incorporate, generally, inactive, retired or unemployed people, according to an IMF analysis, and under one fifth of the poor persons are employed.

Another problem is that, while the employers are bound to increase the minimum gross wage to 1,900 lei, they do not have the obligation to raise the salaries of those employees currently earning over this level. If the employers

[1] If we consider the actual exchange rate of 1 euro= 4.65 lei

will decide not to raise the gross wages for covering the loss suffered by the employees due to the transfer of social contributions, the workers will suffer a net loss of up to 26% of their earnings, according to specialists. A survey carried out by the National Council for Private Small and Medium sized Enterprises in Romania revealed that 83% of the entrepreneurs do not have the capacity to raise the minimum wage, while 60% of them will lay off people as a result of this measure.

Other raises of wages and salaries are meant for the employees in the public sector. The unitary wage law which came into force in July 2017 stipulates an increase of 25% for all the wages in the public sector since January 2018. The law provides additional increases for doctors and teachers.

Promises of increasing the pensions

A slight increase in the pensions level is announced starting with the mid of 2018. The Government decided to increase the value of the pension point[2] with 10% as compared with the present value. The pension point already increased twice in 2017, in January and in July. The measure is favourable for the retirees, given that the average value of the pension in the state system was 1,106 lei (237.85 euro) in the third quarter of 2017. Still, the problem is that there is a decoupling between the increase of the pensions and the economic growth.

According to the actual legislation, the indexation of the pension point should occur at the beginning of each year with a percentage formed by 100% of the inflation rate and 50% of the real growth in the gross average wage. The increase in July 2017 did not take these provisions into account, the growth of the pension point surpassing the indexation value. Therefore, if the increase decision is taken without being correlated with the economic growth and the annual inflation, the pressure on the social insurance budget and implicitly on the national public deficit will be exacerbated, which is already happening. Due to important migration and the aging of the population, Romania is already required to carefully manage the social insurance budget and to pay attention to the indebtedness level and the obligations that will be transferred to the future generations.

A stressed social insurance budget could be relieved by enhancing the system of the private public pensions. Romania developed such a system since 2008, having – besides the public pension system, also known as Pillar I -, privately managed pension funds – known as the IInd Pillar. This Pillar is formed by transferring an established amount from the contribution that should have

[2] The pension point is used for calculating the value of the pension, by multiplying this indicator with the score obtained by the ex-employee and mentioned in its retirement decision.

been driven to the state budget into a private pension fund, at the choice of the employee. The amount was 2% of the calculation base in 2008 and it was established that will grow annually until 6% of the calculation base in ten years. The main private players managing these pension funds announced favourable yields for their investments in the last years. Still, instead of increasing the mandatory contribution as assumed by Romania through the EU Convergence Programme, starting with 2018, this contribution will decrease from 5.1% to 3.75%. In this way, the Government hopes to partially solve the problem of collecting more funds to the state budget, which is already quite small for covering the announced increases of pensions. Therefore, while the short-term need is accomplished, the long-term approach, regarding the capacity of the actual format of the public pensions system to cover the needs of the next generations, is threatened.

Previsions of prices increases

The increase in inflation already mentioned and explained in a previous report will draw price increases for the basic products in the whole economy. For example, the National Regulatory Authority for Energy already announced its approval related to the increase with over 8% of the final gas prices for the household customers. The decision was taken at the requirement of the providers, who saw an increase of their costs for the natural gas procurement from domestic production. While at present, the price of domestic gas is liberalized, the Authority sets the final tariffs for the invoices received by the household consumer. The previous price was established for the period April 207- March 2018, but the Authority increased the price before the end of this period. The price of electricity also increased with different rates, depending of the hourly interval of consumption. In this way, the energy field becomes a source of inflationary pressure. This will also influence the prices of the food products. The representatives in the bakery industry state that the cost of utilities and workforce reached over 50% of the price of the product, therefore a price change for the bread and other similar products is soon expected. Price rises of over 4.5% are expected for the food products and increase could worsen if the agriculture will not have a favourable evolution this year.

Measures of support for small and medium sized enterprises

The persons willing to start small businesses will have the opportunity to be supported by the Government through the ***Start-Up Nation programme***. This year's funds allocated for financing the small and medium-sized enterprises (SME) total up to 700 million lei as commitment credits. The amount of a nonrefundable grant raised in 2017 to 200,000 lei (about 43,000 euros) for a newly established SME. According to the budget allotted for this year, it is expected that maximum 3,500 SMEs will be financed through this programme. To qualify for funding, the entrepreneurs are required to submit online a business plan in which to provide their future actions for setting up and developing a SME, improving their economic performance, creating new jobs, hiring disadvantaged people, unemployed and graduates or increasing their investment in innovative new technologies.

Other ***programme meant to support the enhancement of the exports*** provides a budget of 25 million lei for consultancy to export-oriented economic operators. The purpose is to develop and to implement sound export strategies, to identify the best export practices in their field of activity and to harness the export opportunities. The ***Internationalization programme*** also focuses on the SMEs. The state grants up to 50,000 lei for the creation of websites and applications for promotion and participation in international fairs. The budget is double in 2018 as compared to the last year, reaching 10 million lei.

Among the programmes which target different social categories, there is a special programme designed for the young people who are willing to establish and develop micro-enterprises, a new programme launched this year which benefits of a budget of 11.8 million lei. Romania also has a national programme for enhancing the development of entrepreneurship among women in the SMEs sector, which benefits of 1 million lei. This programme was firstly launched in 2013.

Other ways of supporting population is through programmes such as ***the First House***, through which the Government facilitates people's access to mortgages. In this way, people that do not own a home have access to such loans in more favourable conditions than normal mortgage loans. The First House program was one of the anti-crisis measures initiated by the Government to support the priority economic sectors. The main objective was to unblock lending and boost the construction sector, which would have spread positive effects in the economy and stimulate the creation of new jobs. The programme received funds from the state budget for 2018, although its main aims were already met (such as the resumption of lending activity among the population).