



# Weekly Briefing

**Romania social briefing:  
Outlook for 2020  
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## Romania social briefing

*The forecasts for the evolution of employment in the following period show a tendency of improvement, which will lead to an attenuation of the labour market pressures. However, the lack of workforce is the biggest challenge in 2020, while the current public pensions system is under pressure. The problems on the labour market worsened due to migration and ageing of population. The pensions increases scheduled for this year are expected to heavily burden the state budget. In the field of justice, several steps were made for the abolition of the Section for the Investigation of Crimes in Justice which raised the concern of European institutions in the previous year.*

The forecasts for the labour market show positive evolutions for this year and for the following ones, although no other raises of salaries are envisaged. The Government expects an attenuation of the labour market pressures, as the number of employees is expected to increase by 1.9%, and the unemployment rate to reduce to 3% at the end of the year. For the next four years, it is forecasted that employment will improve by increasing the number of employees by 318 thousand persons between 2021 and 2023, better labour productivity is expected, while unemployment will continue to decrease to 2.6% at the end of 2023.

However, there are two major problems that Romania will face this year. The lack of workforce is the biggest challenge of 2020, while the increase of pensions scheduled for this year will burden the state budget in the following period.

The specialists in human resources consider that 2020 will be quite similar with 2019. In a survey conducted for establishing the state of the Romanian economy, over 60% of the companies pointed out that the problem of the workforce would be the main challenge the business environment would face this year. The labour crisis intensified in 2019 in Romania, and the import of foreign workers failed to compensate for even 10% of the necessary. In 2020, the development plans of many companies are in stand-by because of such personnel problems. According to specialists, there are many small or medium-sized companies that are downsizing their business or even closing their doors due to lack of staff.

Specialists consider that that this year the labour force deficit will stabilize in certain areas, such as automotive industry and banking. The demand for labour force will be increased in areas such as IT&C and outsourcing services, in the technical field and for activities requiring

the use of foreign languages. As immigration policies have not been well connected to the needs of the labour market, the shortage of personnel in certain professions is at very high levels. A year ago, Romania was ranked the 3<sup>rd</sup> in the world in terms of personnel shortages, after Japan and Taiwan. 81% of companies in Romania declared that they have major difficulties in attracting staff.

Except for the very high rate of migration, the problems are not different in Romania compared to other European countries: low birth rate and not appropriate demographic structure.

According to the Organization for Economic Cooperation and Development data, Romania has the fifth largest diaspora in the world, with over 3.4 million Romanians working abroad. Specialists consider that the share of those involved in establishing potential GDP is up to only 56% of the registered citizens, as population aged 15-64 years represents the large majority of those leaving the country. The share of foreign persons residing in Romania who could replace the domestic workforce left abroad is still low as compared to other European countries. Under these conditions, the official forecast regarding the contribution of the labour factor to the growth of the potential GDP is approaching zero, by 2021.

In addition, 2019 was the year with the lowest number of babies born in Romania in the last 53 years, up to 178,130 children, which is 12,040 fewer than in 2018. It is less than half the number of babies were born in Romania annually between 1970 and 1989, which was established at an average of 360,000. Again, one of the most important causes for such an evolution is the increased migration. The official data shows that the number of migrants grew constantly in the last five years and hit the highest since 2010 in 2019. In addition, the phenomenon of demographic aging has increased, with the population aged 65 and over exceeding by 471 thousand people the young population of 0-14.

For tackling these problems, one of the solutions would be the increase of the immigration rate. Romania can attract labour force from abroad and qualified people to compensate the emigration rate. The Government already approved the admission of a contingent of 30,000 workers, but the real needs are around 50,000 persons, according to a recruiting agency. In 2019, workers from Vietnam, Sri Lanka and Nepal came to areas such as restaurants, hotels or construction. This year, the focus will be on industry. Labour force is needed in factories or for repetitive activities, in those companies which do not have the capital for automation.

Other measures that are strongly requested by investors is the reduction of taxes on wages, according to the Barometer on the state of the Romanian economy. However, there are no

signals that such a measure would be possible given the state budget constraints. In addition, a plan of measures is needed for the return of the young people in Romania.

The public pension system, built on the principle of solidarity between generations in which those in the labour field pay social contributions on a monthly basis, and the state pays the pensions of those who are out of work through a redistribution mechanism, will soon reach its limits. Such a system requires a higher number of employees than those of pensioners. In Romania, there are 5.2 million pensioners, while the number of active employees is 5.6 million (excepting civil servants and personnel in the public order and defence system). The problem is that there are fewer and fewer employees due to the negative natural growth, the emigration, and the high number of those reaching retirement age.

Under these circumstances, the Government intends to increase the mandatory contributions to the private pensions from 3.75% of the social insurance contribution to 6%. The Minister of Finance announced that such a change will be introduced in 2021. The moment is favourable, as the private pensions registered the best performance in the last 9 years. The seven compulsory private pension funds achieved an average return of 11.8% in 2019.

The problem of pensions is extremely unpopular this year, given the two rounds of elections. It is very possible that a mix of unpleasant measures to be needed for building the sustainability of the pensions system, already announced in other European countries: increasing taxation, raising the retirement age and freezing the pensions levels.

Moreover, the pensions changes announced for this year will have a high impact on the budget. The pensions will increase significantly in 2020, according to the provisions of the Pensions Law adopted by the Parliament in June 2019, despite the numerous alarm signals drawn by financial analysts, the National Bank of Romania or other international financial bodies. The new Government decided to apply the law without postponing it and identified several areas where measures to reduce budgetary expenditures are going to be implemented. Although the impact estimated in 2020 will be reduced as the law comes into force in September, the negative effects will be stronger starting with 2021. The International Monetary Fund estimates that the deficit will hit 5% or 6% of GDP, which will be extremely difficult to finance, therefore this could mean a high shock to the economy.

While last year the society was massively affected by the changes in the field of justice, no similar tensions related to the rule of law or the fight against corruption are expected.

At the end of December, the government adopted the Memorandum submitted by the Ministry of Justice proposing the abolition of the Section for the Investigation of Crimes in Justice (SICJ), which raised the concern of European institutions, such as GRECO and the Venice Commission and was harshly criticized in the Mechanism for Cooperation and Verification report. In its last report, GRECO noticed the fact that the recommendation regarding the abandonment of the creation of the new special section for investigating criminal offenses in justice was not implemented by Romania. The Venice Commission argued that Romania should reconsider establishing a separate public prosecutor's office for investigating crimes committed by judges and prosecutors, which will employ specialized prosecutors and use effective procedural safeguards. Based on these recommendations, taking into consideration the legal provisions regulating the functioning and organization of the SICJ, as well as the concrete way in which the Section has worked, the Minister of Justice proposed two solutions: the abolition of the SICJ or, the radical rethinking of its functioning and organization.

Both the judges and the prosecutors ruled in favour of abolishing the SICJ, according to the consultations made by the Ministry of Justice. Out of a number of 1,934 responding prosecutors, 85.5% prosecutors opted to repeal the rules establishing the Section, requesting its termination, while only 7% were for the maintaining of the legal provisions regarding the establishment of SICJ. Regarding the courts, out of a number of 209 who submitted replies, over 72% of the responding judges opted for the repeal of the legal provisions regarding the establishment of the SICJ, requesting its termination. The government adopted the Memorandum submitted by the Ministry of Justice proposing to abolish the SICJ and will draft a law that will be submitted to Parliament for debate.